

CANFOR PULP INCOME FUND

Third Quarter Report

For the three and nine months ended September 30, 2008

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership Third Quarter 2008 Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the unaudited interim consolidated financial statements with accompanying notes are presented for both the Fund and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the quarter and nine months ended September 30, 2008 relative to the same periods in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2007 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 25, 2008, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

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

The information in this report is as at October 27, 2008.

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 MD&A 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 11, the last paragraph under that heading;*
- *“Outlook – Kraft Paper” on page 11;*
- *“Critical Accounting Estimates” on page 14;*
- *“Distributable Cash and Cash Distributions” on page 16.*

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this MD&A 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

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 27, 2008, 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)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Equity income in Canfor Pulp Limited Partnership	5,513	9,046	21,667	5,999	16,541	17,900	24,203	12,184
Net income (loss) ¹	5,208	7,015	21,667	8,703	16,541	(21,437)	24,203	12,184
Net income (loss) per Fund unit ¹	\$0.15	\$0.20	\$0.61	\$0.25	\$0.46	\$(0.60)	\$0.68	\$0.56
Distributions earned from the Partnership and declared to unitholders	12,778	12,777	12,778	13,487	19,167	17,747	14,907	24,147
Distributions declared per Fund unit	\$0.36	\$0.36	\$0.36	\$0.38	\$0.54	\$0.50	\$0.42	\$0.80

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 September 30, 2008, the Fund had net income of \$5.2 million, or \$0.15 per Fund unit. Net income is the Fund's share of the Partnership's earnings for the third quarter of 2008, less a future income tax expense of \$0.3 million. The future income tax expense represents an adjustment to the future income tax liability based on the Fund's share of the differences between book and income tax values of the Partnership's assets and liabilities. Distributions declared by the Partnership and accruing to the Fund were \$12.8 million of which \$4.3 million was receivable at September 30, 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 interim management discussion and analysis.

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 2008, the Fund declared distributions of \$0.36 per Fund unit or \$12.8 million.

Monthly cash distributions from the Partnership are not directly equal to the Fund's pro-rata share of the Partnership's income under the equity method, primarily due to capital expenditures, unrealized changes in value of derivative instruments, amortization and other non-cash expenses of the Partnership, and reserves for future capital expenditures and contingencies.

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 October 27, 2008, 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 September 30, 2008 were \$12.8 million of which \$8.5 million was paid, with the balance of \$4.3 million receivable on September 30, 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 is currently developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Fund.

