

July 24, 2008

CANFOR PULP INCOME FUND ANNOUNCES SECOND QUARTER 2008 RESULTS

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

The Partnership reported sales of \$212.6 million and net income of \$18.2 million, or \$0.26 per unit, for the quarter ended June 30, 2008. Scheduled maintenance outages and higher freight and fibre costs during the quarter impacted the results unfavourably when compared to the first quarter of 2008 sales of \$211.4 million and net income of \$43.5 million, or \$0.61 per unit. Increased costs and reduced production from the scheduled maintenance outages in the second quarter of 2008 reduced net income by approximately \$12 million. Higher fuel costs increased both the cost of delivering pulp and paper to customers and the delivered cost of fibre to the mills. The second quarter 2008 results are lower than those in the same period a year ago, when sales were \$239.4 million with net income of \$35.9 million or \$0.51 per unit, primarily due to the scheduled maintenance outages and lower sales volumes, higher unit manufacturing costs and the stronger Canadian dollar partially offset by increases in NBSK pulp list prices.

The Partnership generated adjusted distributable cash (defined as standardized distributable cash before changes in working capital and long-term deferred maintenance, and after provision for accrued capital expenditures) of \$13.4 million, or \$0.19 per unit, in the second quarter of 2008. Capital expenditures incurred were \$9.6 million in the quarter. Fluctuations in working capital are financed through the Partnership's accumulated cash and bank credit lines. For the second quarter of 2008, based on current estimates of full year cash flow and capital expenditures, the Partnership and Fund maintained monthly distributions of \$0.12 per unit for a total of \$0.36 per unit in the quarter.

The Fund earned net income of \$7.0 million, or \$0.20 per Fund unit, in the second quarter of 2008, compared to net income of \$21.7 million, or \$0.61 per Fund unit, in the first quarter of 2008. Net income before future income taxes of \$9.0 million represents the Fund's share of the Partnership's earnings for the second quarter of 2008. Deducted from this income is a charge of \$2.0 million to adjust the Future Income Tax liability based on the differences between book and income tax values of the Partnership's assets and liabilities.

The Prince George Pulp Mill continues to operate at a slightly reduced rate due to operation of a temporary chip screening system. Construction of a permanent system is underway and expected to be operational in the fourth quarter of 2008. Pulp production volume lost as a result of the Prince George Pulp Mill fire and subsequent operation using the temporary chip screening system is approximately 6,000 tonnes in the second quarter of 2008 and 35,000 tonnes in the first quarter of 2008. The financial impact of this reduced production volume is offset by accrued business interruption insurance recoveries of \$3.3 million in the second quarter of 2008 and \$11.4 million in the first quarter of 2008.

Scheduled maintenance outages were taken at the Northwood and Intercontinental Pulp Mills in the second quarter of 2008 representing approximately 33,000 tonnes of reduced production.

There are no maintenance outages scheduled for the third quarter of 2008. 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 13,000 tonnes of reduced production. The Intercontinental Pulp Mill is planning to upgrade the capacity of its pulp machine during the outage.

Subsequent to the end of the quarter, negotiations were successfully concluded with the Communications, Energy and Paperworkers Union (CEP) and the Pulp, Paper and Woodworkers of Canada (PPWC) for renewal of the labour agreements and the agreements were ratified for terms of four years expiring on April 30, 2012.

On July 22, 2008 the Fund announced a cash distribution of \$0.12 per Fund unit for the month of July to be paid on August 15, 2008.

Additional Information

A conference call to discuss the second quarter 2008 financial and operating results will be held on Friday, July 25 at 8:00 a.m. Pacific time.

To participate in the call, please dial 416-695-9719 or Toll-Free 1-800-952-6845. For instant replay access, please dial 416-695-5800 or Toll-Free 1-800-408-3053 and enter participant pass code 3265482. The conference call will be webcast live and will be available at www.canforpulp.com/investors/webcasts.asp.

This news release and the attached interim Management's Discussion and Analysis (MD&A) and financial statements are available on the company's website at www.canforpulp.com.

About Canfor Pulp Income Fund

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

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Forward Looking Statements

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

Forward-looking statements in this MD&A include statements made under:

- "Critical Accounting Estimates" on page 6;
- "Markets – Pulp" on page 10, the last paragraph under that heading;
- "Outlook – Pulp" on page 10;
- "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 and Canfor Pulp Limited Partnership Second 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. The Partnership did not have an operating business prior to July 1, 2006, and the comparative results prior to this date represent the northern bleached softwood kraft (NBSK) business of Canadian Forest Products Ltd., a subsidiary of Canfor Corporation (collectively Canfor), which the Partnership acquired on July 1, 2006. 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 six months ended June 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 July 24, 2008.

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 July 24, 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)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Equity income in Canfor Pulp Limited Partnership	9,046	21,667	5,999	16,541	17,900	24,203	12,184	8,374
Net income (loss) ¹	7,015	21,667	8,703	16,541	(21,437)	24,203	12,184	8,374
Net income (loss) per Fund unit	\$0.20	\$0.61	\$0.25	\$0.46	\$(0.60)	\$0.68	\$0.56	\$0.59
Distributions earned from the Partnership and declared to unitholders	12,777	12,778	13,487	19,167	17,747	14,907	24,147	6,272
Distributions declared per Fund unit	\$0.36	\$0.36	\$0.38	\$0.54	\$0.50	\$0.42	\$0.80	\$0.44

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 June 30, 2008, the Fund had net income of \$7.0 million, or \$0.20 per Fund unit. Net income is the Fund's share of the Partnership's earnings for the second quarter of 2008, less a future income tax expense of \$2.0 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 June 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 12 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 from the Fund's investment in the units of the Partnership and distributions payable by the Fund to its unitholders are recorded when declared. During the second 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 differences between capital expenditures, 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 July 24, 2008, there are a total of 35,493,505 Fund units outstanding. During the quarter the Fund redeemed 37 Fund units at a redemption price of \$8.065 per unit. The units were redeemed in accordance with the terms of the Declaration of Trust of the Fund.

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 June 30, 2008 were \$12.8 million of which \$8.5 million was paid, with the balance of \$4.3 million receivable on June 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.

