

October 25, 2010

CANFOR PULP INCOME FUND ANNOUNCES STRONG THIRD QUARTER 2010 RESULTS

Vancouver, BC – Canfor Pulp Income Fund (the Fund) (TSX: CFX.UN) announced today its third quarter 2010 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 record sales of \$247.9 million and net income of \$54.5 million, or \$0.76 per unit, for the quarter ended September 30, 2010. The Partnership generated EBITDA of \$63.6 million in the quarter, similar to the record level in the second quarter of 2010. The Fund reported net income of \$27.9 million, representing the Fund's share of the Partnership's net income and a future income tax recovery of \$0.8 million.

In the quarter, the Partnership generated adjusted distributable cash of \$55.3 million, or \$0.78 per unit, and the Partnership and the Fund declared distributions of \$0.69 per unit.

Partnership results were similar to the second quarter of 2010 as higher prices for the Partnership's pulp and paper products offset lower shipments and higher unit manufacturing costs.

The scheduled maintenance outage at the Northwood Pulp Mill, originally estimated to result in 10,000 tonnes of reduced production was extended for additional inspections and repairs to the recovery boilers. The additional work extended the outage into the fourth quarter of 2010 for a total of 24,000 tonnes of reduced production with approximately 18,000 tonnes in the third quarter and 6,000 tonnes in the fourth quarter.

Softwood pulp markets remained balanced through the quarter. Bleached softwood inventories have increased as a result of reduced demand from China and the typical seasonal slowdown through the summer months. Rising inventories resulted in a US\$30 price decrease in North American markets from the US\$1,020 peak in July 2010 to US\$990 per tonne for September 2010.

Some North American bleached softwood capacity was restarted in late September which will result in a modest increase in supply. Conversely, seasonal maintenance downtime through October should mitigate this increase in supply in the near term. The North American NBSK pulp list price for October 2010 is announced at US\$970 per tonne, a US\$20 per tonne reduction from September 2010.

On October 20, 2010 the Fund announced a monthly distribution of \$0.25 per Fund unit for the month of October, to be paid on November 15, 2010, to unitholders of record at the close of business on October 29, 2010.

Additional Information

A conference call to discuss the third quarter 2010 financial and operating results will be held on Tuesday, October 26, 2010 at 7:30 a.m. Pacific time.

To participate in the call, please dial 416-641-2140 or Toll-Free 1-866-852-2121. For instant replay access, please dial 416-695-5800 or Toll-Free 1-800-408-3053 and enter participant pass code 8663005. 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.

About Canfor Pulp Income Fund

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 Canfor Pulp Limited Partnership (the Partnership). The Fund indirectly holds a 49.8% interest in the Partnership with Canadian Forest Products Ltd., a subsidiary of Canfor Corporation (collectively Canfor) holding the remaining 50.2% interest in the Partnership.

For further information contact:

Terry Hodgins
Chief Financial Officer and Secretary
Ph. 604-661-5421
Terry.Hodgins@canforpulp.com

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. In particular, material forward-looking statements in this press release include the expected effective date of the Arrangement. In some instances, material assumptions are disclosed elsewhere in this press release in respect of forward-looking statements. Other 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. Although we believe that the expectations reflected by the forward-looking statements presented in this press release are reasonable, these forward-looking statements are based on management's current expectations and beliefs and actual events or results may differ materially. New risk factors may arise from time to time and it is not possible for management to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual events and results, performance and achievements of the Fund and Partnership to be materially different from those contained in forward-looking statements. The forward-looking statements speak only as of the date on which such statement is made, are based on current information and expectations and 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 4;*
- *"SIFT Conversion Rules" on page 5;*
- *"Conversion to International Financial Reporting Standards" on page 5;*
- *"Outlook – Pulp" on page 9;*
- *"Outlook – Kraft Paper" on page 11;*
- *"Financial Requirements and Liquidity" on pages 12 and 13;*
- *"Critical Accounting Estimates" on page 14;*
- *"Conversion to International Financial Reporting Standards" on pages 14 – 17;*
- *"Distributable Cash and Cash Distributions" on pages 18 and 19.*

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 the Partnership. Additional information concerning these and other factors can be found in the Fund's Annual Information Form dated February 18, 2010, which is available on www.sedar.com.

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership Third quarter 2010

The information in this report is as at October 25, 2010.

CANFOR PULP INCOME FUND

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

At October 25, 2010, there were a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of an exchange agreement (Exchange Agreement) dated July 1, 2006 among Canfor, the Fund, the Trust, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for Fund Units.

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

The Fund expects to convert to a corporation on or about January 1, 2011, pursuant to a plan of arrangement approved at the annual general meeting on April 27, 2010.

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Equity income (loss) in Canfor Pulp Limited Partnership	27,124	21,430	16,222	7,562	9,098	724	(10,740)	(12,947)
Net income (loss)	27,901	22,111	16,544	6,903	8,497	4,406	(10,740)	(13,686)
Net income (loss) per Fund unit	\$0.79	\$0.62	\$0.47	\$0.20	\$0.24	\$0.12	\$(0.30)	\$(0.39)
Distributions earned from the Partnership and declared to unitholders	24,491	18,457	11,357	4,969	1,065	1,065	2,130	9,938
Distributions declared per Fund unit	\$0.69	\$0.52	\$0.32	\$0.14	\$0.03	\$0.03	\$0.06	\$0.28
Partnership adjusted distributable cash per unit ¹	\$0.78	\$0.88	\$0.57	\$0.31	\$0.16	\$0.02	\$(0.06)	\$0.02

Note: ¹ Represents the Partnership's adjusted distributable cash on which the Fund is dependent to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 18 and 19.

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

OPERATING RESULTS AND LIQUIDITY

For the quarter ended September 30, 2010, the Fund had net income of \$27.9 million or \$0.79 per Fund unit. The net income was the Fund's share of the Partnership's net income for the quarter and also includes a future income tax recovery of \$0.8 million. The future income tax recovery represents an adjustment to the future income tax liability based on the Fund's share of the differences between accounting and income tax values of the Partnership's assets and liabilities. The Fund's equity income in the Partnership increased \$5.7 million when compared to the prior

quarter. The increase was primarily attributable to the Fund's share of increased income from the Partnership's non-operating items, and was primarily the result of the foreign exchange gain on translation of US dollar denominated long-term debt and a gain on derivative financial instruments, partially offset by a foreign exchange loss on working capital. The Fund's share of operating earnings remained relatively unchanged from the prior quarter. Distributions declared by the Partnership and accruing to the Fund were \$24.5 million, of which \$8.9 million was receivable at September 30, 2010. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership's discussion of operating results and liquidity on pages 7 through 13 of this press release.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions payable by the Partnership to the Fund and distributions payable by the Fund to its unitholders are recorded when declared. During the third quarter of 2010, the Fund declared distributions of \$0.69 per Fund unit or \$24.5 million.

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

RISKS AND UNCERTAINTIES

The Fund is subject to certain risks and uncertainties related to the nature of its investment in the Partnership and the structure of the Fund, as well as all of the risks and uncertainties related to the business of the Partnership. A comprehensive discussion of these risks and uncertainties is contained in the Fund's Annual Information Form dated February 18, 2010, which is available on www.sedar.com and www.canforpulp.com.

FUND UNITS

At October 25, 2010, there were a total of 35,493,505 Fund units outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended September 30, 2010 were \$24.5 million of which \$15.6 million was received, with the balance of \$8.9 million receivable on September 30, 2010.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. Significant areas requiring the use of management's estimates are the determination of future income taxes, and assessing whether there has been an other than temporary decline in the value of the investment in the Partnership. The determination of the future income tax liability requires management to estimate the future impacts of the Partnership's amortization of capital assets, capital cost allowance claims for tax purposes, and changes to actuarial estimates of employee benefit plans. The Fund accounts for its investment in the Partnership using the equity method. The Fund analyzes the carrying value of its investment in the Partnership by considering the underlying value of the Partnership's business. This assessment includes various long-term assumptions related to the Partnership's operations which may not be reflected in the current market value of the Fund. Changes in these estimates could have a material impact on the calculation of the future income tax liability or equity investment in the Partnership.

