# CANFOR PULP INCOME FUND

## First Quarter Report

For the three months ended March 31, 2008

## Canfor Pulp Income Fund and Canfor Pulp Limited Partnership

## First 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 ended March 31, 2008 relative to the same period 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.*

*In this MD&A, for all periods ending prior to July 1, 2006, the financial information presented for the Partnership represents its business on a carve out basis (continuity of interests) from Canfor, as if operated as a stand-alone partnership entity for the full periods. The financial information presented includes allocations of certain of Canfor's assets, liabilities and costs. The financial condition, results of operations and cash flows for these periods are not necessarily indicative of the financial condition, results of operations or cash flows that would have been incurred if the business was a separate legal entity.*

*The information in this report is as at April 28, 2008.*

### Forward Looking Statements

*Certain statements in this interim Management's Discussion and Analysis 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:*

- *"Canfor Pulp Income Fund Announces First Quarter 2008 Results" on page 1, third paragraph under that heading*
- *"Operating Results and Liquidity" on page 3*
- *"Critical Accounting Estimates"on page 4;*
- *"Markets – Pulp" on page 7, the last paragraph under that heading;*
- *"Outlook – Pulp" on page 8;*
- *"Outlook – Kraft Paper" on page 9;*
- *"Critical Accounting Estimates" on page 11;*
- *"Distributable Cash and Cash Distributions" on page 13.*

*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 April 28, 2008, there are a total of 35,493,542 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) | **Q1 2008** | Q4 2007 | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|---|---|
| Equity income in Canfor Pulp Limited Partnership | **21,667** | 5,999 | 16,541 | 17,900 | 24,203 | 12,184 | 8,374 |
| Net income (loss)[1] | **21,667** | 8,703 | 16,541 | (21,437) | 24,203 | 12,184 | 8,374 |
| Net income (loss) per Fund unit | **$0.61** | $0.25 | $0.46 | ($0.60) | $0.68 | $0.56 | $0.59 |
| Distributions earned from the Partnership | **12,778** | 13,487 | 19,167 | 17,747 | 14,907 | 24,147 | 6,272 |
| Distributions declared to unitholders | **12,778** | 13,487 | 19,167 | 17,747 | 14,907 | 24,147 | 6,272 |
| Distributions declared per Fund unit | **$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 March 31, 2008, the Fund had net income of $21.7 million, or $0.61 per Fund unit, representing its share of the Partnership's earnings for the period. Distributions declared by the Partnership and accruing to the Fund were $12.8 million of which $4.3 million was receivable at March 31, 2008. Cash distributions received from the Partnership are the only source of liquidity for the Fund. For the first 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'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 first 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.

**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 March 31, 2008 were $12.8 million of which $8.5 million was paid, with the balance of $4.3 million receivable on March 31, 2008.

**CRITICAL ACCOUNTING ESTIMATES**

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. The determination of the future income tax liability requires management to estimate the future impacts of the Partnership's amortization of capital assets, capital cost allowance claims for tax purposes and changes to actuarial estimates of employee benefit plans. Changes in these estimates could have a material impact on the calculation of the liability.

**CHANGES IN ACCOUNTING POLICIES**

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

*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.