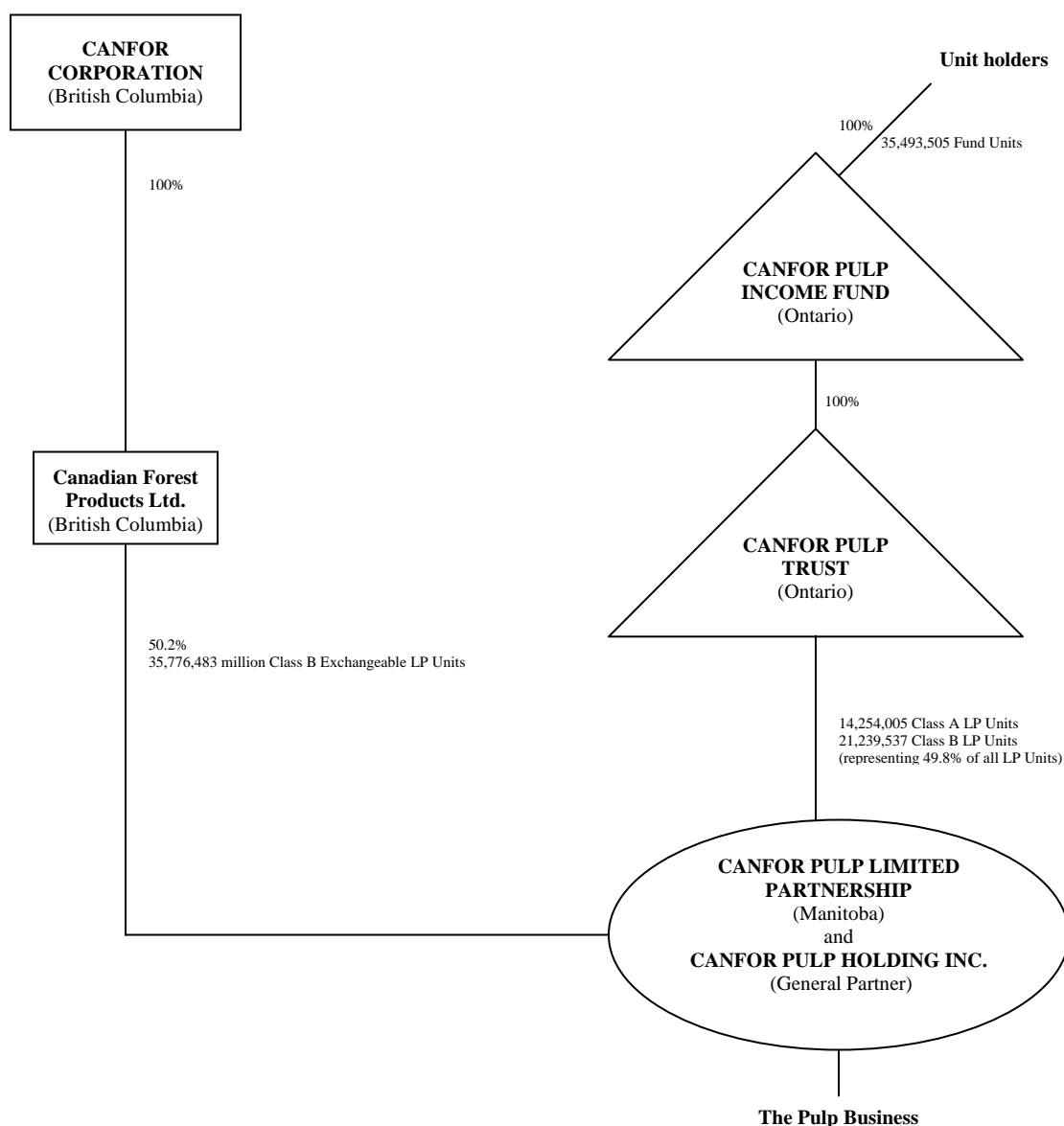
CANFOR PULP LIMITED PARTNERSHIP

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 July 24, 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)	Q2 2008	Q1 2008	YTD 2008	Q2 2007	YTD 2007
Sales	212.6	211.4	424.0	239.4	477.6
EBITDA ¹	24.0	42.5	66.5	51.7	111.8
Operating income	11.6	30.6	42.2	39.2	87.2
Net income	18.2	43.5	61.7	35.9	84.5
Per Partnership unit, basic and diluted					
Net income	0.26	0.61	0.87	0.51	1.19
EBITDA	0.33	0.60	0.93	0.73	1.57
Average exchange rate (US\$/Cdn\$) ²	0.990	0.996	0.993	0.911	0.881

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 second quarter of 2008 decreased by \$18.5 million from the first quarter of 2008 and decreased by \$27.7 million when compared to the second quarter of 2007. The decrease from the first quarter is mainly attributable to the impact of scheduled maintenance outages and higher freight and fibre costs. Increased costs and reduced production from the scheduled maintenance outages in the second quarter of 2008 reduced EBITDA by approximately \$12 million. Realized pulp prices in Canadian dollar terms decreased slightly as the sales product and geographic mix more than offset the impact of a weaker Canadian dollar. The Bank of Canada noon rate averaged 0.6% lower than the previous quarter. Freight costs rose 6% over the previous quarter as higher fuel surcharges increased costs of delivering pulp and paper to our customers. Higher fuel costs also contributed to a 3% increase in delivered fibre costs when compared to the first quarter of 2008.

When compared to the second quarter of 2007 the \$27.7 million decrease in EBITDA was attributable to lower production and sales volumes, higher unit manufacturing costs and the stronger Canadian dollar partially offset by increases in NBSK pulp list prices. The unfavourable impact of the stronger Canadian dollar was approximately \$16 million when compared to the same period last year. Unit manufacturing costs increased 16% when compared to the second quarter of 2007 due to higher fibre, energy and maintenance costs and the impact of lower production volumes due to the scheduled maintenance outage at Northwood Pulp mill in the second quarter of 2008. Quarter over quarter fibre costs increased 15% due to a higher sawmill residual price and a higher percentage of whole log chip consumption. NBSK pulp list prices increased approximately 9% offsetting some of the impact of the stronger Canadian dollar and the cost increases.