SIFT CONVERSION RULES

On June 12, 2007, legislation was substantively enacted whereby distributions made by publicly traded income trusts and partnerships will be taxed similar to that of income earned and distributed by a corporation. The Specified Investment Flow-Through Trust (SIFT) tax will become effective on January 1, 2011. On March 12, 2009 the Canadian government enacted legislation (SIFT Conversion Rules) which enables the conversion of a SIFT into a corporation on a tax-free rollover basis, prior to 2013. The Fund has reviewed its options and a Plan of Arrangement was presented and approved by unitholders at the annual general meeting on April 27, 2010.

The Plan of Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public taxable corporation to be named "Canfor Pulp Products Inc." (CPPI), and the unitholders will become the sole shareholders of CPPI which will own the 49.8% interest in the Partnership. The Fund expects the date of conversion to take place on or about January 1, 2011.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

The Partnership will continue to review all proposed and continuing projects of the IASB 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.

The impact on the future financial position and results of operations of CPPI formed under the Plan of Arrangement will depend on changes in accounting policies that may materially impact the Partnership's and CPPI's consolidated financial statements. The Fund does not expect any significant IFRS adjustments for CPPI after the Fund's trust structure has been reorganized into a corporation on or about January 1, 2011.

For further details on the Partnership's transition plan see the Partnership's disclosure on pages 14 through 17.

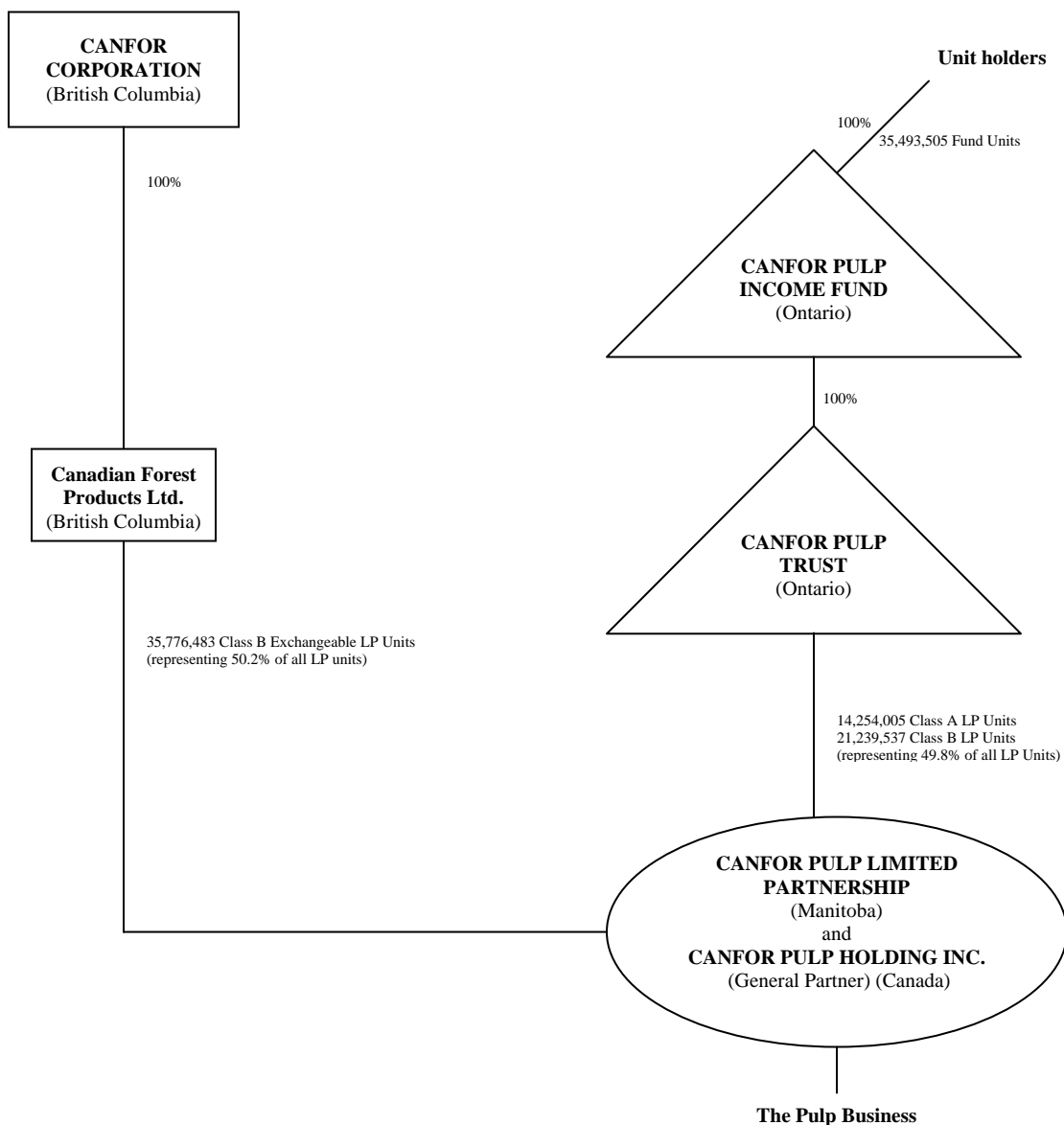
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At October 25, 2010, the Fund indirectly held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner. Below is a simplified schematic of the ownership structure.

Ownership Structure



The Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Sales	247.9	247.6	735.0	202.0	593.3
EBITDA ¹	63.6	63.7	171.4	25.1	34.5
Operating income (loss)	52.0	51.6	136.1	12.4	(2.4)
Net income (loss)	54.5	43.1	130.1	18.3	(1.8)
Per Partnership unit, basic and diluted					
Net income (loss)	\$0.76	\$0.60	\$1.82	\$0.26	\$(0.02)
EBITDA	\$0.89	\$0.89	\$2.40	\$0.35	\$0.48
Average exchange rate (US\$/Cdn\$) ²	0.962	0.973	0.966	0.912	0.858

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 third quarter of 2010 of \$63.6 million was essentially unchanged from the second quarter of 2010 and was \$38.5 million higher when compared to the third quarter of 2009. The similar results when compared to the second quarter of 2010 are attributable to higher realized prices in Canadian dollar terms for the Partnership's pulp and paper products offset by lower shipments and higher unit manufacturing costs. Realized paper prices in Canadian dollar terms increased 10% when compared to the prior quarter. Realized pulp prices in Canadian dollar terms increased 1% due to a slightly weaker Canadian dollar and a marginal increase in NBSK pulp US dollar list price. Unit manufacturing costs increased when compared to the prior quarter as the impact of lower production volumes and higher fibre costs were partially offset by lower spending on fixed costs. Fibre costs increased 8% when compared to the prior quarter due to an increase in the price of sawmill residual chips.

When compared to the third quarter of 2009, the \$38.5 million increase in EBITDA was primarily attributable to a 36% increase in NBSK pulp US dollar list price, higher realized paper prices and higher energy sales, partially offset by a stronger Canadian dollar, lower shipment volumes and higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased 31% as a 36% increase in NBSK pulp US dollar list price was partially offset by a 5% strengthening of the Canadian dollar. The increase in unit manufacturing costs when compared to the prior year quarter were due to the impact of lower production volumes, higher fibre costs and higher spending on fixed costs. Fibre costs increased 17% when compared to the third quarter of 2009 due to an increase in the price of sawmill residual chips partially offset by a reduction in the volume of higher cost whole log chips. Freight costs in US dollar terms increased 8% when compared to the third quarter of 2009 primarily due to higher container rates into Asia.