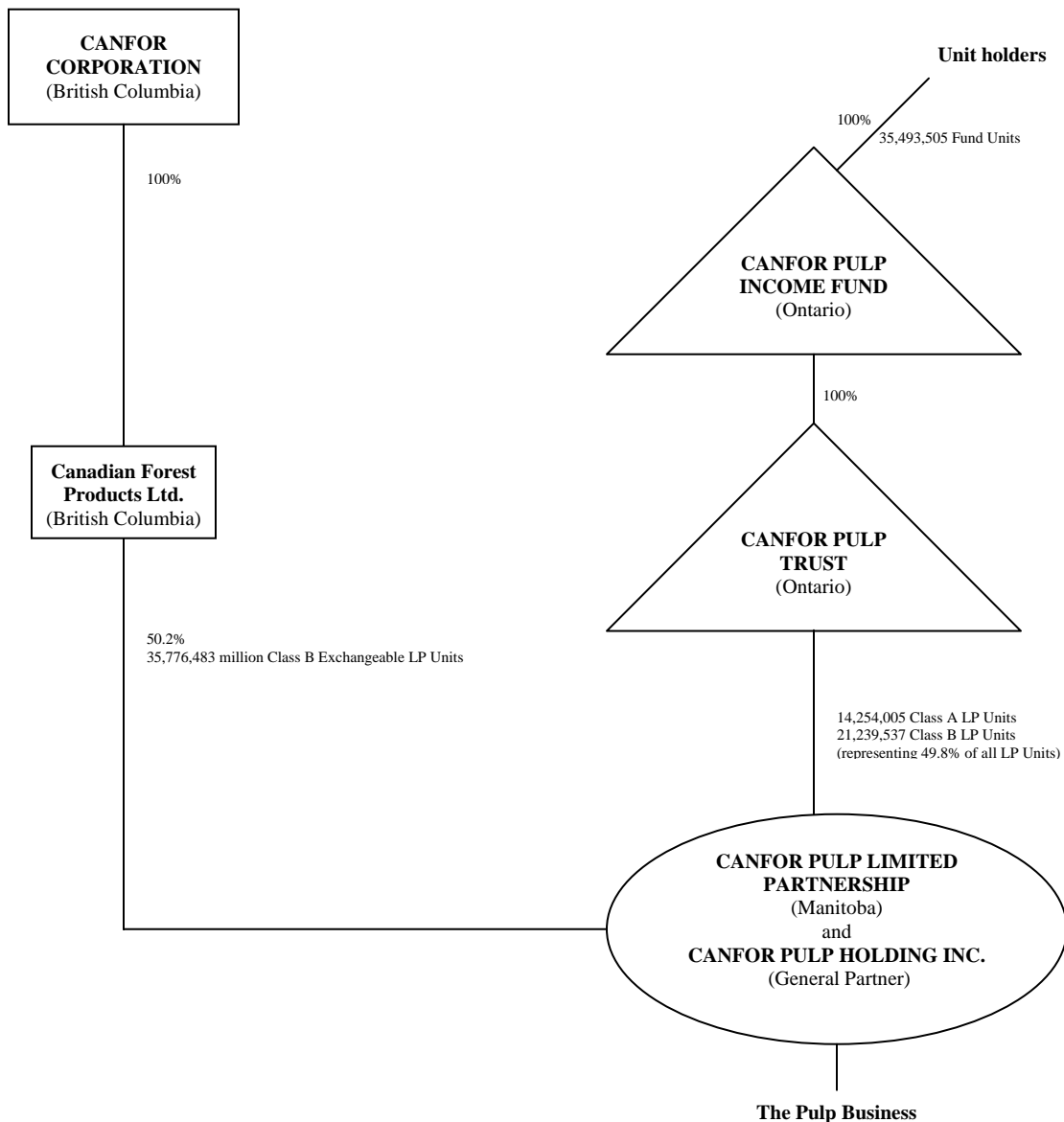
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At October 27, 2008, 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)	Q3 2008	Q2 2008	YTD 2008	Q3 2007	YTD 2007
Sales	215.4	212.6	639.4	228.9	706.5
EBITDA ¹	40.6	24.0	107.1	48.8	160.6
Operating income	27.5	11.6	69.7	35.4	122.6
Net income	11.1	18.2	72.8	33.2	117.7
Per Partnership unit, basic and diluted					
Net income	0.15	0.26	1.02	0.46	1.65
EBITDA	0.57	0.33	1.50	0.68	2.25
Average exchange rate (US\$/Cdn\$) ²	0.960	0.990	0.982	0.957	0.905

Notes: ¹ For calculation of EBITDA, see supplementary financial information on page 16.

² Source – Bank of Canada (average noon rate for the period).

EBITDA for the third quarter of 2008 increased by \$16.6 million from the second quarter of 2008 and decreased by \$8.2 million when compared to the third quarter of 2007. The increase from the second quarter is mainly attributable to lower unit manufacturing costs and a weaker Canadian dollar, partially offset by higher freight costs. Lower unit manufacturing costs are the result of reduced operating, labour and maintenance costs and increased production attributable to the scheduled maintenance outages in the second quarter of 2008. Realized pulp prices in Canadian dollar terms increased approximately 2% due to the impact of a weaker Canadian dollar which averaged 3% lower than the previous quarter. Freight costs rose 10% over the previous quarter as higher fuel surcharges increased costs of delivering pulp and paper to our customers.

When compared to the third quarter of 2007 the \$8.2 million decrease in EBITDA was primarily attributable to higher unit manufacturing costs, higher freight costs and lower sales volumes, offset by higher realized paper prices in Canadian dollar terms. Unit manufacturing costs increased 6% due to higher fibre, chemical and energy costs. Freight costs increased 19% when compared to the third quarter of 2007. Fibre costs increased 12% over the same period in 2007 due to higher freight costs and a 19% increase in delivered volume of higher cost whole log chips. Realized paper prices in Canadian dollar terms increased 10% when compared to the third quarter of 2007.

