CANFOR PULP INCOME FUND

Second Quarter Report

For the three and six months ended June 30, 2010

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Second Quarter 2010
Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the unaudited interim consolidated financial statements with accompanying notes are presented for both the Fund and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the quarter ended June 30, 2010 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 for the quarters ended June 30, 2010 and 2009, as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2009 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 18, 2010, 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 21, 2010.

Forward-Looking Statements

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

Forward-looking statements in this press release include statements made under:

- *"Critical Accounting Estimates" on page 5;*
- *"SIFT Conversion Rules" on page 6;*
- *"Conversion to International Financial Reporting Standards" on page 6;*
- *"Outlook – Pulp" on page 10;*
- *"Outlook – Kraft Paper" on page 12;*
- *"Financial Requirements and Liquidity" on page 13;*
- *"Critical Accounting Estimates" on page 15;*
- *"Conversion to International Financial Reporting Standards" on pages 15 and 16;*
- *"Distributable Cash and Cash Distributions" on page 17.*

Material risk factors that could cause actual results to differ materially from the forward-looking statements contained in this press release include: general economic, market and business conditions; product selling prices; raw material and operating costs; exchange rates; changes in law and public policy; and opportunities available to or pursued by the Fund and the Partnership. Additional information concerning these and other factors can be found in the Fund's AIF dated February 18, 2010, which is available on www.sedar.com.

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Second Quarter 2010
The information in this report is as at July 21, 2010.

CANFOR PULP INCOME FUND

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

At July 21, 2010, there were a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of an exchange agreement (Exchange Agreement) dated July 1, 2006 among Canfor, the Fund, the Trust, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for Fund Units.

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

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

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q2 2010**	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Equity income (loss) in Canfor Pulp Limited Partnership	**21,430**	16,222	7,562	9,098	724	(10,740)	(12,947)	5,513
Net income (loss)	**22,111**	16,544	6,903	8,497	4,406	(10,740)	(13,686)	5,208
Net income (loss) per Fund unit	**$0.62**	$0.47	$0.20	$0.24	$0.12	$(0.30)	$(0.39)	$0.15
Distributions earned from the Partnership and declared to unitholders	**18,457**	11,357	4,969	1,065	1,065	2,130	9,938	12,778
Distributions declared per Fund unit	**$0.52**	$0.32	$0.14	$0.03	$0.03	$0.06	$0.28	$0.36
Partnership adjusted distributable cash per unit[1]	**$0.88**	$0.57	$0.31	$0.16	$0.02	$(0.06)	$0.02	$0.54

Note: [1] Represents the Partnership's adjusted distributable cash on which the Fund is dependent to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 17 and 18.

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

OPERATING RESULTS AND LIQUIDITY

For the quarter ended June 30, 2010, the Fund had net income of $22.1 million or $0.62 per Fund unit. The net income was the Fund's share of the Partnership's income for the second quarter of 2010, and also includes a future income tax recovery of $0.7 million. The future income tax recovery represents an adjustment to the future income tax liability based on the Fund's share of the differences between accounting and income tax values of the Partnership's assets and liabilities. The Fund's equity income in the Partnership increased by $5.2 million when compared to the prior quarter due to the Fund's share of increased operating earnings of the Partnership, partially offset by the Fund's share of non-operating items. The Fund's share of operating earnings increased by $9.5 million due primarily to higher realized prices in Canadian dollar terms for the Partnership's pulp and paper products, lower shipments and higher freight costs. The Fund's share of non-operating items included in equity income of the Partnership for the second quarter of 2010 was a loss of $4.3 million, and was primarily the result of the foreign exchange loss on translation of US dollar denominated long-term debt and a loss on derivative financial instruments, partially offset by a foreign exchange gain on working capital. Distributions declared by the Partnership and accruing to the Fund were $18.5 million, of which $7.1 million was receivable at June 30, 2010. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership's discussion of operating results and liquidity on pages 8 through 14 of this press release.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions payable by the Partnership to the Fund and distributions payable by the Fund to its unitholders are recorded when declared. During the second quarter of 2010, the Fund declared distributions of $0.52 per Fund unit or $18.5 million.

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

RISKS AND UNCERTAINTIES

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

FUND UNITS

At July 21, 2010, there were a total of 35,493,505 Fund units outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended June 30, 2010 were $18.5 million of which $11.4 million was received, with the balance of $7.1 million receivable on June 30, 2010.

CRITICAL ACCOUNTING ESTIMATES

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

SIFT CONVERSION RULES

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

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

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

The Partnership will continue to review all proposed and continuing projects of the IASB to determine their impact on the Fund, and will continue to invest in training and resources throughout the transition period to facilitate a timely conversion.