For the nine months ended September 30, 2010, EBITDA of \$171.4 million increased by \$136.9 million when compared to the same period in 2009. The increase in EBITDA was attributable to higher realized pulp prices in Canadian dollar terms and higher energy sales, partially offset by higher administrative costs. Realized pulp prices in Canadian dollar terms increased 28%, as a 40% increase in NBSK pulp US dollar list price was partially offset by a 13% strengthening of the Canadian dollar when compared to the same period in 2009. Realized paper prices in Canadian dollar terms increased 4% when compared to the same period in 2009. Freight costs in US dollar terms increased 13% when compared to the same period in 2009 primarily due to higher container rates into Asia. The impact of the higher US dollar freight rates was offset by the stronger Canadian dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Sales	212.9	214.8	632.5	170.1	503.1
EBITDA	67.9	67.7	183.5	23.4	28.0
EBITDA margin	32%	32%	29%	14%	6%
Operating income (loss)	57.2	56.4	150.7	11.6	(6.2)
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	1,000	993	958	733	684
Average NBSK pulp list price – (Cdn\$ per tonne, delivered to USA)	1,040	1,021	992	804	797
Production – pulp (000 mt)	253.0	263.8	770.6	264.4	754.9
Shipments – Partnership-produced pulp (000 mt)	246.0	252.3	766.7	259.5	786.0
Marketed on behalf of HSLP & Canfor (000 mt)	116.1	144.2	399.0	148.4	395.6

The third quarter 2010 operating income for the pulp segment of \$57.2 million was a \$0.8 million improvement when compared to the second quarter of 2010. The similar results are attributable to a marginal increase in realized prices in Canadian dollar terms, partially offset by higher unit manufacturing costs and lower shipment volumes. Realized pulp prices in Canadian dollar terms increased slightly due to a marginal increase in NBSK pulp US dollar list price and a weaker Canadian dollar. Unit manufacturing costs increased 3% when compared to the second quarter of 2010 as the impact of lower production volumes and higher fibre costs were partially offset by lower operating and energy costs. Fibre costs increased 8% when compared to the prior quarter due to an increase in the price of sawmill residual chips. Shipment volumes decreased 2% during the third quarter of 2010 due in part to lower production volumes and reduced demand from Asia.

Operating income of the pulp segment in the third quarter of 2010 increased by \$45.6 million when compared to the same period a year ago. The improved results were primarily attributable to a 36% increase in NBSK pulp US dollar list price and higher energy sales, partially offset by a stronger Canadian dollar, lower shipment volumes and higher unit manufacturing costs. Realized pulp prices in Canadian dollar terms increased 31% as a 36% increase in NBSK pulp US dollar list price was partially offset by a 5% strengthening of the Canadian dollar. Unit manufacturing costs increased when compared to the prior year quarter due to the impact of lower production volumes, higher fibre costs and higher spending on maintenance costs. Fibre costs increased 17% when compared to the third quarter of 2009 due to an increase in the price of sawmill residual chips partially offset by a reduction in the volume of higher cost whole log chips.

For the nine month period ended September 30, 2010, operating income of \$150.7 million increased \$156.9 million when compared to the same period in 2009. The increase in operating results was attributable to higher realized prices in Canadian dollar terms and higher energy sales. Realized pulp prices in Canadian dollar terms increased 28% as a 40% increase in NBSK pulp US dollar list price was partially offset by a 13% strengthening of the Canadian dollar. Unit manufacturing costs remained relatively unchanged as the impact of higher production volumes and lower chemical costs were offset by higher fibre and maintenance costs. Fibre costs increased 4% when compared to the same period of 2009 due to an increase in the price of sawmill residual chips partially offset by a reduction in the volume of higher cost whole log chips.

Operations

NBSK market pulp production during the third quarter was 10,800 tonnes lower than the second quarter of 2010, and 11,400 tonnes lower than the third quarter of 2009. The reduced production when compared to the prior quarters was a result of an extended maintenance outage at the Northwood Pulp Mill and lower production rates in the current period. The maintenance outage at the Northwood Pulp Mill, originally estimated to result in 10,000 tonnes of reduced production was extended for additional inspections and repairs to the recovery boilers. The additional work

extended the outage into the fourth quarter of 2010 for a total of 24,000 tonnes of reduced production with approximately 18,000 tonnes in the third quarter and a further 6,000 tonnes in the fourth quarter.

For the nine month period ended September 30, 2010 production of 770,600 tonnes was 15,700 tonnes higher than the same period in 2009. The increase is attributable to the higher production rates in the current period and the impact of the market curtailment in January 2009, partially offset by the extended maintenance outages at the Prince George Pulp and Paper Mill and the Northwood Pulp Mill in 2010.

Markets – Pulp

Bleached softwood pulp markets remained balanced through the third quarter of 2010. Inventories increased as a result of reduced demand from China and the typical seasonal slowdown through the summer months.

Global printing and writing paper demand maintained steady growth through the third quarter of 2010. The printing and writing paper manufacturing sector experienced steady demand through August 2010 (the latest published information available), with demand up 6.4% over August 2009. For August year-to-date, printing and writing paper demand is up 8.4% versus the same period in 2009.

Reduced bleached softwood pulp demand has resulted in an increase in inventory from the very low global pulp inventory levels experienced in the first half of 2010 to current levels that are in a balanced range. At the end of September 2010, World 20¹ producer inventories of bleached softwood pulp was 27 days of supply, an increase of 6 days over June 2010. By comparison, September 2009 inventories were 22 days of supply. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

The price rally that commenced in 2009 peaked in July 2010 with a modest price decrease in August 2010. Very low global pulp inventory levels through 2009 and the first half of 2010 allowed producers to implement successive price increases. The NBSK pulp list price in North America during September 2009 was US\$770 per tonne, peaking at US\$1,020 per tonne in July 2010. Modest pressure to decrease prices in the third quarter of 2010 due to rising pulp inventories resulted in a price for September 2010 of US\$990 per tonne. In Canadian dollar terms, the price increases through the year have been somewhat mitigated by the strengthening of the Canadian dollar which has appreciated 4% over the past year.

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

Outlook – Pulp

Global softwood inventories held by producers and customers have risen through the third quarter of 2010. Softwood inventory levels are still considered to be balanced in contrast to hardwood inventories which are in an over supplied situation. Two North American bleached softwood producers have restarted which will result in a modest increase in supply. However, seasonal maintenance downtime through October may mitigate this increase in supply in the near term. The North American NBSK pulp list price for October 2010 is announced at US\$970 per tonne, a US\$20 per tonne reduction from September 2010.

The Northwood Pulp Mill scheduled maintenance outage was completed in early October 2010. The total reduced production was approximately 24,000 tonnes of which 6,000 tonnes will impact the fourth quarter of 2010. There are no further maintenance outages planned for the fourth quarter of 2010.

Paper

(millions of dollars unless otherwise noted, unaudited)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Sales	34.7	32.5	101.7	31.9	90.2
EBITDA	1.0	0.3	1.4	4.0	13.0
EBITDA margin	3%	1%	1%	13%	14%
Operating income (loss)	0.2	(0.5)	(0.9)	3.2	10.5
Production – paper (000 mt)	34.7	36.3	102.0	33.6	92.6
Shipments – paper (000 mt)	33.6	34.4	105.7	37.4	96.9

The third quarter 2010 operating income of the paper segment improved \$0.7 million when compared to the second quarter of 2010, and deteriorated \$3.0 million when compared to the same period last year. The increase when compared to the second quarter of 2010 was primarily attributable to higher realized paper prices in Canadian dollar terms offset by higher unit manufacturing costs. Realized prices in Canadian dollar terms increased by approximately 10%. Higher unit manufacturing costs were the result of higher costs for slush pulp and the impact of lower production volumes. The slush pulp is transferred to the paper segment at a market price with the increase directly attributable to the increase in the realized pulp price in Canadian dollar terms.