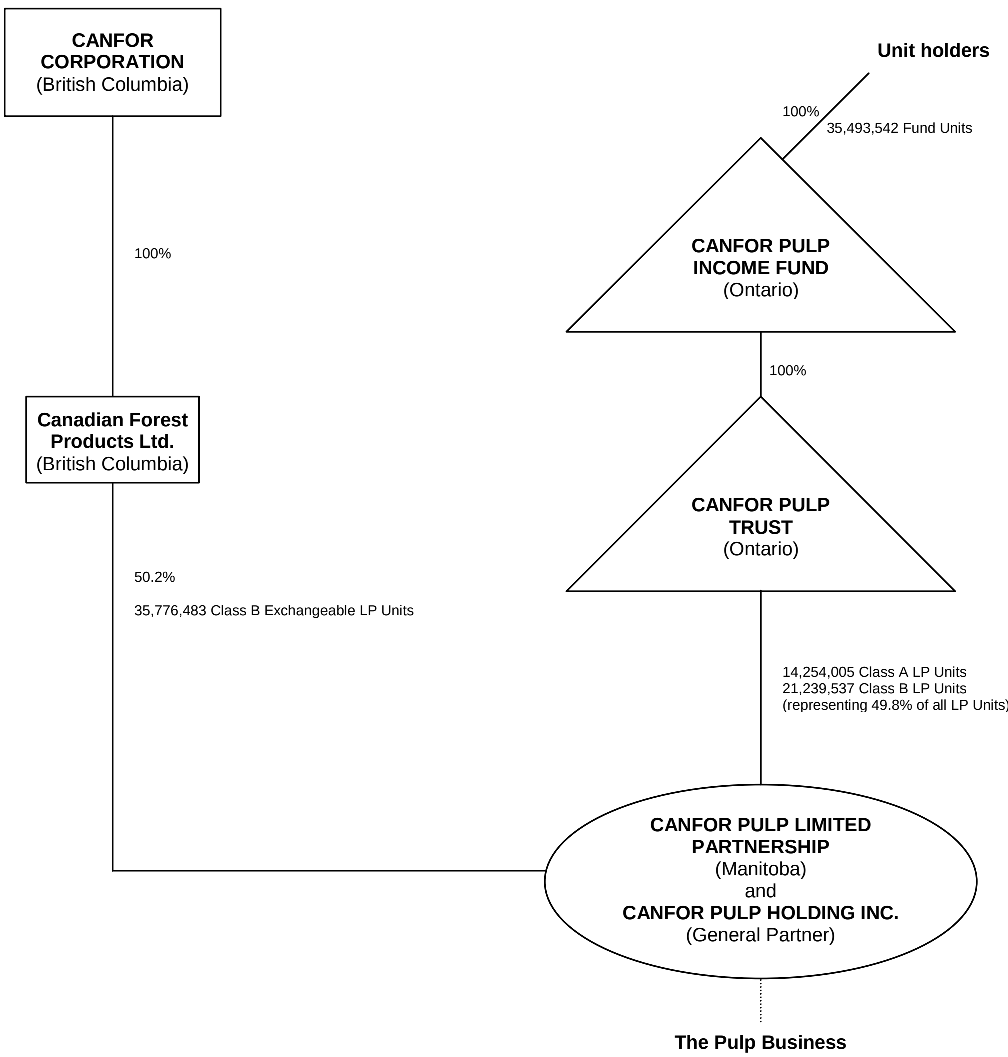
## CANFOR PULP LIMITED PARTNERSHIP

### 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 April 28, 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.

**<u>Partnership Structure</u>**



**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) | **Q1 2008** | Q4 2007 | Q1 2007 |
|---|---|---|---|
| Sales | **211.4** | 215.1 | 238.2 |
| EBITDA [1] | **42.5** | 27.9 | 60.1 |
| Operating income | **30.6** | 11.7 | 48.0 |
| Net income | **43.5** | 12.1 | 48.6 |
| Per Partnership unit, basic and diluted | | | |
| Net income | **0.61** | 0.17 | 0.68 |
| EBITDA | **0.60** | 0.39 | 0.84 |
| Average exchange rate (US$/Cdn$) [2] | **0.996** | 1.019 | 0.854 |

Notes: [1] For calculation of EBITDA, see supplementary financial information **on** page 13.
[2] Source – Bank of Canada (average noon rate for the period).

EBITDA for the first quarter of 2008 increased by $14.6 million from the previous quarter and decreased by $17.6 million when compared to the first quarter of 2007. The increase from the prior quarter is mainly attributable to stronger pricing for pulp and paper and the impacts of a weaker Canadian dollar. Realized pulp and paper prices in Canadian dollar terms improved by 5% and 10% respectively. The Canadian dollar weakened during the period with the Bank of Canada noon rate averaging 2.3% lower than the previous quarter resulting in a $4 million positive impact on operating income. Overall unit manufacturing costs increased by 4% in the period as the impact of lower production volumes combined with higher fibre, chemical and energy prices was partially offset by lower spending on maintenance costs. Fibre costs increased by 3% when compared to the prior quarter due to higher prices for residual sawmill chips and higher volumes of higher cost whole log chips.