The impact on the Fund's future financial position and results of operations is primarily dependent on changes in accounting policies that may materially impact the Partnership's consolidated financial statements.

For further details on the Partnership's transition plan see the Partnership's disclosure on pages 15 and 16.

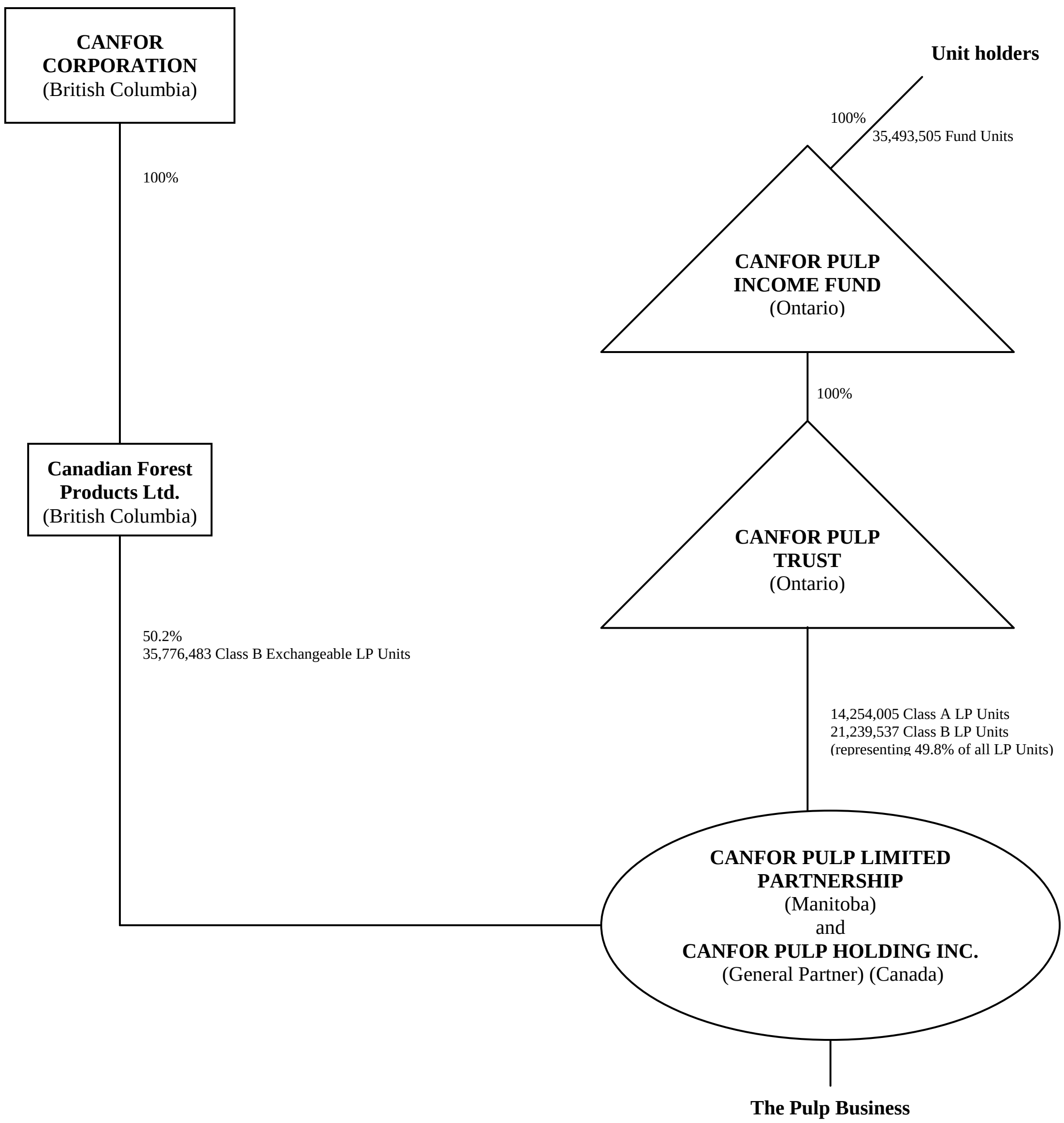
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

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

Ownership Structure



The Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q2 2010**	Q1 2010	**YTD 2010**	Q2 2009	YTD 2009
Sales	**247.6**	239.5	**487.1**	205.0	391.3
EBITDA [1]	**63.7**	44.1	**107.8**	7.2	9.4
Operating income (loss)	**51.6**	32.5	**84.1**	(5.0)	(14.8)
Net income (loss)	**43.1**	32.5	**75.6**	1.5	(20.1)
Per Partnership unit, basic and diluted					
Net income (loss)	**$0.60**	$0.46	**$1.06**	$0.02	$(0.28)
EBITDA	**$0.89**	$0.62	**$1.51**	$0.10	$0.13
Average exchange rate (US$/Cdn$) [2]	**0.973**	0.961	**0.967**	0.858	0.829

Notes: [1] For calculation of EBITDA, see supplementary financial information on page 17.
[2] Source – Bank of Canada (average noon rate for the period).