For the six month period ended June 30, 2008, EBITDA of \$66.5 million decreased \$45.3 million when compared to the same period in 2007. The decrease in EBITDA is attributable to the stronger Canadian dollar, lower sales volumes and higher unit manufacturing costs, partially offset by increased NBSK pulp list prices. The Canadian dollar strengthened by 13%, an unfavourable impact of \$45 million over the same period in the prior year. Sales volumes decreased by 8% when compared to the prior year due to the impact of the Prince George Pulp Mill fire and scheduled maintenance downtime in 2008. Unit manufacturing costs increased by 14% due to the impact of lower production volumes and higher maintenance, energy and fibre costs.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q2 2008	Q1 2008	YTD 2008	Q2 2007	YTD 2007
Sales	178.6	176.6	355.2	205.0	412.7
EBITDA ¹	24.1	44.0	68.1	55.3	119.4
EBITDA margin ¹	13%	25%	19%	27%	29%
Operating income ¹	12.8	33.0	45.8	43.8	96.9
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	880	880	880	810	800
Average NBSK pulp list price – (Cdn\$ per tonne, delivered to USA)	889	884	886	889	908
Production – pulp (000 mt)	226.1	231.5	457.6	258.3	517.2
Shipments – Partnership-produced pulp (000 mt)	233.8	228.9	462.7	259.8	512.9
Marketed on behalf of HSLP & Canfor (000 mt)	151.9	128.4	280.3	152.1	284.7

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

Second quarter 2008 operating income of the pulp segment decreased by \$20.2 million from the first quarter of 2008 and \$31.0 million when compared to the second quarter in 2007. Compared to the first quarter of 2008, the decrease is primarily due to the impact of scheduled maintenance outages, higher fibre costs and lower realized prices in Canadian dollar terms. Increased operating and maintenance costs and reduced production resulting from the scheduled maintenance outages in the second quarter of 2008 reduced operating earnings by approximately \$12 million. 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 decreased by 1%, primarily the result of higher freight costs and a higher percentage of unbleached pulp sales. Pulp production volume lost as a result of the Prince George Pulp Mill fire and subsequent operation using the temporary chip screening system is approximately 6,000 tonnes in the second quarter of 2008 and 35,000 tonnes in the first quarter of 2008. The financial impact of this reduced production volume is offset by accrued business interruption insurance recoveries of \$3.3 million in the second quarter of 2008 and \$11.4 million in the first quarter of 2008.

The second quarter 2008 results are lower than those in the same period a year ago, due to the impact of the stronger Canadian dollar, lower production and sales volumes, and higher unit manufacturing costs which were partially offset by increases in NBSK pulp list prices. The impact of the stronger Canadian dollar was approximately \$14 million when compared to the same period last year. Lower production and sales volumes and higher maintenance costs were the direct result of scheduled maintenance outages. Fibre costs increased 15% over the prior year quarter mainly attributable to a higher percentage of higher cost whole log chip consumption, combined with increased freight costs. Also impacting unit manufacturing costs were higher energy costs primarily attributable to a 21% increase in natural gas prices, which were partially offset by an 8% reduction in natural gas usage. Increased NBSK pulp list prices of approximately 9% offset some of the impact of the stronger Canadian dollar and increased costs.

For the six month period ended June 30, 2008, operating income of \$45.8 million decreased \$51.1 million when compared to the same period in 2007. The decrease is attributable to the stronger Canadian dollar, lower sales volumes and higher unit manufacturing costs, partially offset by increased NBSK pulp list prices. The Canadian dollar strengthened by 13%, an unfavourable impact of \$39 million over the same period in the prior year. Sales volumes decreased by 10% when compared to the prior year due to the impact of the Prince George Pulp Mill fire and scheduled maintenance downtime in 2008. Offsetting the impact of the fire was an accrual of \$14.7 million for business interruption insurance on the impact of lost production. Unit manufacturing costs increased by 14% due to the impact of lower production volumes and higher maintenance, energy costs and fibre costs. Fibre costs increased by 14% 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 5% as the impacts of the stronger Canadian dollar were partially offset by a 10% increase in pulp list prices.

Operations

NBSK production during the second quarter was 5,400 tonnes less than the first quarter of 2008, and 32,200 tonnes less than the second quarter of 2007. The Prince George Pulp Mill continues to operate at a slightly reduced rate due to operation on a temporary chip screening system. Construction of a permanent system is underway and expected to be operational in the fourth quarter of 2008. Pulp production volume lost as a result of the fire and subsequent operation using the temporary system is approximately 6,000 tonnes of reduced production in the quarter as compared to approximately 35,000 tonnes in the first quarter of 2008. Scheduled maintenance outages were taken at the Northwood and Intercontinental Pulp Mills in the second quarter of 2008 representing approximately 33,000 tonnes of reduced production with no scheduled maintenance outages in the first quarter of 2008. Reduced production in respect of scheduled maintenance outages in 2007 are approximately 8,600 tonnes in the second quarter and 17,000 tonnes for the six months ended June 30, 2007.

Markets

The pulp market remained balanced through the second quarter of 2008. Market pulp inventories (World 20 Producers) of softwood kraft market pulp were at 29 days of supply¹ at the end of the second quarter, a reduction of four days from the level at the end of the preceding quarter. Inventories of 30 days are generally considered to be representative of a balanced market. Shipments in the first six months of 2008 of softwood kraft market pulp were similar to those in the same period in 2007. The global printing and writing paper sector, which is the Partnership's largest customer sector for its pulp, experienced a reduction in demand of 1.7% in the first five months of 2008 relative to the same period in 2007.

Supply concerns continued to impact market conditions in the second quarter of 2008 helping to maintain a balanced market and offsetting paper demand reductions, primarily in the USA. The relative strength of the Canadian dollar and the Euro compared to the US dollar continued to negatively impact revenues of Canadian and European producers. Fibre costs for these same producers continue to rise, adding to the financial strain and viability concerns of some higher cost producing mills. Adding to supply concerns is the reduced availability of fibre for Canadian pulp mills. The slowdown in the USA housing market has reduced demand for lumber resulting in closures of sawmills and reduced supply of residual woodchips. Market conditions were also impacted by the slowed global economic growth, resulting in a reduction in demand in the latter part of the quarter.

Note: ¹ Pulp and Paper Products Council (PPPC)

Outlook – Pulp

A US\$20 per tonne price increase has been announced for North American markets effective July 1, which would take the price to US\$900 per tonne. The European market price is currently at US\$900 per tonne. Historically, pulp consumption and demand slows during the summer period. However, this demand slowdown is expected to be offset by reduced NBSK production as a result of mill closures. The expected result is that softwood market pulp will trade in a narrow price range for the balance of the year.