For the nine-month period ended September 30, 2008, EBITDA of \$107.1 million decreased \$53.5 million when compared to the same period in 2007. The decrease in EBITDA is attributable to the stronger Canadian dollar, lower pulp sales volumes and higher unit manufacturing and freight costs, partially offset by increased NBSK pulp list prices. The Canadian dollar strengthened by 8%, an unfavourable impact of \$47 million over the same period in the prior year. Pulp sales volumes decreased by 9% when compared to the prior year due to the impact of the Prince George Pulp and Paper Mill fire and increased scheduled maintenance downtime in 2008. Unit manufacturing costs increased by 11% due to the impact of lower production volumes and higher energy, chemical and fibre costs. Freight costs increased 6% when compared to 2007.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q3 2008	Q2 2008	YTD 2008	Q3 2007	YTD 2007
Sales	182.0	178.6	537.2	199.3	612.0
EBITDA ¹	39.1	24.1	107.2	52.0	171.3
EBITDA margin ¹	21%	13%	20%	26%	28%
Operating income ¹	26.2	12.8	72.0	39.6	136.5
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	880	880	880	837	812
Average NBSK pulp list price – (Cdn\$ per tonne, delivered to USA)	917	889	896	875	897
Production – pulp (000 mt)	255.6	226.1	713.2	265.7	782.9
Shipments – Partnership-produced pulp (000 mt)	234.5	233.8	697.2	257.1	770.0
<i>Marketed on behalf of HSLP & Canfor (000 mt)</i>	135.5	151.9	415.8	139.2	423.9

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

Third quarter 2008 operating income of the pulp segment increased by \$13.4 million from the second quarter of 2008 and decreased by \$13.4 million when compared to the third quarter in 2007. Compared to the second quarter of 2008, the increase is primarily due to lower unit manufacturing costs and a weaker Canadian dollar, partially offset by higher freight costs. Lower unit manufacturing costs are the result of reduced operating, labour and maintenance costs for pulp and paper and increased production attributable to the scheduled maintenance outages in the second quarter of 2008. Higher fuel costs increased both the cost of delivering pulp to customers and the delivered cost of fibre to the mills. Overall realized pulp prices in Canadian dollar terms increased approximately 2% due to the weakening of the Canadian dollar. Pulp production volume reduction as a result of the Prince George Pulp Mill fire and subsequent operation using the temporary chip screening system is approximately 7,000 tonnes in the third quarter of 2008 and 6,000 tonnes in the second quarter of 2008. The financial impact of this reduced production volume was offset by accrued business interruption insurance recoveries of \$3.5 million in the third quarter of 2008 and \$3.3 million in the second quarter of 2008.

The third quarter 2008 results are lower than those in the same period a year ago, due to higher unit manufacturing and freight costs, and lower sales volumes. Unit manufacturing costs increased 6% over the prior year primarily due to a 10% increase in fibre costs and higher energy and chemical prices. Freight costs of delivering pulp to our customers increased by 23% when compared to the same period in 2007 as higher fuel surcharges and export container rates increased the cost of delivering pulp to our customers. Fibre cost increases over the prior year quarter were mainly attributable to a higher percentage of higher cost whole log chip consumption, combined with increased freight costs.

For the nine month period ended September 30, 2008, operating income of \$72.0 million was \$64.5 million less than the same period in 2007. The decrease is attributable to lower sales volumes, higher unit manufacturing costs, and a stronger Canadian dollar offset by increased NBSK pulp list prices. The Canadian dollar strengthened by 8%, an unfavourable impact of \$41 million over the same period in the prior year. Sales volumes decreased by 9% when compared to the prior year due to 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 \$18.2 million. Unit manufacturing costs increased by 11% due to the impact of lower production volumes and higher maintenance, energy, chemical and fibre costs. Fibre costs increased by 12% when compared to the prior year, due to higher prices for residual chips and a higher percentage of whole log chips. Pulp realized prices in Canadian dollar terms decreased by 3% as a 9% increase in pulp list prices was more than offset by a 9% strengthening of the Canadian dollar and a slight increase in discounts due to geographic mix.

Operations

NBSK production during the third quarter was 29,500 tonnes greater than the second quarter of 2008, and 10,100 tonnes less than the third quarter of 2007. The Prince George Pulp and Paper Mill continues to operate at a slightly reduced rate due to operation on a temporary chip screening system. Construction of a permanent system is nearing completion and expected to be operational in the fourth quarter of 2008. Pulp production volume reduction of 7,000 tonnes during the quarter as a result of the fire and subsequent operation using the temporary system was similar to the second quarter of 2008 and 35,000 tonnes for the nine months ended September 30, 2008. There were no scheduled maintenance outages in the third quarter of 2008 as compared to 33,000 tonnes of reduced production in the second quarter of 2008. Reduced production in respect of scheduled maintenance outages in 2007 were approximately 4,100 tonnes in the third quarter and 21,000 tonnes for the nine months ended September 30, 2007.