When compared to the third quarter of 2009 the reduction in operating earnings was due to higher unit manufacturing costs, partially offset by a 21% increase in realized prices in Canadian dollar terms. Higher unit manufacturing costs were primarily attributable to a 44% increase in costs for slush pulp partially offset by higher production volumes.

For the nine month period ended September 30, 2010 operating results of the paper segment declined by \$11.4 million when compared to the same period in 2009. The reduction in operating earnings is attributable to higher unit manufacturing costs partially offset by a 4% increase of realized paper prices in Canadian dollar terms and higher shipment volumes. Higher paper unit manufacturing costs are attributable to higher costs for slush pulp partially offset by the impact of higher production volumes.

Operations

Paper production for the third quarter of 2010 was 34,700 tonnes, a decrease of 1,600 tonnes when compared to the second quarter of 2010 due to lower overall production rates. When compared to the same period in the prior year, production was 1,100 tonnes higher due to improved overall production rates.

For the nine month period ended September 30, 2010 production of 102,000 tonnes was 9,400 tonnes higher than the same period in 2009. The increase is attributable to the higher production rates in the current period and the impact of the market curtailment in January 2009.

Markets

Kraft paper markets remained solid with strong demand and tight supply through the third quarter of 2010. The American Forest and Paper Association reported that September 2010 year-to-date, US total kraft paper shipments were up 13.4% when compared to the same period in 2009. US total kraft paper shipments during September 2010 increased 2.2% when compared to September 2009, however, decreased 1.5% when compared to August 2010. The Paper Shipping Sack Manufacturing Association shipping sack statistics for September 2010 revealed that the industry paper consumption was up 10.7% over the same month last year and up 14.4% year over year. Prices for export markets were up in most areas during the third quarter of 2010 and the October 2010 European increase was confirmed for new orders.

The Partnership's prime paper shipments were 98% of the total in the third quarter of 2010, similar to the prior quarter and were 2% higher than the third quarter of 2009. Prime bleached shipments averaged 72% of total prime sales, while down 5% from the prior quarter this is 13% higher than the same period last year.

Outlook – Kraft Paper

The favourable kraft paper market conditions are expected to continue through the fourth quarter of 2010. Order backlogs remain very healthy in both bleached and unbleached products through the end of 2010. Further price increases are expected to take effect in the fourth quarter of 2010 for markets outside North America.

Non-Segmented Costs

(millions of dollars, unaudited)	Q3 2010	Q2 2010	YTD 2010	Q3 2009	YTD 2009
Unallocated costs	5.4	4.3	13.7	2.4	6.7
Interest expense, net	2.0	1.9	5.9	2.8	7.9
Foreign exchange loss (gain) on long-term debt	(3.4)	5.0	(1.8)	(9.9)	(16.7)
Loss (gain) on derivative financial instruments	(2.6)	3.8	0.8	(3.4)	2.0
Foreign exchange loss (gain) on working capital	1.5	(2.1)	1.2	4.6	6.2
Other income	-	(0.1)	(0.1)	-	-
	2.9	12.8	19.7	(3.5)	6.1

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$5.4 million in the third quarter of 2010 compared to \$4.3 million in the second quarter of 2010 and \$2.4 million in the third quarter of 2009. The increase in unallocated costs when compared to the second quarter of 2010 and the same period in the prior year were mainly attributable to higher accruals for performance based incentive plans.

For the nine month period ended September 30, 2010 unallocated costs totalled \$13.7 million compared to \$6.7 million for the same period in 2009. The increase in unallocated costs is attributable to higher accruals for performance based incentive plans, higher consulting costs and expenses in relation to the planned conversion to a corporation on January 1, 2011.

Interest Expense

For the nine month period ended September 30, 2010 the decreased net interest expense in relation to the same period in 2009 was attributable to the reduction in operating line borrowing.

Other Non-segmented Items

The foreign exchange gain on long-term debt of \$3.4 million resulted from translating the US\$110 million debt at period-end exchange rates, reflecting the stronger Canadian dollar as of September 30, 2010 as compared to June 30, 2010.

The foreign exchange loss on working capital of \$1.5 million resulted from translating US dollar balances at period-end exchange rates.

The net gain of \$2.6 million on derivative financial instruments recorded in the third quarter of 2010 relates to the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and US dollar forward contracts, partially offset by the settlement of maturing contracts during the quarter. The revaluation to market of outstanding derivative instruments recorded in the quarter resulted in a gain of \$4.1 million and relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at the end of the quarter. A loss of \$0.9 million on settlement of natural gas swaps was recorded in the third quarter of 2010. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. In the third quarter of 2010 the Partnership recorded a net loss of \$0.6 million on settlement of US dollar forward contracts to hedge the impact of currency fluctuations on US dollar working capital.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	September 30, 2010		December 31, 2009	
Ratio of current assets to current liabilities	2.20		2.04	
Ratio of net debt to partners' equity ¹	0.16		0.19	
	Q3 2010	YTD 2010	Q3 2009	YTD 2009
Increase (decrease) in cash and cash equivalents	(12.8)	14.0	25.6	43.5
Comprised of cash flow from (used in):				
Operating activities	45.7	130.3	49.1	93.7
Financing activities	(45.6)	(96.9)	(17.3)	(35.9)
Investing activities	(12.9)	(19.4)	(6.2)	(14.3)

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

Changes in Financial Position

Cash generated from operating activities was \$45.7 million in the third quarter of 2010 compared to \$49.1 million in the third quarter of 2009. The reduction in cash generated from operating activities is the result of an increase in cash used for working capital, partially offset by an increase in cash generated from operations. The increase of cash used in working capital during the third quarter of 2010 was primarily the result of an increase in prepaid expenses and other assets as a result of the extended outage at the Northwood Pulp Mill, a reduction in accounts payable due to timing of payments for chips, and an increase in the volume and cost of the Partnership's finished goods inventories. The increase in cash generated from operations was primarily attributable to higher realized pulp prices in Canadian dollar terms, partially offset by lower pulp shipment volumes and higher unit manufacturing costs.

The cash used in financing activities of \$45.6 million in the quarter represents distributions paid to the limited partners, namely Canfor and the Fund.

The cash used in investing activities in the quarter is comprised of \$14.0 million relating to capital expenditures partially offset by \$1.1 million of funds received for claims under the Canadian federal government's Green Transformation Program (the Program). Included in capital expenditures are reimbursable amounts of \$10.8 million relating to approved projects under the Program.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At September 30, 2010 the Partnership had outstanding long-term debt of \$113.3 million (December 31, 2009 – \$115.1 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.

At September 30, 2010, the Partnership had cash and cash equivalents of \$27.5 million. The Partnership has a \$40.0 million bank credit facility with a maturity date of November 30, 2011, of which \$0.5 million was utilized at September 30, 2010 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2011, to cover the \$16.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. Interest and other costs of the bank credit facility are at market rates.

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

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

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at September 30, 2010.