Paper

(millions of dollars unless otherwise noted, unaudited)	Q2 2008	Q1 2008	YTD 2008	Q2 2007	YTD 2007
Sales	34.0	34.8	68.8	34.4	64.9
EBITDA ¹	3.1	2.3	5.4	0.5	1.3
EBITDA margin ¹	9%	7%	8%	1%	2%
Operating income (loss) ¹	2.1	1.4	3.5	(0.5)	(0.7)
Production – paper (000 mt)	34.2	32.4	66.6	33.9	65.5
Shipments – paper (000 mt)	33.7	35.1	68.8	35.9	66.3

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

Operating income of the paper segment for the second quarter of 2008 was \$2.1 million, \$0.7 million higher than the first quarter of 2008 and \$2.6 million higher than second quarter last year. The improvement over the first quarter of

2008 was due to a 2% 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 raw material costs for slush pulp. When compared to the second quarter of 2007 the improved operating earnings were due to a 5% increase in realized prices in Canadian dollar terms and lower unit manufacturing costs, partially offset by lower sales volumes.

For the six month period ending June 30, 2008, operating income of \$3.5 million increased by \$4.2 million when compared to the same period in 2007. The increase was attributable to a 2% 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

Paper production in the second quarter of 2008 increased by 1,800 tonnes over the first quarter of 2008 and 300 tonnes when compared to the second 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 the first two quarters of 2008 or the second quarter of 2007.

Markets

In the second quarter, the largest market for the Partnership's paper products which is North America, was characterized by steady demand and reduced imports. These factors provided opportunities for an increased percentage of higher margin bleached paper sales.

Price increases for July 1, 2008 of US\$50 per tonne are in place entering the third quarter of 2008. Cost pressures continue for North American paper packaging producers due to the increases in energy, chemicals and transportation costs. These increased costs combined with concerns of reduced supply are expected to continue to exert upward pressure on prices through the remainder of the year.

Outlook – Kraft Paper Markets

Prices are expected to remain strong through the second half of 2008 as all paper packaging grades have experienced increases in production costs and concerns of reduced supply are expected to continue to affect the market.

Non-Segmented Costs

(millions of dollars, unaudited)	Q2 2008	Q1 2008	YTD 2008	Q2 2007	YTD 2007
Unallocated costs	3.3	3.8	7.1	4.1	9.0
Interest expense, net	1.7	1.7	3.4	1.6	3.4
Unrealized (gain) loss on derivative instruments	(8.0)	(6.9)	(14.9)	4.2	2.0
Unrealized foreign exchange (gain) loss on long-term debt	(0.6)	3.3	2.7	(9.8)	(11.2)
Foreign exchange (gain) loss on working capital	0.3	(2.6)	(2.3)	7.2	8.3
Net property damage insurance gain	-	(8.5)	(8.5)	-	-
Other expense	-	0.1	0.1	0.1	0.2
	(3.3)	(9.1)	(12.4)	7.4	11.7

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$3.3 million in the second quarter of 2008 compared to \$3.8 million in the first quarter of 2008 and \$4.1 million in the second quarter of 2007. Unallocated costs were down slightly when compared to the first quarter of 2008 due to lower accruals for performance based incentive plan payments. When compared to the second quarter of 2007 the lower costs are attributable to lower accruals for performance based incentive plans and a reduction in corporate services provided from Canfor.

Interest Expense

The net interest expense during the second quarter of 2008 was similar to the previous quarter and the second quarter of 2007.

Other Non-segmented Items

The net unrealized gain of \$8.0 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 increases in the market price of natural gas. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements.

The foreign exchange gain on long-term debt and the foreign exchange loss on working capital are the direct result of translating US dollar balances at period-end exchange rates and reflect the effect of the weaker Canadian dollar.

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)	Q2 2008	YTD 2008	Q2 2007	YTD 2007
Ratio of current assets to current liabilities	1.91	1.91	1.86	1.86
Ratio of net debt to partners' equity ¹	0.20	0.20	0.14	0.14
Increase (decrease) in cash and cash equivalents	(20.5)	(0.2)	6.0	5.7
Comprised of cash flow from (used in):				
Operating activities ²	4.9	56.5	43.6	92.1
Financing activities	(20.7)	(46.3)	(32.8)	(78.4)
Investing activities ²	(4.7)	(10.4)	(4.8)	(8.0)

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 \$4.9 million in the second quarter of 2008 compared to \$43.6 million in the second quarter of 2007. The decrease was due to lower cash generated as a result of reduced earnings and an increase of cash used in working capital. The increase of cash used in working capital is due to an increase in prepaid expenses for deferred maintenance shutdown expenses, increased cost and volume of chip inventories, and an increase in trade receivables primarily due to higher pulp shipments in the second quarter of 2008, partially offset by a reduction in the insurance receivable for proceeds relating to the business interruption insurance claim.

The cash used in financing activities of \$20.7 million in the quarter represents \$25.7 million of distributions paid to the limited partners, namely Canfor and the Fund, offset by \$5.0 million from the Partnership's operating line.

The cash used in investing activities in the quarter is comprised of \$9.1 million relating to capital expenditures net of accruals, offset by a cash advance of \$4.4 million received as partial payment against the accrued property damage insurance receivable.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership had cash and cash equivalents totalling \$2.4 million. Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity date of 90 days or less. 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 \$42.6 million is available with \$27.4 million of the Revolving Facility reserved for a standby letter of credit issued to BC Hydro and \$5.0 million drawn to fund working capital requirements as of June 30, 2008.

OUTSTANDING UNITS

At July 24, 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 June 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)	Q2 2008	Q1 2008	Q4 2007	Q3 2007	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Sales and Income (millions of dollars)								
Sales ¹	212.6	211.4	215.1	228.9	239.4	238.2	225.2	213.6
Operating income ¹	11.6	30.6	11.7	35.4	39.2	48.0	45.6	49.0
EBITDA ¹	24.0	42.5	27.9	48.8	51.7	60.1	58.2	61.8
Net income	18.2	43.5	12.1	33.2	35.9	48.6	44.8	41.9
Per Partnership unit (dollars) ²								
Net income basic and diluted	0.26	0.61	0.17	0.46	0.51	0.68	0.63	0.59
Statistics								
Pulp shipments (000 mt)	233.8	228.9	253.6	257.1	259.8	253.1	249.8	251.4
Paper shipments (000 mt)	33.7	35.1	32.4	30.8	35.9	30.4	32.7	29.5
Average exchange rate (US\$/Cdn\$) ³								
	0.990	0.996	1.019	0.957	0.911	0.854	0.878	0.892
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)								
	880	880	857	837	810	790	770	757

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

² Based on Partnership units outstanding at June 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 and market price of natural gas, due to the revaluation to the period end rate of US dollar denominated working capital balances and the US dollar denominated 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. The third quarter of 2006 also included a charge for transaction costs of \$5.9 million related to the spinout of Canfor's pulp business into the Partnership.