Markets - Pulp

The pulp market weakened during the third quarter of 2008. Market pulp inventories (World 20 Producers) of softwood kraft market pulp were at 36 days of supply at the end of the third quarter, an increase of 7 days from the level at the end of the second quarter. Inventories of 30 days are generally considered to be representative of a balanced market. Shipments in the first nine months of 2008 of Northern softwood kraft market pulp were lower by 2.9% compared to the same period in 2007.

The weakening paper demand in the third quarter has resulted in a reduction of wood pulp purchases by papermakers. This has caused pulp inventories held by producers to rise, and pulp prices to fall in all of the Partnership's major markets. Northern European NBSK prices finished the third quarter at US\$850 per tonne (a decrease of US\$50 per tonne from the beginning of the quarter, although US\$20 per tonne higher than the end of the third quarter of 2007). North American pulp prices fell \$15 during the quarter, from US\$885 in July to US\$870 in September. As we enter the fourth quarter, list prices have declined a further US\$20 per tonne.

Outlook – Pulp

The Intercontinental Pulp Mill and Prince George Pulp and Paper Mill are scheduled to complete their maintenance outages in the fourth quarter of 2008, which will result in an estimated 15,000 tonnes of reduced production. The Intercontinental Pulp Mill will increase the capacity of its pulp machine during the outage.

Due to general weakness and the global financial crisis, we are seeing a slowdown in pulp demand resulting in an increase in inventories and decreasing prices. The impact of price declines in US dollar terms is mitigated by lower oil and natural gas prices and a weakened Canadian dollar. However, with rising inventories, the Partnership has decided to take market related production curtailments of approximately 30,000 tonnes of pulp and 10,000 tonnes of kraft paper. These curtailments are expected to occur over the next several months.

Paper

(millions of dollars unless otherwise noted, unaudited)	Q3 2008	Q2 2008	YTD 2008	Q3 2007	YTD 2007
Sales	33.4	34.0	102.2	29.6	94.5
EBITDA ¹	5.3	3.1	10.7	0.5	1.9
EBITDA margin ¹	16%	9%	10%	2%	2%
Operating income (loss) ¹	4.3	2.1	7.8	(0.5)	(1.2)
Production – paper (000 mt)	35.9	34.2	102.5	33.0	98.5
Shipments – paper (000 mt)	31.6	33.7	100.4	30.8	97.1

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

Operating income of the paper segment for the third quarter of 2008 was \$4.3 million, \$2.2 million higher than the second quarter of 2008 and \$4.8 million higher than third quarter last year. The improvement over the second quarter of 2008 was due to a 5% improvement in realized prices in Canadian dollar terms and lower unit manufacturing costs, partially offset by lower sales volumes. The decrease in manufacturing costs was primarily the result of lower spending on maintenance and operating supplies. When compared to the third quarter of 2007 the improved operating earnings were due to a 10% increase in realized prices in Canadian dollar terms, lower unit manufacturing costs and higher sales volumes.

For the nine month period ending September 30, 2008, operating income of \$7.8 million increased by \$9.0 million when compared to the same period in 2007. The increase was attributable to a 5% increase in realized prices in Canadian dollar terms, higher sales volumes and lower unit manufacturing costs due to lower raw material costs for slush pulp.

Operations

The paper machine had a strong operating quarter setting a record of 392 tonnes per day for tonnes made to customer orders and matching a record average operating rate of 395 tonnes per day. Paper production in the third quarter of 2008 increased by 1,700 tonnes over the second quarter of 2008 and 2,900 tonnes when compared to the third quarter of 2007. 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 scheduled maintenance taken during 2008 with 1,800 tonnes of reduced production in the third quarter of 2007 due to a scheduled maintenance outage.

Markets - Paper

Similar to the first half of 2008, CPLP experienced solid demand for its Kraft paper sales for most of the third quarter. However market conditions changed in September; a combination of the world financial crisis and worsening overall economic conditions in the USA has impacted paper markets across the world, resulting in a significant decline in paper demand.

Overall, CPLP prime paper shipments were up 3.3% for the first 9 months of 2008. Bleached paper shipments are up as well, accounting for 83% of the Partnership's total this year compared to 71% for the same period last year at the same point in time.