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated \$122.2 million from the Program announced by the Canadian government on June 17, 2009. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. The Partnership has received Program approval to proceed with two projects totaling \$15.6 million. The Partnership has submitted a \$100.0 million project to upgrade the recovery boiler at the Northwood Pulp Mill for Program approval, and expects to submit further projects over the balance of 2010. The Partnership submits claims for expenditures on approved projects under the Program on a quarterly basis. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

OUTSTANDING UNITS

At October 25, 2010, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units were owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2009 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 9 of the unaudited interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending September 30, 2010, 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 18, 2010, which is available on www.sedar.com and www.canforpulp.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	Q3 2010	Q2 2010	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008
Sales and Income								
Sales	247.9	247.6	239.5	220.2	202.0	205.0	186.3	186.1
Operating income (loss)	52.0	51.6	32.5	14.4	12.4	(5.0)	(9.8)	(1.0)
EBITDA	63.6	63.7	44.1	27.3	25.1	7.2	2.2	9.8
Net income (loss)	54.5	43.1	32.5	15.2	18.3	1.5	(21.6)	(26.0)
Per Partnership unit (dollars)								
Net income (loss) basic and diluted	\$0.76	\$0.60	\$0.46	\$0.21	\$0.26	\$0.02	\$(0.30)	\$(0.36)
Statistics								
Pulp shipments (000 mt)	246.0	252.3	268.4	258.6	259.5	286.2	240.3	208.2
Paper shipments (000 mt)	33.6	34.4	37.7	38.1	37.4	34.3	25.2	24.4
Average exchange rate (US\$/Cdn\$) ¹	0.962	0.973	0.961	0.947	0.912	0.858	0.803	0.825
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	1,000	993	880	820	733	645	673	787
Per Partnership unit (dollars)								
Adjusted distributable cash per unit ²	\$0.78	\$0.88	\$0.57	\$0.31	\$0.16	\$0.02	\$(0.06)	\$0.02
Distributions declared per unit	\$0.69	\$0.52	\$0.32	\$0.14	\$0.03	\$0.03	\$0.06	\$0.28

Notes: ¹ Source – Bank of Canada (average noon rate for the period).

² For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 18 and 19.

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and EBITDA are primarily impacted by: the level of sales; freight costs; fluctuations of fibre, chemical, 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 Canadian dollar exchange rates, the market price of natural gas, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas swaps and US dollar forward contracts.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with 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 and asset retirement obligations, based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Partnership's financial condition.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Project Update

The Partnership has completed the scoping, planning and detailed assessment phases and is currently progressing through the implementation phase of the conversion. The Partnership's implementation team completed detailed training on IFRS standards and preliminary policy choices and continues to monitor changes in IFRS throughout the implementation process. The table below describes the expected accounting policy changes under conversion to IFRS.

At September 30, 2010, the Partnership could not reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Partnership's most recent assumptions and expectations; circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect the Partnership's expectations based on information available at September 30, 2010. Changes in IFRS

standards or circumstances relating to the Partnership may cause the Partnership to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

No significant changes to systems (including information technology systems) are anticipated. The Partnership will continue to assess the impact on systems as the project progresses.

The Partnership does not expect that the transition to IFRS will have a significant impact on its financial covenants contained in the existing Notes and bank credit facility agreements.

The Partnership expects to complete its analysis of the impacts on the opening balance sheet in 2010 and report the opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) during the first interim reporting period of 2011. Draft financial statements and disclosure information will be prepared for each quarter in 2010 (to be used for comparative purposes in 2011) and reporting under IFRS will commence for interim and annual periods in 2011.

First-time Adoption of International Financial Reporting Standards (IFRS 1)

At adoption of IFRS, an entity is required to apply IFRS 1, which provides guidance for an entity's initial adoption of IFRS. IFRS 1 generally requires an entity to apply all IFRS effective at the end of the first reporting period retrospectively. However, IFRS 1 provides certain mandatory exceptions and permits limited optional exemptions in specified areas of certain standards from this general requirement. The Partnership expects to take the following optional elections provided by IFRS 1. All other available elections are either not applicable or not material to the Partnership. Elections are subject to change as new information becomes available.

- **Borrowing costs:**

International Accounting Standard (IAS) 23, Borrowing Costs, requires the capitalization of borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. Under Canadian GAAP, you have an accounting policy choice to expense these costs as incurred or capitalize them. The Partnership expects to elect to apply the requirements of IAS 23 prospectively from January 1, 2010.

- **Employee Benefits:**

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

- **Business combinations:**

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

Accounting Policies

Below is a summary of expected changes to the Partnership's accounting policies for those standards which are considered significant. Any changes to recognized financial figures may affect non-GAAP and performance measures including but not limited to, EBITDA and distributable cash.

Accounting Policy Area	Impact of Policy Adoption
Property, Plant and Equipment	<p>Choices: Either a historical cost model or a revaluation model can be used to value property, plant and equipment.</p> <p>Policy Selection: The Partnership will value property, plant and equipment using the historical cost model.</p>
Major Maintenance	<p>Choices: There are no policy choices available under IFRS.</p> <p>Differences from existing Canadian GAAP: For major maintenance, IAS 16 allows for</p>

	<p>major inspections and overhauls to be accounted as a separate component of PP&E if the component is used for more than one reporting period. This treatment is only intended for major expenditures that occur at regular intervals over the life of the asset as costs of routine repairs and maintenance will continue to be expensed as incurred. The regularly scheduled major maintenance outages required on the Partnership's plant and equipment would likely qualify for treatment under this standard with the expenditures being classified as property, plant and equipment. Currently under Canadian GAAP, expenditures during the Partnership's major maintenance outages are classified as prepaid expense and other assets, and other long-term assets, as appropriate and amortized over the period between scheduled major maintenance outages.</p>
Employee Benefits	<p>Choices: Actuarial gains and losses are permitted under IAS 19, "Employee Benefits", to be recognized directly in other comprehensive income rather than through profit or loss.</p> <p>Policy Selection: Actuarial gains and losses will be recognized in other comprehensive income.</p> <p>Differences from existing Canadian GAAP: IAS 19 requires the past service cost element of defined benefit plans to be expensed on an accelerated basis, with vested past service costs expensed immediately and unvested past service costs recognized on a straight-line basis until the benefits become vested. Under Canadian GAAP, past service costs are generally amortized on a straight-line basis over the expected average remaining service period of active employees under the plan.</p> <p>Under Canadian GAAP, certain gains and losses which were unrecognized at the time of adopting the current Canadian accounting standard were permitted to be amortized over a period under transitional provisions of the current standard. Under IFRS, those amounts will not be permitted to remain unrecognized and must be recognized on transition to IFRS.</p>
Impairment of assets	<p>Choices: There are no policy choices available under IFRS.</p> <p>Differences from existing Canadian GAAP: Canadian GAAP generally uses a two-step approach to impairment testing: first comparing asset carrying values with undiscounted future cash flows to determine whether impairment exists; and then measuring any impairment by comparing asset carrying values with fair values. IAS 36, "Impairment of Assets", uses a one-step approach for both testing for and measurement of impairment, with asset carrying values compared directly with the higher of fair value less costs to sell and value in use (discounted cash flows). This may potentially result in more write downs where carrying values of assets were previously supported under Canadian GAAP on an undiscounted cash flow basis, but could not be supported on a discounted cash flow basis.</p> <p>In addition, the extent of any new write-downs may be partially offset by the requirement under IAS 36 to reverse any previous impairments where circumstances have changed such that the impairments have been reduced. Canadian GAAP prohibits reversal of impairment losses.</p>
Provisions (Including Asset Retirement Obligations)	<p>Choices: There are no policy choices available under IFRS.</p> <p>Differences from existing Canadian GAAP: IAS 37, "Provisions, Contingent Liabilities and Contingent Assets", requires a provision to be recognized when there is a present obligation as a result of a past transaction or event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the obligation, where "probable" in this context, means more likely than not. The criteria for recognition in the financial statements under Canadian GAAP, is "likely", which is a higher threshold than "probable". Therefore, it is possible that there may be some contingent liabilities which would meet the recognition criteria under IFRS that were not recognized under Canadian GAAP. Other differences between IFRS and Canadian GAAP exist in relation to the measurement of provisions, such as the methodology for determining the best estimate where there is a range of equally possible outcomes (IFRS uses the mid-</p>

	point of the range, whereas Canadian GAAP uses the low-end of the range), and the requirement under IFRS for provisions to be discounted where material.
Borrowing Costs	<p>Choices: There are no policy choices available under IFRS.</p> <p>Differences from existing Canadian GAAP: Under Canadian GAAP, an entity can choose whether to expense or capitalize borrowing costs, whereas IFRS requires qualifying borrowing costs to be capitalized.</p>
Statement of Cash Flows	<p>Choices: Either the direct or the indirect method may be presented. Distributions and interest paid and interest received can be presented as operating, financing or investing activities respectively.</p> <p>Policy selection: The Partnership expects to use the indirect method. Distributions and interest paid would be presented as financing activities and interest received would be presented as an investing activity.</p> <p>Differences from existing Canadian GAAP: None</p>

Post-Implementation

The post-implementation work will involve continuous monitoring of changes in IFRS throughout the implementation process (through to the end of 2011). We note that the standard-setting bodies that determine Canadian GAAP and IFRS have significant ongoing projects that could impact the differences between Canadian GAAP and IFRS and their impact on our financial statements. In particular, we expect that there may be additional new or revised IFRS in relation to consolidation, joint ventures, financial instruments, hedge accounting, discontinued operations, leases and employee benefits. We have processes in place to ensure that potential changes are monitored and evaluated. The impact of any new IFRS will be evaluated as they are drafted and published.

DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2010, there were no changes in the Company's disclosure controls and internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

CANFOR PULP LIMITED PARTNERSHIP
SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
RECONCILIATION OF NET INCOME (LOSS) TO EBITDA				
Net income (loss)	\$ 54.5	\$ 18.3	\$ 130.1	\$ (1.8)
Add (deduct):				
Amortization	11.9	12.6	35.5	36.8
Net interest expense	2.0	2.8	5.9	7.9
Foreign exchange gain on long-term debt	(3.4)	(9.9)	(1.8)	(16.7)
Loss (gain) on derivative financial instruments	(2.6)	(3.4)	0.8	2.0
Foreign exchange loss on working capital	1.5	4.6	1.2	6.2
Other expense (income)	(0.3)	0.1	(0.3)	0.1
EBITDA	\$ 63.6	\$ 25.1	\$ 171.4	\$ 34.5
EBITDA per Partnership unit	\$ 0.89	\$ 0.35	\$ 2.40	\$ 0.48

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities	\$ 45.7	\$ 49.1	\$ 130.3	\$ 93.7
Deduct: Capital expenditures – cash ¹	(3.2)	(6.2)	(8.1)	(14.4)
Standardized distributable cash	\$ 42.5	\$ 42.9	\$ 122.2	\$ 79.3
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase (decrease) in non-cash working capital	15.1	(30.6)	39.3	(75.6)
Net long-term deferred maintenance	(1.1)	-	(1.8)	1.1
Capital expenditure accruals – net	(1.2)	(0.9)	(0.9)	3.4
Adjusted distributable cash	\$ 55.3	\$ 11.4	\$ 158.8	\$ 8.2
Standardized distributable cash – per Partnership unit (in dollars)	\$ 0.59	\$ 0.60	\$ 1.71	\$ 1.11
Adjusted distributable cash – per Partnership unit (in dollars)	\$ 0.78	\$ 0.16	\$ 2.23	\$ 0.12
Cash distributions declared (paid and payable)	\$ 49.2	\$ 2.2	\$ 109.1	\$ 8.6
Cash distributions declared – per Partnership unit (in dollars)	\$ 0.69	\$ 0.03	\$ 1.53	\$ 0.12

Note: ¹ Presented net of Canadian Federal Government Green Transformation Program expenditures.

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

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

The Board determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital and long-term deferred maintenance, asset retirement obligation expenditures and

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

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

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

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Income				
Equity income (loss) in Canfor Pulp Limited Partnership	\$ 27,124	\$ 9,098	\$ 64,776	\$ (918)
Net income (loss) before future income tax recovery	27,124	9,098	64,776	(918)
Future income tax (recovery) (note 6)	(777)	601	(1,780)	(3,081)
Net income	27,901	8,497	66,556	2,163
Distributions declared (note 4)	(24,491)	(1,065)	(54,305)	(4,260)
Earnings in excess of distributions – surplus (deficit)	\$ 3,410	\$ 7,432	\$ 12,251	\$ (2,097)
Net income per unit, basic and diluted	\$ 0.79	\$ 0.24	\$ 1.88	\$ 0.06
Weighted average number of units	35,493,505	35,493,505	35,493,505	35,493,505
Net income for the period	\$ 27,901	\$ 8,497	\$ 66,556	\$ 2,163
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	8	14	32	(15)
Comprehensive income	\$ 27,909	\$ 8,511	\$ 66,588	\$ 2,148
Accumulated Earnings and Distributions				
Balance, beginning of period – distributions in excess of earnings	\$ (64,185)	\$ (82,392)	\$ (73,026)	\$ (72,863)
Earnings in excess of distributions – surplus (deficit), current period	3,410	7,432	12,251	(2,097)
Balance, end of period – Accumulated distributions in excess of earnings	\$ (60,775)	\$ (74,960)	\$ (60,775)	\$ (74,960)

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		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Cash generated from (used in)				
Operating activities				
Net income	\$ 27,901	\$ 8,497	\$ 66,556	\$ 2,163
Items not affecting cash:				
Equity (income) loss in Canfor Pulp Limited Partnership	(27,124)	(9,098)	(64,776)	918
Future income tax recovery	(777)	601	(1,780)	(3,081)
Distributions received from Canfor Pulp Limited Partnership	22,716	1,065	48,271	5,324
	22,716	1,065	48,271	5,324
Financing activities				
Distributions paid to unitholders	\$ (22,716)	\$ (1,065)	\$ (48,271)	\$ (5,324)
Beginning, change and ending balance in cash and cash equivalents	\$ -	\$ -	\$ -	\$ -

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

**Canfor Pulp Income Fund
Consolidated Balance Sheets**

(thousands of dollars, unaudited)	As at September 30, 2010	As at December 31, 2009
ASSETS		
Current assets		
Distributions receivable from Canfor Pulp Limited Partnership (notes 4,5)	\$ 8,873	\$ 2,839
Total current assets	8,873	2,839
Equity investment in Canfor Pulp Limited Partnership (note 3)	274,147	263,644
	\$ 283,020	\$ 266,483
LIABILITIES		
Current liabilities		
Distributions payable (note 4)	\$ 8,873	\$ 2,839
Total current liabilities	8,873	2,839
Future income taxes (note 6)	35,507	37,287
	\$ 44,380	\$ 40,126
UNITHOLDERS' EQUITY		
Unitholders' equity – 35,493,505 Fund units outstanding	\$ 299,351	\$ 299,351
Accumulated earnings and distributions	(60,775)	(73,026)
Accumulated other comprehensive income (note 7)	64	32
Total Unitholders' Equity	238,640	226,357
	\$ 283,020	\$ 266,483

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

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

Approved by the Trustees

"Stan Bracken-Horrocks"

Stan Bracken-Horrocks

"Charles Jago"

Charles Jago

Canfor Pulp Income Fund

Notes to the Unaudited Interim Consolidated Financial Statements as at September 30, 2010

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.

The Fund expects to convert to a taxable Canadian corporation on or about January 1, 2011, pursuant to a plan of arrangement approved at the annual general meeting on April 27, 2010.

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 2009 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2009 audited consolidated financial statements.

3. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	Nine months ended September 30, 2010	Year ended December 31, 2009
Balance, beginning of period	263,644	266,274
Equity interest in income of the Partnership	64,776	6,644
Equity interest in other comprehensive income (loss) of the Partnership	32	(45)
Distributions from the Partnership	(54,305)	(9,229)
Balance, end of period	274,147	263,644

4. Distributions

The Fund declared distributions during the first nine months of 2010 as follows:

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

Record Date	Payable Date	Amount per Fund Unit \$	Amount \$
January 29, 2010	February 15, 2010	0.08	2,839
February 26, 2010	March 15, 2010	0.12	4,259
March 31, 2010	April 15, 2010	0.12	4,259
April 30, 2010	May 14, 2010	0.12	4,259
May 31, 2010	June 15, 2010	0.20	7,099
June 30, 2010	July 15, 2010	0.20	7,099
July 30, 2010	August 13, 2010	0.22	7,809
August 31, 2010	September 15, 2010	0.22	7,809
September 30, 2010	October 15, 2010	0.25	8,873
		1.53	54,305

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

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

5. Related Party Transactions

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended September 30, 2010 were \$24.5 million of which \$15.6 million was received, with the balance of \$8.9 million receivable on September 30, 2010.