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		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
RECONCILIATION OF NET INCOME TO EBITDA				
Net Income	\$ 18.2	\$ 35.9	\$ 61.7	\$ 84.5
Add (deduct):				
Amortization	12.0	12.5	23.6	24.6
Net interest expense	1.7	1.6	3.4	3.4
Unrealized foreign exchange (gain) loss on long-term debt	(0.6)	(9.8)	2.7	(11.2)
Unrealized (gain) loss on derivative instruments	(8.0)	4.2	(14.9)	2.0
Foreign exchange (gain) loss on working capital	0.3	7.2	(2.3)	8.3
Loss on disposal of fixed assets	0.3	-	0.5	-
Net property damage insurance gain	-	-	(8.5)	-
Other expense	0.1	0.1	0.3	0.2
EBITDA	\$ 24.0	\$ 51.7	\$ 66.5	\$ 111.8
EBITDA per Partnership unit	\$ 0.33	\$ 0.73	\$ 0.93	\$ 1.57

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities	\$ 4.9	\$ 43.6	\$ 56.5	\$ 92.1
Deduct: Capital expenditures – cash	(9.1)	(4.8)	(18.4)	(8.0)
Standardized distributable cash	\$ (4.2)	\$ 38.8	\$ 38.1	\$ 84.1
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase in non-cash working capital	15.0	2.0	10.0	8.6
Net long-term deferred maintenance	3.1	(1.5)	2.1	(2.0)
Capital expenditures – accruals	(0.5)	(2.4)	5.6	(2.4)
Adjusted distributable cash ¹	\$ 13.4	\$ 36.9	\$ 55.8	\$ 88.3
Standardized distributable cash – per Partnership unit (in dollars)	\$ (0.06)	\$ 0.54	\$ 0.53	\$ 1.18
Adjusted distributable cash – per Partnership unit (in dollars) ¹	\$ 0.19	\$ 0.52	\$ 0.78	\$ 1.24
Cash distributions declared (paid and payable)	\$ 25.7	\$ 35.6	\$ 51.3	\$ 65.5
Cash distributions declared – per Partnership unit (in dollars)	\$ 0.36	\$ 0.50	\$ 0.72	\$ 0.92

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 with 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 working capital changes 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, and thus will not significantly affect the level of distributions.

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		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Income				
Equity income in Canfor Pulp Limited Partnership	\$ 9,046	\$ 17,900	\$ 30,713	\$ 42,103
Net income before future income taxes	9,046	17,900	30,713	42,103
Future income taxes (note 8)	2,031	39,337	2,031	39,337
Net income (loss)	7,015	(21,437)	28,682	2,766
Distributions declared (note 5)	(12,777)	(17,747)	(25,555)	(32,654)
Earnings in excess of distributions – surplus (deficit)	\$ (5,762)	\$ (39,184)	\$ 3,127	\$ (29,888)
Net income (loss) per unit, basic and diluted	\$ 0.20	\$ (0.60)	\$ 0.81	\$ 0.08
Weighted average number of units	35,493,505	35,493,542	35,493,524	35,493,542
Net income (loss) for the period	\$ 7,015	\$ (21,437)	\$ 28,682	\$ 2,766
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	(126)	98	(180)	1,078
Comprehensive income (loss)	\$ 6,889	\$ (21,339)	\$ 28,502	\$ 3,844
Accumulated Earnings and Distributions				
Balance, beginning of period – accumulated earnings in excess of distributions – surplus (deficit)	\$ (35,907)	\$ 1,798	\$ (44,796)	\$ (7,498)
Earnings in excess of distributions – surplus (deficit) – current period	(5,762)	(39,184)	3,127	(29,888)
Balance, end of period – Accumulated earnings in excess of distributions – surplus (deficit)	\$ (41,669)	\$ (37,386)	\$ (41,669)	\$ (37,386)

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		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash generated from (used in)				
Operating activities				
Net income (loss)	\$ 7,015	\$ (21,437)	\$ 28,682	\$ 2,766
Items not affecting cash:				
Equity income in Canfor Pulp Limited Partnership	(9,046)	(17,900)	(30,713)	(42,103)
Future income taxes	2,031	39,337	2,031	39,337
Distributions received from Canfor Pulp Limited Partnership	12,777	16,327	25,555	39,043
	12,777	16,327	25,555	39,043
Financing activities				
Distributions paid to Unitholders	\$ (12,777)	\$ (16,327)	\$ (25,555)	\$ (39,043)
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 June 30, 2008	As at December 31, 2007
ASSETS		
Current assets		
Distributions receivable from Canfor Pulp Limited Partnership (note 7)	\$ 4,259	\$ 4,259
Total current assets	4,259	4,259
Equity investment in Canfor Pulp Limited Partnership (note 4)	296,436	291,458
	\$ 300,695	\$ 295,717
LIABILITIES		
Current liabilities		
Distributions payable (note 5)	\$ 4,259	\$ 4,259
Total current liabilities	4,259	4,259
Future income taxes (note 8)	38,664	36,633
	\$ 42,923	\$ 40,892
UNITHOLDERS' EQUITY		
Unitholders' equity – 35,493,505 Fund units outstanding	\$ 299,351	\$ 299,351
Accumulated earnings and distributions	(41,669)	(44,796)
Accumulated other comprehensive income (note 9)	90	270
Total Unitholders' Equity	257,772	254,825
	\$ 300,695	\$ 295,717

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

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

Approved by the Trustees

Stan Bracken-Horrocks

Charles Jago

Canfor Pulp Income Fund

Notes to the Unaudited Interim Consolidated Financial Statements as at June 30, 2008

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

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

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

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

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Fund's 2007 Annual Report. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2007 audited consolidated financial statements, except as noted below.

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

This Section establishes standards for disclosing information about an entity's capital and how it is managed. Under this standard the Fund is required to disclose qualitative and quantitative information that enables users of the financial statements to evaluate the Fund's objectives, policies and processes for managing capital (note 10).

Section 3862 – Financial Instruments – Disclosures

This Section requires entities to provide disclosure of quantitative and qualitative information in their financial statements that enable users to evaluate (a) the significance of financial instruments for the entity's financial position and performance; and (b) the nature and extent of risks arising from financial instruments to which the entity is exposed during the period and at the balance sheet date, and management's objectives, policies and procedures for managing such risks (note 11).