The American Forest & Paper Association reported (AF&PA) that Kraft Paper shipments in the first six months of 2008 were up 9.7% over 2007. However, in July & August, AF&PA reported that shipments fell 3.6% and 5.4% respectively versus 2007. Although September statistics have not been released, they are expected to be down again. As well, the Pulp and Paper Product Council reported that Canadian Kraft paper shipments for August were down 1.4% and up only 0.1% in the first eight months of 2008.

Outlook – Kraft Paper Markets

Looking forward, weak demand is expected to continue through the fourth quarter of 2008 and into 2009. Prices have declined in both offshore and domestic markets, with demand reductions and inventories building. RISI's September price forecast shows no further change in pricing in the fourth quarter of 2008, but with general paper packaging grade pricing reducing up to 10% in 2009. Currency movement (Cdn and Euro vs. the US) may mitigate US dollar pricing reductions.

Non-Segmented Costs

(millions of dollars, unaudited)	Q3 2008	Q2 2008	YTD 2008	Q3 2007	YTD 2007
Unallocated costs	3.0	3.3	10.1	3.7	12.7
Interest expense, net	2.1	1.7	5.5	1.6	5.0
Reduction (increase) in unrealized value of derivative instruments	12.7	(8.0)	(2.2)	3.1	5.1
Unrealized foreign exchange loss (gain) on long-term debt	5.2	(0.6)	7.9	(7.4)	(18.6)
Foreign exchange loss (gain) on working capital	(3.8)	0.3	(6.1)	4.9	13.2
Net property damage insurance gain	-	-	(8.5)	-	-
Other expense	0.2	-	0.3	-	0.2
	19.4	(3.3)	7.0	5.9	17.6

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$3.0 million in the third quarter of 2008 compared to \$3.3 million in the second quarter of 2008 and \$3.7 million in the third quarter of 2007. Unallocated costs decreased slightly when compared to the second quarter of 2008 due to lower administration costs. When compared to the third quarter of 2007 the lower costs are attributable to lower accruals for performance based incentive plans.

For the nine months ended September 30, 2008 unallocated costs of \$10.1 million were \$2.6 million lower than the same period a year ago due to lower accruals for performance based incentive plans and a reduction in corporate services provided by Canfor.

Interest Expense

The net interest expense during the third quarter of 2008 of \$2.1 million, increased by \$0.4 million when compared to the prior quarter, due to the cost of funding short-term working capital requirements.

Other Non-segmented Items

The reduction in the value of derivative instruments of \$12.7 million recorded in the quarter relates to a revaluation to market of outstanding natural gas swaps at the end of the quarter and is the result of decreases in the market price of natural gas during the quarter. For the nine months ended September 30, 2008 the Partnership has recorded a net unrealized gain of \$2.2 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 and the foreign exchange gain on working capital are the direct result of translating US dollar balances at period-end exchange rates.

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)	Q3 2008	YTD 2008	Q3 2007	YTD 2007
Ratio of current assets to current liabilities	1.96	1.96	1.83	1.83
Ratio of net debt to partners' equity ¹	0.22	0.22	0.12	0.12
Increase (decrease) in cash and cash equivalents	(8.3)	(8.5)	6.4	12.1
Comprised of cash flow from (used in):				
Operating activities ²	26.8	83.3	49.2	141.3
Financing activities	(26.5)	(72.8)	(38.5)	(116.9)
Investing activities ²	(8.6)	(19.0)	(4.3)	(12.3)

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 \$26.8 million in the third quarter of 2008 compared to \$49.2 million in the third quarter of 2007. The decrease was primarily due to an increase of cash used in working capital. The increase of cash used in working capital is due to increased cost and volume of finished goods, an increase in insurance receivables for the Prince George Pulp and Paper Mill fire insurance claim and a reduction in accounts payable to settle outstanding liabilities relating to the scheduled maintenance expenditures in the second quarter of 2008.

The cash used in financing activities of \$26.5 million in the quarter represents \$25.7 million of distributions paid to the limited partners, namely Canfor and the Fund, and a \$0.8 million repayment on the Partnership's operating line.

The cash used in investing activities in the quarter is comprised of \$8.6 million relating to capital expenditures net of accruals.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership's cash and cash equivalents liability balance of \$5.9 million consisted of outstanding cheques net of cash on hand. 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. 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 \$43.4 million is available with \$27.4 million of the Revolving Facility reserved for a standby letter of credit issued to BC Hydro and \$4.2 million drawn to fund working capital requirements as of September 30, 2008.