Lower production and sales volumes for pulp in the quarter, when compared to the first and fourth quarters of 2007, were the result of a fire at the Prince George Pulp and Paper Mill on January 15, 2008 which destroyed the chip screening and in-feed system. Total pulp and paper production lost in the quarter due to the fire is estimated at approximately 37,500 tonnes. During the quarter, the Partnership accrued a property damage insurance receivable of $11.6 million, which is net of aggregate policy deductibles of $3.25 million. The property damage insurance accrual, less the write-off of the net book value of the damaged assets, is recorded as a non-operating gain on disposal of assets of $8.5 million in the quarter. The Partnership also accrued a business interruption insurance receivable of $14.4 million to recover the $12.4 million impact of lost production during the quarter less a three day equivalent deductible of $1.0 million, plus an additional $3.0 million to recover costs incurred to construct the temporary chip in-feed system.

When compared to the first quarter of 2007 the $17.6 million decrease in EBITDA was primarily due to the impact of the stronger Canadian dollar and higher fibre costs partially offset by increases in NBSK pulp list prices. The impact of the stronger Canadian dollar was approximately $29 million when compared to the same period last year. First quarter 2008 fibre costs increased 15% over the prior year quarter with the increase mainly attributable to a higher sawmill residual chip price and a higher percentage of whole log chip consumption. Offsetting the stronger Canadian dollar and increased fibre costs over the prior year period were increased NBSK pulp list prices of approximately 11%.

## OPERATING RESULTS BY BUSINESS SEGMENT

### Pulp

| (millions of dollars unless otherwise noted, unaudited) | **Q1 2008** | Q4 2007 | Q1 2007 |
|---|---|---|---|
| Sales | **176.6** | 186.0 | 207.7 |
| EBITDA [1] | **44.0** | 31.2 | 64.1 |
| EBITDA margin [1] | **25%** | 17% | 31% |
| Operating income [1] | **33.0** | 16.0 | 53.1 |
| Average NBSK pulp list price – (US$ per tonne, delivered to USA) | **880** | 857 | 790 |
| Average NBSK pulp list price (Cdn$ per tonne, delivered to USA) | **884** | 841 | 925 |
| Production – pulp (000 mt) | **231.5** | 261.4 | 258.9 |
| Shipments – Partnership-produced pulp (000 mt) | **228.9** | 253.6 | 253.1 |
| *Marketed on behalf of HSLP & Canfor (000 mt)* | **128.4** | 148.0 | 132.6 |

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

First quarter 2008 operating income of the pulp segment increased by $17.0 million from the previous quarter and decreased by $20.1 million when compared to the same quarter in 2007. When compared to the prior quarter, improved NBSK list prices and a weaker Canadian dollar were partially offset by higher unit manufacturing costs. Overall realized prices in Canadian dollar terms improved by 5%, the result of a 3% improvement in NBSK pulp list prices and a 2.3% weakening of the Canadian dollar. The increase in unit manufacturing costs was primarily due to lower production volumes combined with higher prices for fibre, chemicals and energy, partially offset by lower spending on maintenance costs. Fibre costs increased by 3% when compared to the prior quarter due to higher prices for residual sawmill chips and higher percentage of higher cost whole log chips.

Lower production and sales volumes in the quarter, when compared to the prior and prior year quarters, were the result of a fire at the Prince George Pulp and Paper Mill on January 15, 2008 which destroyed the chip screening and in-feed system. Total pulp production lost in the quarter due to the fire is estimated at approximately 35,000 tonnes. Included in operating income is business interruption insurance of $11.4 million net of a three day equivalent deductible of $1.0 million.

The first quarter 2008 results are lower than those in the same period a year ago, due to the impact of the stronger Canadian dollar and higher fibre costs which were partially offset by increases in NBSK pulp list prices. The impact of the stronger Canadian dollar was approximately $25 million when compared to the same period last year. Fibre costs increased 15% over the prior year quarter with the increase mainly attributable to higher sawmill residual chip prices combined with a higher percentage of whole log chip consumption. Offsetting the stronger Canadian dollar and increased fibre costs were increased NBSK pulp list prices of approximately 11%.

*Operations*

NBSK production during the first quarter was 29,900 tonnes less than the fourth quarter of 2007 and 27,400 tonnes less than the first quarter of 2007. Total pulp production lost in the quarter due to the fire is estimated at approximately 35,000 tonnes. There was no additional downtime taken in the quarter. Production tonnes lost due to schedule maintenance outages were approximately 5,800 tonnes in the prior quarter and 8,500 tonnes in the first quarter of 2007.