Section 3863 – Financial Instruments – Presentation

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

4. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	291,458	290,938
Equity interest in income of the Partnership	30,713	64,643
Equity interest in other comprehensive income (loss) of the Partnership	(180)	1,185
Distributions from the Partnership	(25,555)	(65,308)
Balance, end of period	296,436	291,458

5. Distributions

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

(thousands of dollars, except per unit amounts, unaudited)			
Record Date	Payable Date	Amount per Fund Unit \$	Amount \$
January 31, 2008	February 15, 2008	0.12	4,260
February 29, 2008	March 14, 2008	0.12	4,259
March 31, 2008	April 15, 2008	0.12	4,259
April 30, 2008	May 15, 2008	0.12	4,259
May 30, 2008	June 13, 2008	0.12	4,259
June 30, 2008	July 15, 2008	0.12	4,259
		0.72	25,555

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

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

6. Fund Units

At July 24, 2008, there are a total of 35,493,505 Fund units outstanding. During the quarter the Fund redeemed 37 Fund units at a redemption price of \$8.065 per unit. The units were redeemed in accordance with the terms of the Declaration of Trust of the Fund.

7. 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 June 30, 2008 was \$12.8 million of which \$8.5 million was paid, with the balance of \$4.3 million receivable on June 30, 2008.

8. 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)	Six months ended June 30, 2008	Year ended December 31, 2007
Expected income tax expense at statutory tax rate of nil (2007 – nil)	-	-
Future income taxes on temporary differences	38,664	36,633
	38,664	36,633

The future income tax liability is based on the Fund's 49.8% ownership of the Partnership's temporary differences as follows:

(thousands of dollars, unaudited)	June 30, 2008	December 31, 2007
Future income tax liability:		
Equity investment in the Partnership	46,498	46,747
Expected reversal of temporary differences prior to 2011	(7,834)	(10,114)
	38,664	36,633

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund has recorded a future income tax liability and corresponding non-cash future tax charge to net income. This non-cash charge relates to the Fund's 49.8% ownership in the Partnership and is based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

9. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	270	(915)
Other comprehensive income (loss)	(180)	1,185
Balance, end of period	90	270

10. Capital Disclosures

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

(thousands of dollars, unaudited)	June 30, 2008	December 31, 2007
Unitholders' equity ¹	257,682	254,555

Note: ¹ Excludes accumulated other comprehensive income.

The Fund has no external capital requirements or covenants.

11. 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.

12. 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, Comprehensive Income and Partners' Equity

(millions of dollars, except units and per unit amounts, unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Revenue				
Sales	\$ 212.6	\$ 239.4	\$ 424.0	\$ 477.6
Business interruption insurance (note 18)	3.3	-	14.7	-
	215.9	239.4	438.7	477.6
Costs and expenses				
Manufacturing and product costs	159.0	151.9	307.9	295.1
Freight and other distribution costs	27.2	29.1	52.5	57.6
Amortization	12.0	12.5	23.6	24.6
Selling and administration costs	6.1	6.7	12.5	13.1
	204.3	200.2	396.5	390.4
Operating income	11.6	39.2	42.2	87.2
Interest expense, net	(1.7)	(1.6)	(3.4)	(3.4)
Foreign exchange gain (loss) on long-term debt	0.6	9.8	(2.7)	11.2
Unrealized gain (loss) on derivative instruments (note 14)	8.0	(4.2)	14.9	(2.0)
Foreign exchange gain (loss) on working capital	(0.3)	(7.2)	2.3	(8.3)
Net property damage insurance gain (note 18)	-	-	8.5	-
Other expense	-	(0.1)	(0.1)	(0.2)
	6.6	(3.3)	19.5	(2.7)
Net income	18.2	35.9	61.7	84.5
Other comprehensive income (loss)				
Adjustment for realized derivatives (note 17)	(0.2)	0.2	(0.3)	2.2
Comprehensive income	\$ 18.0	\$ 36.1	\$ 61.4	\$ 86.7
Net income per Partnership unit (in dollars) (note 13)				
Basic and diluted	\$ 0.26	\$ 0.51	\$ 0.87	\$ 1.19
Weighted average Partnership units outstanding	71,270,025	71,270,025	71,270,025	71,270,025
Partners' Equity				
Balance, beginning of period	\$ 602.7	\$ 604.3	\$ 584.9	\$ 583.9
Net income	18.2	35.9	61.7	84.5
Distributions to partners (note 16)	(25.7)	(35.3)	(51.3)	(65.5)
Other comprehensive income (loss) (note 17)	(0.2)	0.2	(0.3)	2.2
Balance, end of period	\$ 595.0	\$ 605.1	\$ 595.0	\$ 605.1

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income	\$ 18.2	\$ 35.9	\$ 61.7	\$ 84.5
Items not affecting cash:				
Amortization	12.0	12.5	23.6	24.6
Foreign exchange (gain) loss on long-term debt	(0.6)	(9.8)	2.7	(11.2)
Unrealized (gain) loss on derivative instruments	(8.0)	4.2	(14.9)	2.0
Employee future benefits	1.9	3.5	4.1	4.4
Loss on disposal of fixed assets	0.3	-	0.5	-
Net property damage insurance gain (note 18)	-	-	(8.5)	-
Other	2.2	1.9	3.8	4.1
Salary pension plan contribution	(0.9)	(2.2)	(0.9)	(5.6)
Long-term deferred maintenance expenditure	(5.2)	(0.4)	(5.6)	(2.1)
Cash flow from operations before working capital changes	19.9	45.6	66.5	100.7
Increase in non-cash working capital (note 15)	(15.0)	(2.0)	(10.0)	(8.6)
Cash flow from operating activities	4.9	43.6	56.5	92.1
Financing activities				
Distributions paid to partners	(25.7)	(32.8)	(51.3)	(78.4)
Operating Loan (note 9)	5.0	-	5.0	-
	(20.7)	(32.8)	(46.3)	(78.4)
Investing activities				
Property, plant and equipment, net (note 15)	(9.1)	(4.8)	(18.4)	(8.0)
Insurance proceeds (note 18)	4.4	-	8.0	-
	(4.7)	(4.8)	(10.4)	(8.0)
Increase (decrease) in cash and cash equivalents	(20.5)	6.0	(0.2)	5.7
Cash and cash equivalents, beginning of period	22.9	28.1	2.6	28.4
Cash and cash equivalents, end of period	\$ 2.4	\$ 34.1	\$ 2.4	\$ 34.1

Supplementary cash flow information (note 15).