OUTSTANDING UNITS

At October 27, 2008, 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 September 30, 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)	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006
Sales and Income (millions of dollars)								
Sales ¹	215.4	212.6	211.4	215.1	228.9	239.4	238.2	225.2
Operating income ¹	27.5	11.6	30.6	11.7	35.4	39.2	48.0	45.6
EBITDA ¹	40.6	24.0	42.5	27.9	48.8	51.7	60.1	58.2
Net income	11.1	18.2	43.5	12.1	33.2	35.9	48.6	44.8
Per Partnership unit (dollars) ²								
Net income basic and diluted	0.15	0.26	0.61	0.17	0.46	0.51	0.68	0.63
Statistics								
Pulp shipments (000 mt)	234.5	233.8	228.9	253.6	257.1	259.8	253.1	249.8
Paper shipments (000 mt)	31.6	33.7	35.1	32.4	30.8	35.9	30.4	32.7
Average exchange rate (US\$/Cdn\$) ³								
	0.960	0.990	0.996	1.019	0.957	0.911	0.854	0.878
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)								
	880	880	880	857	837	810	790	770

Notes: ¹ Comparative figures have been reclassified to conform to current year presentation.
² Based on Partnership units outstanding at September 30, 2008 (71,270,025) for all periods.
³ 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, net income and EBITDA are primarily impacted by the level of sales and price fluctuations in raw material inputs, freight costs, energy prices, maintenance costs and the timing of scheduled maintenance downtime. Net income 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. Included in the first quarter of 2008 net income is a \$8.5 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 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.

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 Section 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.

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 is currently developing a conversion implementation plan and assessing the impacts of the conversion on the consolidated financial statements and disclosures of the Partnership.

CANFOR PULP LIMITED PARTNERSHIP
SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended September 30, 2008		September 30, 2007		Nine months ended September 30, 2008		September 30, 2007	
RECONCILIATION OF NET INCOME TO EBITDA								
Net Income	\$	11.1	\$	33.2	\$	72.8	\$	117.7
Add (deduct):								
Amortization		13.2		13.4		36.8		38.0
Net interest expense		2.1		1.6		5.5		5.0
Unrealized foreign exchange loss (gain) on long-term debt		5.2		(7.4)		7.9		(18.6)
Reduction (increase) in unrealized value of derivative instruments		12.7		3.1		(2.2)		5.1
Foreign exchange loss (gain) on working capital		(3.8)		4.9		(6.1)		13.2
Loss on disposal of fixed assets		0.7		-		1.2		-
Net property damage insurance gain		-		-		(8.5)		-
Gain on settlement of asset retirement obligation		(0.9)		-		(0.9)		-
Other expense		0.3		-		0.6		0.2
EBITDA	\$	40.6	\$	48.8	\$	107.1	\$	160.6
EBITDA per Partnership unit	\$	0.57	\$	0.68	\$	1.50	\$	2.25

(millions of dollars, unaudited)	Three months ended September 30, 2008		September 30, 2007		Nine months ended September 30, 2008		September 30, 2007	
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH								
Cash flow from operating activities	\$	26.8	\$	49.2	\$	83.3	\$	141.3
Deduct: Capital expenditures – cash		(2.9)		(4.3)		(21.3)		(12.3)
Standardized distributable cash	\$	23.9	\$	44.9	\$	62.0	\$	129.0
Adjustments to standardized distributable cash:								
Add (deduct):								
Increase (decrease) in non-cash working capital		20.1		(6.8)		30.1		1.8
Net long-term deferred maintenance		(3.2)		1.4		(1.1)		(0.6)
Capital expenditures – accruals		(2.8)		(2.5)		2.8		(4.8)
Adjusted distributable cash ¹	\$	38.0	\$	37.0	\$	93.8	\$	125.4
Standardized distributable cash – per Partnership unit (in dollars)	\$	0.34	\$	0.63	\$	0.87	\$	1.81
Adjusted distributable cash – per Partnership unit (in dollars) ¹	\$	0.53	\$	0.52	\$	1.32	\$	1.76
Cash distributions declared (paid and payable)	\$	25.7	\$	38.5	\$	77.0	\$	104.0
Cash distributions declared – per Partnership unit (in dollars)	\$	0.36	\$	0.54	\$	1.08	\$	1.46

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.

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, a reserve for future major capital replacements (estimated at \$4 million per year) and a contingency reserve. 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.