*Markets*

The pulp market experienced strong fundamentals in the first quarter of 2008. Market pulp inventories (World 20 Producers) of softwood Kraft market pulp were at 33 days of supply[1]. For comparative purposes, 30 days inventory is considered representative of a balanced market. Shipments in the first quarter of 2008 were similar to those in the same period in 2007. The printing and writing paper sector, which is the Partnership's largest customer sector for its pulp, realized growth in demand of 2.8% relative to the same period in 2007.

Market conditions were driven by forces which impacted supply. The relative strength of the Canadian dollar and the Euro compared to the US dollar negatively impacted revenues of producers whose reporting currencies were the Canadian dollar or Euro. Fibre costs for these same producers have been rising significantly, adding to the financial strain. Permanent closures at two mills in Scandinavia have been announced due to cost pressures and lack of fibre.

Note: [1] Pulp and Paper Products Council (PPPC)

*Outlook – Pulp*

Supporting the supply concerns is that producers typically conduct maintenance in the spring which results in reduced production and, therefore, reduced supply. During the second quarter of 2008, maintenance outages are scheduled at the Northwood and Intercontinental Pulp Mills that will result in an estimated 30,000 to 35,000 tonnes reduction in production. The Intercontinental Pulp Mill is scheduled to complete its major maintenance outage in the fourth quarter of 2008 that will result in an estimated 8,000 tonnes of reduction in production. Capital improvements at both mills should result in production growth in 2009. Adding to the reduction in supply, as a result of the fire, the Prince George Pulp and Paper Mill is expected to run at 90% to 95% of capacity until the new chip in feed system is operational which is expected to be in the fourth quarter of 2008.

The announced price for April 2008 for Northern Europe is US$920 per tonne, an increase of $40 per tonne over the price in March. No price increases have been announced for the North American markets and prices are expected to remain steady at US$880 per tonne in the near term. Since there remains much supply uncertainty in the market, and demand is holding, prices are expected to fluctuate in a narrow range over the balance of the year.

**Paper**

| (millions of dollars unless otherwise noted, unaudited) | **Q1 2008** | Q4 2007 | Q1 2007 |
|---|---|---|---|
| Sales | **34.8** | 29.1 | 30.5 |
| EBITDA [1] | **2.3** | 0.1 | 0.8 |
| EBITDA margin [1] | **7%** | 0% | 3% |
| Operating (loss) income [1] | **1.4** | (0.9) | (0.2) |
| Production – paper (000 mt) | **32.4** | 33.1 | 31.6 |
| Shipments – paper (000 mt) | **35.1** | 32.4 | 30.4 |

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

Operating income of the paper segment for the first quarter of 2008 was $1.4 million, $2.3 million more than the fourth quarter of 2007 and $1.6 million favourable when compared to the first quarter last year. The improvement over the prior quarter was due to a 10% improvement in realized prices in Canadian dollar terms, and higher shipment volumes partially offset by lower production volumes, and higher manufacturing costs. Manufacturing costs were primarily the result of higher raw material costs for slush pulp, reflecting the higher Canadian dollar market price for pulp. Lower production volumes were attributable to the impact of the fire at the Prince George Pulp and Paper Mill, which resulted in approximately 2 days of actual downtime. The Paper machine continued to operate with pulp transfers from the Intercontinental and Northwood Pulp Mills. When compared to the same period in 2007 the improved operating earnings were due to higher sales volumes, partially offset by a slight decrease in realized prices in Canadian dollar terms.

*Operations*

Paper production during the first quarter decreased by 700 tonnes over the prior quarter and increased by 800 tonnes when compared to the same period in 2007. Lost tonnes attributable to the fire were 2,500 tonnes. There was no scheduled maintenance taken during the quarter, compared to 1,800 tonnes of lost production in the prior quarter and 3,700 tonnes in the first quarter of 2007 due to maintenance outages.

*Markets*

Solid demand continued for Partnerships' bleached and unbleached paper in North America in the first quarter for what is normally the slowest period of the year. This reflected the strong Euro, reduced exports from Europe to North America and reduction in capacity in 2007. Order files increased for North American producers of Kraft paper.