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

Canfor Pulp Limited Partnership Consolidated Balance Sheets

(millions of dollars, unaudited)	As at June 30, 2008	As at December 31, 2007
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2.4	\$ 2.6
Accounts receivable (notes 12, 18)		
Trade	145.1	145.6
Insurance	6.9	-
Other	13.3	9.9
Inventories (notes 3, 4)	146.3	136.8
Prepaid expenses	21.7	15.6
Total current assets	335.7	310.5
Property, plant and equipment (note 5)	579.8	585.6
Deferred charges and other assets (note 6)	19.2	12.9
	\$ 934.7	\$ 909.0
LIABILITIES		
Current liabilities		
Operating loan (note 9)	\$ 5.0	\$ -
Accounts payable and accrued liabilities (note 12)	161.9	156.9
Distributions payable (note 16)	8.6	8.6
Total current liabilities	175.5	165.5
Long-term debt (note 9)	111.4	108.7
Long-term liabilities (note 10)	52.8	49.9
	\$ 339.7	\$ 324.1
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)	595.0	584.9
	\$ 934.7	\$ 909.0

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
Director

Paul Richards
Director

Canfor Pulp Limited Partnership

Notes to the Unaudited Interim Consolidated Financial Statements as at June 30, 2008

1. Business Description and Basis of Presentation

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

At June 30, 2008, Canfor owned 50.2% and Canfor Pulp Income Fund (the Fund) indirectly owned 49.8% of the issued and outstanding units of the Partnership.

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

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

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

Economic Dependence

The Partnership depends on Canfor to provide approximately 67% (2007 Year – 66%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2007 Annual Report. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the note disclosures required by Canadian generally accepted accounting principles for annual financial statements. Except as described in note 3, the Partnership's accounting policies are as disclosed in the annual consolidated financial statements of the Partnership included in the Fund's 2007 Annual Report available at www.canforpulp.com or www.sedar.com.

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

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

Section 3031 – Inventories

This 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 dollars in major spare parts from inventory to property, plant and equipment in the first quarter of 2008. This reclassification was made retrospectively, without prior period restatement or adjustments to opening equity as it was considered impracticable to determine the impact on prior periods.

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

4. Inventories

(millions of dollars, unaudited)	June 30, 2008	December 31, 2007
Pulp	64.7	63.7
Paper	12.6	14.0
Wood chips	24.1	10.7
Processing materials and supplies (note 3)	44.9	48.4
	146.3	136.8

5. Property, Plant and Equipment

(millions of dollars, unaudited)	June 30, 2008		
	Cost	Accumulated amortization	Net
Land and improvements	14.5	-	14.5
Buildings, machinery and equipment	1,298.8	739.6	559.2
Construction in progress	6.1	-	6.1
	1,319.4	739.6	579.8

(millions of dollars, unaudited)	December 31, 2007		
	Cost	Accumulated amortization	Net
Land and improvements	14.5	-	14.5
Buildings, machinery and equipment	1,294.7	726.8	567.9
Construction in progress	3.2	-	3.2
	1,312.4	726.8	585.6

6. Deferred Charges and Other Assets

(millions of dollars, unaudited)	June 30, 2008	December 31, 2007
Pension benefit plan	11.3	11.3
Maintenance shutdown costs	3.5	1.4
Derivative financial instruments	4.0	-
Other	0.4	0.2
	19.2	12.9

7. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Pension plans	1.0	1.2	1.9	2.4
Other employee future benefit plans	1.5	1.5	3.0	3.1
Contributions to forest industry union plans	1.7	1.7	3.3	3.3
	4.2	4.4	8.2	8.8

8. Asset Retirement Obligations

(millions of dollars, unaudited)	Six months ended June 30, 2008	Year ended December 31, 2007
Balance beginning of period	11.3	-
Accrued obligation – ash pond	-	2.4
Accrued obligations – landfills	-	8.9
Accretion expense	0.3	0.1
Current expenditures	(0.9)	(0.3)
Change in estimate	-	0.2
Balance end of period	10.7	11.3
Less current portion – included in accounts payable and other accrued liabilities	(1.2)	(2.1)
Long-term portion	9.5	9.2

9. Credit Facilities and Long-term Debt

The Partnership has a \$75 million syndicated unsecured revolving bank credit facility (the Revolving Facility), maturing in November 2009, of which \$42.6 million is available with \$27.4 million of the Revolving Facility reserved for a standby letter of credit issued to BC Hydro and \$5.0 million drawn to fund working capital requirements as of June 30, 2008. The Revolving Facility bears interest and fees at rates that vary depending on the ratio of net debt to operating earnings before interest, taxes, depreciation and amortization (EBITDA) and which may, at the Partnership's option, be based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate.

At June 30, 2008 the Partnership has outstanding long-term debt of \$111.4 million (US\$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

Each agreement relative to the Notes and Revolving Facility contains similar covenants with respect to certain financial ratios and at June 30, 2008 the Partnership was in compliance with all covenants.

The fair value of long-term debt at June 30, 2008 was \$111.4 million (US\$110.1 million).

10. Long-term Liabilities

(millions of dollars, unaudited)	June 30, 2008	December 31, 2007
Accrued pension obligations	5.1	4.3
Post-employment benefits	38.2	35.6
Derivative financial instruments	-	0.8
Asset retirement obligations (note 8)	9.5	9.2
	52.8	49.9

11. Capital Disclosures

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

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

(millions of dollars, unaudited)	June 30, 2008	December 31, 2007
Total debt	116.4	108.7
Less cash and cash equivalents	(2.4)	(2.6)
Net debt	114.0	106.1
Total Partners' equity ¹	594.8	584.4
	708.8	690.5

Note: ¹ Excludes accumulated other comprehensive income.

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

At June 30, 2008 the Partnership was in compliance with all covenants related to its debt facilities.

12. Related Party Transactions

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

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Transactions				
Canfor	37.6	34.2	77.0	69.3
Howe Sound LP – commission	0.7	0.9	1.4	1.7
Howe Sound LP – purchase of wood chips	0.1	-	0.4	-
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	2.9	3.5	4.0	6.9
			June 30, 2008	June 30, 2007
Balance Sheet				
Included in accounts payable and accrued liabilities:				
Canfor			35.0	32.1
Howe Sound LP			44.1	53.9
Lakeland Mills Ltd. and Winton Global Lumber Ltd.			0.8	1.1
Included in trade accounts receivable:				
Product marketed for Canfor			16.3	11.0
Product marketed for Howe Sound LP			39.2	49.0

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

13. Income per Partnership Unit

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

14. Financial Instruments

Classification of Financial Instruments

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

Financial Risk Management

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

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

I. Credit risk:

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

Cash and cash equivalents includes cash on deposit and temporary investments with an original maturity date of 90 days or less. In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions and temporary investments are held with major Canadian and international financial institutions and highly rated commercial paper. The Partnership does not have holdings in asset backed commercial paper. The cash and cash equivalents balance at June 30, 2008 was \$2.4 million.