6. Future Income Taxes

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

(thousands of dollars, unaudited)

	Nine months ended September 30, 2010	Year ended December 31, 2009
Expected income tax expense at statutory tax rate of nil (2009 – nil)	-	-
Future income tax recovery on temporary differences	(1,780)	(2,422)
	(1,780)	(2,422)

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

(thousands of dollars, unaudited)

	September 30, 2010	December 31, 2009
Future income tax liability:		
Equity investment in the Partnership	41,343	42,347
Expected reversal of temporary differences prior to January 1, 2011	(5,836)	(5,060)
	35,507	37,287

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

7. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	Nine months ended September 30, 2010	Year ended December 31, 2009
Balance, beginning of period	32	77
Other comprehensive income (loss)	32	(45)
Balance, end of period	64	32

8. Financial Instruments

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

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

9. Segmented Information

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

Canfor Pulp Limited Partnership
Consolidated Statements of Income (Loss), Comprehensive Income (Loss) and Partners' Equity

(millions of dollars, except units and per unit amounts, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Revenue				
Sales	\$ 247.9	\$ 202.0	\$ 735.0	\$ 593.3
Business interruption insurance	-	-	-	3.2
	247.9	202.0	735.0	596.5
Costs and expenses				
Manufacturing and product costs	147.9	140.3	452.6	452.4
Freight and other distribution costs	29.5	30.6	90.4	91.5
Amortization	11.9	12.6	35.5	36.8
Selling and administration costs	6.6	6.1	20.4	18.2
	195.9	189.6	598.9	598.9
Operating income (loss)	52.0	12.4	136.1	(2.4)
Interest expense, net	(2.0)	(2.8)	(5.9)	(7.9)
Foreign exchange gain on long-term debt	3.4	9.9	1.8	16.7
Gain (loss) on derivative financial instruments (note 11)	2.6	3.4	(0.8)	(2.0)
Foreign exchange loss on working capital	(1.5)	(4.6)	(1.2)	(6.2)
Other income	-	-	0.1	-
	2.5	5.9	(6.0)	0.6
Net income (loss)	54.5	18.3	130.1	(1.8)
Other comprehensive income (loss)				
Adjustment for derivatives (note 14)	-	-	0.1	(0.1)
Comprehensive income (loss)	\$ 54.5	\$ 18.3	\$ 130.2	\$ (1.9)
Net income (loss) per Partnership unit (note 10)				
Basic and diluted	\$ 0.76	\$ 0.26	\$ 1.82	\$ (0.02)
Weighted average Partnership units outstanding	71,270,025	71,270,025	71,270,025	71,270,025
Partners' Equity				
Balance, beginning of period	\$ 544.9	\$ 507.8	\$ 529.1	\$ 534.4
Net income (loss)	54.5	18.3	130.1	(1.8)
Distributions declared to partners (note 13)	(49.2)	(2.2)	(109.1)	(8.6)
Other comprehensive income (loss) (note 14)	-	-	0.1	(0.1)
Balance, end of period	\$ 550.2	\$ 523.9	\$ 550.2	\$ 523.9

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
(millions of dollars, unaudited)				
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	\$ 54.5	\$ 18.3	\$ 130.1	\$ (1.8)
Items not affecting cash:				
Amortization	11.9	12.6	35.5	36.8
Foreign exchange gain on long-term debt	(3.4)	(9.9)	(1.8)	(16.7)
Reduction (increase) in value of outstanding derivative instruments (note 11)	(4.1)	(4.0)	0.4	(1.2)
Employee future benefits	1.9	1.5	5.8	3.7
Change in long-term maintenance provision	1.1	0.8	7.6	2.3
Other	(0.4)	0.5	(0.3)	0.3
Salary pension plan contribution	(0.7)	(0.5)	(1.9)	(1.9)
Long-term maintenance expenditure	-	(0.8)	(5.8)	(3.4)
Cash flow from operations before working capital changes	60.8	18.5	169.6	18.1
Changes in non-cash working capital (note 12)	(15.1)	30.6	(39.3)	75.6
	45.7	49.1	130.3	93.7
Financing activities				
Distributions paid to partners	(45.6)	(2.2)	(96.9)	(10.7)
Operating loan repayment (note 7)	-	(15.1)	-	(25.2)
	(45.6)	(17.3)	(96.9)	(35.9)
Investing activities				
Property, plant and equipment, net (note 12)	(14.0)	(6.2)	(20.5)	(14.4)
Green Transformation Program reimbursements	1.1	-	1.1	-
Net insurance proceeds	-	-	-	0.1
	(12.9)	(6.2)	(19.4)	(14.3)
Increase (decrease) in cash and cash equivalents	(12.8)	25.6	14.0	43.5
Cash and cash equivalents, beginning of period	40.3	18.3	13.5	0.4
Cash and cash equivalents, end of period	\$ 27.5	\$ 43.9	\$ 27.5	\$ 43.9

Supplementary cash flow information (note 12).

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

Canfor Pulp Limited Partnership Consolidated Balance Sheets

(millions of dollars, unaudited)	As at September 30, 2010	As at December 31, 2009
ASSETS		
Current assets		
Cash and cash equivalents	\$ 27.5	\$ 13.5
Accounts receivable (note 9)		
Trade	122.2	110.5
Other	15.4	8.6
Green Transformation Program (note 15)	20.6	-
Inventories (note 3)	143.2	135.4
Prepaid expenses and other assets	31.7	18.4
Total current assets	360.6	286.4
Property, plant and equipment (note 4)	507.9	534.1
Other long-term assets (note 5)	14.4	17.1
	\$ 882.9	\$ 837.6
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 9)	\$ 146.3	\$ 134.5
Distributions payable (note 13)	17.8	5.7
Total current liabilities	164.1	140.2
Long-term debt (note 7)	113.3	115.1
Long-term liabilities (note 8)	55.3	53.2
	\$ 332.7	\$ 308.5
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units	550.2	529.1
	\$ 882.9	\$ 837.6

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

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

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

"Stan Bracken-Horrocks"

Stan Bracken-Horrocks
Director

"Joe Nemeth"

Joe Nemeth
Director

Canfor Pulp Limited Partnership

Notes to the Unaudited Interim Consolidated Financial Statements as at September 30, 2010

1. Business Description and Basis of Presentation of Financial Statements

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

At September 30, 2010, 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 57% (2009 Year – 63%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2009 Annual Report available at www.canforpulp.com or www.sedar.com. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the note disclosures required by Canadian generally accepted accounting principles for annual financial statements. The Partnership's accounting policies are as disclosed in the annual consolidated financial statements of the Partnership included in the Fund's 2009 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2009 audited consolidated financial statements.