The USA unbleached shipments of Kraft paper were up 6.8% in the first two months of 2008 and bleached paper shipments were up 17.5%[1].

Demand within the USA also increased[2], with extensible paper, a significant portion of the Partnerships' sales, realizing higher demand by 2.6% in the first two months of 2008 compared to the same period in 2007.

Notes: [1] American Forest & Paper Association
[2] Paper Shipping Sack Manufacturers Association

*Outlook – Kraft Paper Markets*

Prices should remain strong through the first half of 2008 as all paper packaging grades have experienced a sharp increase in production costs and concerns of reduced supply as a result will support pricing. Some capacity increases are expected in the second half of 2008 which may moderate price increases.

**Non-Segmented Costs**

| (millions of dollars, unaudited) | **Q1 2008** | Q4 2007 | Q1 2007 |
|---|---|---|---|
| Unallocated costs | **3.8** | 3.4 | 4.9 |
| Interest expense, net | **1.7** | 1.7 | 1.8 |
| Unrealized gain on derivative instruments | **(6.9)** | (1.8) | (2.2) |
| Unrealized foreign exchange loss (gain) on long-term debt | **3.3** | (0.9) | (1.4) |
| Foreign exchange (gain) loss on working capital[1] | **(2.6)** | 0.6 | 1.1 |
| Net property damage insurance gain | **(8.5)** | - | - |
| Other expense | **0.1** | - | 0.1 |
| | **(9.1)** | 3.0 | 4.3 |

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

*Unallocated Costs*

Unallocated costs, comprised principally of general and administrative expenses, totalled $3.8 million in the first quarter of 2008 compared to $3.4 million in the prior quarter and $4.9 million in the same period last year. Variances from the prior quarters are primarily due to changes in the accruals for performance based incentive plan payments.

*Interest Expense*

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

*Other Non-segmented Items*

The unrealized gains and losses on derivative instruments result from the adoption of the Canadian Institute of Chartered Accountants (CICA) new Handbook Section 3855 "Financial Instruments" at January 1, 2007 and the Partnership's decision to discontinue its policy of hedge accounting. The net unrealized gain of $6.9 million recorded in the period 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 ongoing natural gas requirements.

The unrealized foreign exchange loss on long-term debt and the foreign exchange gain on working capital are the direct result of translating U.S. 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 the following periods:

| (millions of dollars, except for ratios, unaudited) | **Q1 2008** | Q1 2007 |
|---|---|---|
| Ratio of current assets to current liabilities | **1.97** | 1.92 |
| Ratio of net debt to partners' equity [1] | **0.15** | 0.16 |
| Increase (decrease) in cash and cash equivalents | **20.3** | (0.3) |
| Comprised of cash flow from (used in): | | |
| Operating activities [2] | **50.7** | 48.5 |
| Financing activities | **(25.6)** | (45.6) |
| Investing activities [2] | **(4.8)** | (3.2) |

Notes: [1] Net debt consists of long-term debt 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 $50.7 million in the first quarter of 2008 compared to $48.5 million in the first quarter of 2007. The increase was due to a decrease in cash used in working capital offset by lower cash generated as a result of reduced earnings . The decrease of cash used in working capital was primarily the result of a decrease in cash used in trade receivables due to lower sales volumes and a stronger Canadian dollar, offset by an increase in insurance receivable for the business interruption insurance accrual.

The cash used in financing activities of $25.6 million in the quarter represents distributions paid to the limited partners, namely Canfor and the Fund.

The cash used in investing activities in the quarter is comprised of $9.3 million relating to capital expenditures net of accruals, offset by a cash advance of $4.5 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 $22.9 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 had bank operating lines of credit of $75.0 million, of which $27.4 million was reserved for a standby letter of credit issued to BC Hydro.

**OUTSTANDING UNITS**

At April 28, 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.