The Partnership utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 75% of the outstanding trade receivables are covered under credit insurance while the majority of the balance is with large and financially sound customers. The Partnership's trade receivable balance at June 30, 2008 was \$145.1 million.

II. Liquidity risk:

Liquidity risk is the risk that the Partnership will be unable to meet its financial obligations as they fall due. The Partnership manages liquidity risk through management of its capital structure in conjunction with cash flow forecasting including anticipated investing and financing activities, and use of the Revolving Facility to meet short-term working capital requirements.

At June 30, 2008, the Partnership accounts payable and accrued liabilities totalled \$161.9 million, all of which fall due for payment within one year of the balance sheet date.

III. Market risk:

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

a. Interest rate risk:

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

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

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

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

b. Currency risk:

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

For the three and six month periods ending June 30, 2008 and 2007, the Partnership has not used derivative instruments to reduce its exposure to currency risk.

Derivative Instruments

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

For the three months ended June 30, 2008, the Partnership recorded realized gains of \$1.8 million (June 30, 2007 – \$0.4 million), on maturing commodity swaps hedging natural gas purchases as a credit to manufacturing and product costs. At June 30, 2008, the Partnership had outstanding commodity swaps hedging future natural gas purchases of 3.6 million gigajoules extending to March, 2011. At June 30, 2008 the unrealized gain of \$11.8 million (December 31, 2007 loss – \$2.7 million), on these outstanding commodity swaps is recorded as an asset in other receivables and in deferred charges and other assets.

15. Supplementary Cash Flow Information

	Three months ended		Six months ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
(millions of dollars, unaudited)				
Changes in non-cash working capital				
Accounts receivable	(2.8)	(5.7)	4.8	(41.6)
Insurance receivable	8.5	-	(5.1)	-
Inventories	(5.8)	(0.1)	(16.3)	(7.9)
Prepaid expenses	(8.9)	(0.7)	(6.1)	(4.5)
Accounts payable and accrued liabilities	(5.6)	4.5	13.6	45.4
Asset retirement obligations	(0.4)	-	(0.9)	-
	(15.0)	(2.0)	(10.0)	(8.6)
Capital expenditures				
Capital expenditures – cash	9.1	4.8	18.4	8.0
Capital expenditures – net accruals	0.5	2.4	(5.6)	2.4
	9.6	7.2	12.8	10.4
Net interest paid	3.5	3.5	3.5	4.0

16. Distributions

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

(millions of dollars, except per unit amounts, unaudited)			
Record Date	Payable Date	Amount per Partnership Unit \$	Amount \$
January 31, 2008	February 15, 2008	0.12	8.5
February 29, 2008	March 14, 2008	0.12	8.5
March 31, 2008	April 15, 2008	0.12	8.6
April 30, 2008	May 15, 2008	0.12	8.5
May 30, 2008	June 13, 2008	0.12	8.6
June 30, 2008	July 15, 2008	0.12	8.6
		0.72	51.3

17. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	Six months ended June 30, 2008	Year ended December 31, 2007
Balance, beginning of period	0.5	(1.8)
Adjustment for derivatives recorded in other comprehensive income (loss)	(0.3)	2.3
Balance, end of period	0.2	0.5

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

(millions of dollars, unaudited)	June 30, 2008
Cumulative net income	278.2
Cumulative distributions	(270.9)
Accumulated other comprehensive income	0.2
	7.5
Partners' capital – at July 1, 2006	587.5
Partner's equity, end of period	595.0

18. Prince George Pulp and Paper Mill Fire and Insurance

On January 15, 2008 a fire at the Prince George Pulp & Paper Mill destroyed the chip screening and in-feed system. The Partnership has accrued a property damage insurance receivable of \$11.9 million in the first 6 months of 2008, which is net of aggregate policy deductibles of \$3.25 million. Net insurance proceeds, less the write-off of the net book value of the damaged assets, were recorded as a non-operating gain on disposal of assets of \$8.5 million in the first quarter.

The Partnership also accrued business interruption insurance proceeds totaling \$14.7 million to recover the estimated \$15.7 million impact of lost production during the year, less a three day equivalent deductible of \$1.0 million.

The Partnership has received cash advances totaling \$22.9 million, of which \$13.4 million related to the business interruption claim and \$9.5 million for property damage, of which \$8.0 million has been classified as an investing activity on the cash flow statement, with the balance of \$1.5 million representing demolition costs.

19. Segmented Information ^(a)

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended June 30, 2008				
Sales to external customers ^(b)	178.6	34.0	-	212.6
Sales of pulp to paper segment ^(c)	20.2	(20.2)	-	-
Operating income (loss)	12.8	2.1	(3.3)	11.6
Amortization	11.0	1.0	-	12.0
Capital expenditures, net	9.4	0.1	0.1	9.6
Three months ended June 30, 2007				
Sales to external customers ^(b)	205.0	34.4	-	239.4
Sales of pulp to paper segment ^(c)	21.1	(21.1)	-	-
Operating income (loss)	43.8	(0.5)	(4.1)	39.2
Amortization	11.5	1.0	-	12.5
Capital expenditures, net	6.4	0.7	0.1	7.2
Six months ended June 30, 2008				
Sales to external customers ^(b)	355.2	68.8	-	424.0
Sales of pulp to paper segment ^(c)	40.3	(40.3)	-	-
Operating income (loss)	45.8	3.5	(7.1)	42.2
Amortization	21.6	1.9	0.1	23.6
Capital expenditures, net	12.3	0.4	0.1	12.8
Identifiable assets	835.4	71.6	27.7	934.7
Six months ended June 30, 2007				
Sales to external customers ^(b)	412.7	64.9	-	477.6
Sales of pulp to paper segment ^(c)	41.2	(41.2)	-	-
Operating income (loss)	96.9	(0.7)	(9.0)	87.2
Amortization	22.5	2.0	0.1	24.6
Capital expenditures, net	9.2	1.1	0.1	10.4
Identifiable assets	816.1	74.6	55.4	946.1

(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 45% (Year 2007 – 41%).

(b) Sales to the largest customer represented approximately 26% of pulp segment sales (Year 2007 – 24%).

(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.