3. Inventories

(millions of dollars, unaudited)	September 30, 2010	December 31, 2009
Pulp	60.4	55.2
Paper	13.7	15.9
Wood chips	25.1	21.5
Processing materials and supplies	44.0	42.8
	143.2	135.4

4. Property, Plant and Equipment

(millions of dollars, unaudited)	September 30, 2010		
	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,350.7	855.3	495.4
Construction in progress	5.6	-	5.6
	1,364.0	856.1	507.9

(millions of dollars, unaudited)	December 31, 2009		
	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,344.1	820.1	524.0
Construction in progress	3.2	-	3.2
	1,355.0	820.9	534.1

5. Other Long-term Assets

(millions of dollars, unaudited)	September 30, 2010	December 31, 2009
Pension benefit plan	10.4	11.3
Maintenance shutdown costs	3.6	5.4
Other	0.4	0.4
	14.4	17.1

6. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Pension plans	1.5	1.2	4.5	3.7
Other employee future benefit plans	1.1	0.9	3.3	2.6
Contributions to forest industry union plans	1.8	1.7	5.1	5.0
	4.4	3.8	12.9	11.3

7. Credit Facilities and Long-term Debt

At September 30, 2010 the Partnership had outstanding long-term debt of \$113.3 million (December 31, 2009 – \$115.1 million, US\$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The Partnership has a \$40.0 million bank credit facility with a maturity date of November 30, 2011, of which \$0.5 million was utilized at September 30, 2010 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2011, to cover the \$16.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. Interest and other costs of the bank credit facility are at prevailing market rates.

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at September 30, 2010 and throughout the period.

The fair value of long-term debt at September 30, 2010 was \$124.6 million (US\$121.0 million).

8. Long-term Liabilities

(millions of dollars, unaudited)	September 30, 2010	December 31, 2009
Accrued pension obligations	6.5	5.8
Post-employment benefits	45.5	43.2
Derivative financial instruments (note 11)	0.2	1.2
Asset retirement obligations	3.1	3.0
	55.3	53.2

9. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2009 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Transactions				
Canfor	28.7	33.7	98.4	88.7
Howe Sound LP – commission received	0.6	0.7	1.8	1.9
Howe Sound LP – sale of wood chips	-	-	-	0.1
Lakeland Mills Ltd. – purchase of wood chips	1.6	0.9	4.3	2.7
			September 30, 2010	December 31, 2009
Balance Sheet				
Included in accounts payable and accrued liabilities:				
Canfor			26.9	40.8
Howe Sound LP			19.8	17.6
Lakeland Mills Ltd.			0.4	0.4
Included in trade accounts receivable:				
Product marketed for Canfor			14.3	24.4
Product marketed for Howe Sound LP			18.5	16.5

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

10. Net Income (Loss) per Partnership Unit

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

11. Derivative Financial Instruments

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

For the third quarter of 2010 the Partnership recorded a net gain on derivative financial instruments of \$2.6 million (third quarter 2009 – gain of \$3.4 million) relating to the settlement of maturing contracts during the quarter, and the revaluation to market of outstanding contracts at the end of the quarter, for natural gas swaps and US dollar forward contracts.

The Partnership recorded losses of \$0.9 million during the third quarter of 2010 (third quarter 2009 – loss of \$2.5 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At September 30, 2010 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 0.8 million gigajoules extending to October 2011. At September 30, 2010 the unrealized loss of \$3.7 million (September 30, 2009 – loss of \$4.3 million) on these outstanding commodity swaps was recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

The Partnership recorded a loss of \$0.6 million during the third quarter of 2010 (third quarter 2009 – gain of \$1.9 million) on settlement of maturing US dollar forward contracts to non-operating income. At September 30, 2010 the Partnership had outstanding US dollar forward contracts of \$52.5 million extending to January 2011. At September 30, 2010 the unrealized gain of \$0.8 million (September 30, 2009 – gain of \$1.0 million) on these outstanding US dollar forward contracts was recorded as an asset in other accounts receivable.

12. Supplementary Cash Flow Information

(millions of dollars, unaudited)	Three months ended		Nine months ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Decrease (increase) in non-cash working capital				
Accounts receivable – trade and other	10.1	11.2	(18.7)	(21.1)
Insurance receivable	-	-	-	7.3
Inventories	(4.8)	(6.0)	(7.8)	36.8
Prepaid expenses and other assets	(9.9)	(0.3)	(13.3)	3.0
Accounts payable and accrued liabilities	(10.5)	25.7	0.5	49.6
	(15.1)	30.6	(39.3)	75.6
Capital expenditures				
Capital expenditures – cash	14.0	6.2	20.5	14.4
Less amount reimbursable - Green Transformation Program	(10.8)	-	(12.4)	-
	3.2	6.2	8.1	14.4
Proceeds on disposal of fixed assets	0.3	-	0.3	-
Capital expenditures accruals – net accruals	1.2	0.9	0.9	(3.4)
	4.7	7.1	9.3	11.0
Net interest paid	0.1	0.5	4.0	5.3

13. Distributions

The Partnership declared distributions in the first nine months of 2010 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit	Amount
		\$	\$
January 29, 2010	February 15, 2010	0.08	5.7
February 26, 2010	March 15, 2010	0.12	8.5
March 31, 2010	April 15, 2010	0.12	8.6
April 30, 2010	May 14, 2010	0.12	8.6
May 31, 2010	June 15, 2010	0.20	14.2
June 30, 2010	July 15, 2010	0.20	14.3
July 30, 2010	August 13, 2010	0.22	15.7
August 31, 2010	September 15, 2010	0.22	15.7
September 30, 2010	October 15, 2010	0.25	17.8
		1.53	109.1

14. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	Nine months ended	Year ended
	September 30, 2010	December 31, 2009
Balance, beginning of period	-	0.1
Adjustment for exchange translation	0.1	(0.2)
Adjustment for derivatives recorded in other comprehensive income	-	0.1
Balance, end of period	0.1	-

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

(millions of dollars, unaudited)	September 30, 2010
Cumulative comprehensive income	406.9
Cumulative distributions	(444.2)
	(37.3)
Partners' capital – at July 1, 2006	587.5
Partners' equity, end of period	550.2

15. Green Transformation Program

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated \$122.2 million from the Program announced by the Canadian government on June 17, 2009. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. The Partnership has received Program approval to proceed with two projects totaling \$15.6 million. The Partnership has submitted a \$100.0 million project to upgrade the recovery boiler at the Northwood Pulp Mill for Program approval, and expects to submit further projects over the balance of 2010. The Partnership submits claims for expenditures on approved projects under the Program on a quarterly basis. The Partnership received \$1.1 million for eligible expenditures under the program in the third quarter of 2010 and as of September 30, 2010 has incurred \$21.7 million for qualifying reimbursable expenditures. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

16. Segmented Information ^(a)

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended September 30, 2010				
Sales to external customers ^(b)	212.9	34.7	0.3	247.9
Sales of pulp to paper segment ^(c)	23.9	(23.9)	-	-
Operating income (loss)	57.2	0.2	(5.4)	52.0
Amortization	11.0	0.8	0.1	11.9
Capital expenditures, net	4.3	0.2	0.2	4.7
Three months ended September 30, 2009				
Sales to external customers ^(b)	170.1	31.9	-	202.0
Sales of pulp to paper segment ^(c)	16.2	(16.2)	-	-
Operating income (loss)	11.6	3.2	(2.4)	12.4
Amortization	11.7	0.8	0.1	12.6
Capital expenditures, net	7.1	-	-	7.1
Nine months ended September 30, 2010				
Sales to external customers ^(b)	632.5	101.7	0.8	735.0
Sales of pulp to paper segment ^(c)	66.8	(66.8)	-	-
Operating income (loss)	150.7	(0.9)	(13.7)	136.1
Amortization	33.0	2.3	0.2	35.5
Capital expenditures, net	7.6	1.0	0.7	9.3
Identifiable assets	761.9	64.6	56.4	882.9
Nine months ended September 30, 2009				
Sales to external customers ^(b)	503.1	90.2	-	593.3
Sales of pulp to paper segment ^(c)	42.8	(42.8)	-	-
Operating income (loss)	(6.2)	10.5	(6.7)	(2.4)
Amortization	34.1	2.5	0.2	36.8
Capital expenditures, net	10.9	-	0.1	11.0
Identifiable assets	735.0	65.0	61.9	861.9

(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 39% (Year 2009 – 36%).

(b) Sales to the largest customer represented approximately 11% of pulp segment sales (Year 2009 – 7%).

(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.