**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) | **Q1 2008** | Q4 2007 | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 | Q2 2006 |
|---|---|---|---|---|---|---|---|---|
| **Sales and Income** (millions of dollars) | | | | | | | | |
| Sales [1] | **211.4** | 215.1 | 228.9 | 239.4 | 238.2 | 225.2 | 213.6 | 196.1 |
| Operating income [1] | **30.6** | 11.7 | 35.4 | 39.2 | 48.0 | 45.6 | 49.0 | 16.9 |
| EBITDA [1] | **42.5** | 27.9 | 48.8 | 51.7 | 60.1 | 58.2 | 61.8 | 28.0 |
| Net income | **43.5** | 12.1 | 33.2 | 35.9 | 48.6 | 44.8 | 41.9 | 15.9 |
| **Per Partnership unit** (dollars) [2] | | | | | | | | |
| Net income basic and diluted | **0.61** | 0.17 | 0.46 | 0.51 | 0.68 | 0.63 | 0.59 | 0.22 |
| **Statistics** | | | | | | | | |
| Pulp shipments (000 mt) | **228.9** | 253.6 | 257.1 | 259.8 | 253.1 | 249.8 | 251.4 | 244.6 |
| Paper shipments (000 mt) | **35.1** | 32.4 | 30.8 | 35.9 | 30.4 | 32.7 | 29.5 | 31.3 |
| Average exchange rate (US$/Cdn$) [3] | **0.996** | 1.019 | 0.957 | 0.911 | 0.854 | 0.878 | 0.892 | 0.891 |
| Average NBSK pulp list price – (US$ per tonne, delivered to USA) | **880** | 857 | 837 | 810 | 790 | 770 | 757 | 705 |

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.
[2] Based on Partnership units outstanding at March 31, 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, 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 commodity swaps hedging natural gas purchases to market price of natural gas. Included in first quarter 2008 earnings are $11.4 million for business interruption insurance and 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 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.

*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 has reclassified $6.8 million in major spare parts from inventory to property plant and equipment. 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.

**CANFOR PULP LIMITED PARTNERSHIP**

**SUPPLEMENTARY FINANCIAL INFORMATION**

| (millions of dollars, unaudited) | Three months ended March 31, 2008 | March 31, 2007 |
|---|---|---|
| **RECONCILIATION OF NET INCOME TO EBITDA** | | |
| **Net Income** | **$ 43.5** | $ 48.6 |
| Add (deduct): | | |
| Amortization | **11.6** | 12.1 |
| Net interest expense | **1.7** | 1.8 |
| Unrealized foreign exchange loss (gain) on long-term debt | **3.3** | (1.4) |
| Unrealized gain on derivative instruments | **(6.9)** | (2.2) |
| Foreign exchange loss (gain) on working capital | **(2.6)** | 1.1 |
| Loss on disposal of fixed assets | **0.2** | - |
| Net property damage insurance gain | **(8.5)** | - |
| Other expense | **0.2** | 0.1 |
| **EBITDA** | **$ 42.5** | $ 60.1 |

| (millions of dollars, unaudited) | Three months ended March 31, 2008 | March 31, 2007 |
|---|---|---|
| **CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH** | | |
| **Cash flow from operating activities** | **$ 50.7** | $ 48.5 |
| Deduct: Capital expenditures – cash | **(9.3)** | (3.2) |
| **Standardized distributable cash** | **$ 41.4** | $ 45.3 |
| **Adjustments to standardized distributable cash:** | | |
| Add (deduct): | | |
| Increase (decrease) in non-cash working capital | **(4.1)** | 6.6 |
| Decrease in other non-cash items [2] | **(1.0)** | (0.5) |
| Capital expenditures – accruals | **6.1** | - |
| **Adjusted distributable cash [1]** | **$ 42.4** | $ 51.4 |
| Standardized distributable cash – per Partnership unit (in dollars) | **$ 0.58** | $ 0.64 |
| Adjusted distributable cash – per Partnership unit (in dollars) [1] | **$ 0.60** | $ 0.72 |
| **Cash distributions declared (paid and payable)** | **$ 25.6** | $ 29.9 |
| Cash distributions declared – per Partnership unit (in dollars) | **$ 0.36** | $ 0.42 |

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.
[2] This represents the change in the non-cash long-term portion of the deferred maintenance provision and is included in "other" in "cash flow from operations before working capital changes" on the Partnership's consolidated statements of cash flows. The current portion of the maintenance provision is included in prepaid expenses with the non-cash period change reflected in non-cash working capital.

**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 non-cash changes in working capital and long-term deferred maintenance provision, 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.