EBITDA for the second quarter of 2010 increased by $19.6 million from the first quarter of 2010 and was $56.5 million higher when compared to the second quarter of 2009. The improved results when compared to the first quarter of 2010 are attributable to higher realized prices in Canadian dollar terms for the Partnership's pulp and paper products, partially offset by lower shipments and higher freight costs. Realized pulp prices in Canadian dollar terms increased 12% due to a 13% increase in NBSK pulp US dollar list price, partially offset by the strengthening of the Canadian dollar. Unit manufacturing costs were relatively unchanged when compared to the prior quarter as higher fibre and maintenance costs, were offset by the impact of higher production volumes and lower energy costs. Fibre costs increased 4% when compared to the prior quarter due to an increase in the price of sawmill residual chips. Freight costs increased 4% in US dollar terms primarily as a result of higher container rates into Asia.

When compared to the second quarter of 2009, the $56.5 million increase in EBITDA was primarily attributable to a 54% increase in NBSK pulp US dollar list price and higher energy sales, partially offset by a stronger Canadian dollar, lower pulp shipment volumes and higher freight costs. Realized pulp prices in Canadian dollar terms increased 40% as a 54% increase in NBSK pulp US dollar list price was partially offset by a 13% strengthening of the Canadian dollar. Freight costs in US dollar terms increased 18% when compared to the second quarter of 2009 primarily due to higher container rates into Asia. Abnormally high pulp shipments into China in the second quarter of 2009 were the primary reason for the 12% reduction in volume in 2010.

For the six months ended June 30, 2010, EBITDA of $107.8 million increased by $98.4 million when compared to the same period in 2009. The increase in EBITDA was attributable to higher realized pulp prices in Canadian dollar terms, higher energy sales and lower unit manufacturing costs, partially offset by lower realized paper prices and higher administrative costs. Realized pulp prices in Canadian dollar terms increased 27%, as a 42% increase in NBSK pulp US dollar list price was partially offset by a 17% strengthening of the Canadian dollar when compared to the same period in 2009. Lower unit manufacturing costs were attributable to the impact of higher production volumes and lower chemical costs. Realized paper prices in Canadian dollar terms decreased 5% when compared to the same period in 2009, due to the strengthening Canadian dollar.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q2 2010**	Q1 2010	**YTD 2010**	Q2 2009	YTD 2009
Sales	**214.8**	204.8	**419.6**	173.8	333.0
EBITDA	**67.7**	47.9	**115.6**	5.1	4.6
EBITDA margin	**32%**	23%	**28%**	3%	1%
Operating income (loss)	**56.4**	37.1	**93.5**	(6.2)	(17.8)
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**993**	880	**937**	645	659
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**1,021**	916	**969**	752	795
Production – pulp (000 mt)	**263.8**	253.8	**517.6**	260.1	490.5
Shipments – Partnership-produced pulp (000 mt)	**252.3**	268.4	**520.7**	286.2	526.5
Marketed on behalf of HSLP & Canfor (000 mt)	**144.2**	138.7	**282.9**	140.0	247.2

The second quarter 2010 operating income for the pulp segment of $56.4 million was a $19.3 million improvement when compared to the first quarter of 2010. The improved results are attributable to higher realized prices in Canadian dollar terms, partially offset by lower shipment volumes. The increased realized pulp prices in Canadian dollar terms of 12% were primarily attributable to a 13% increase in the NBSK pulp US dollar list price, partially offset by the strengthening of the Canadian dollar. The decrease in shipment volumes of 6% was primarily attributable to timing of shipping orders into the U.S. and Asia. Unit manufacturing costs increased marginally when compared to the first quarter of 2010 as higher fibre and maintenance costs were partially offset by the impact of higher production volumes and lower energy costs. Fibre costs increased 4% when compared to the prior quarter due to an increase in the price of sawmill residual chips. Maintenance costs were higher due to the impact of the scheduled maintenance outage at the Intercontinental Pulp Mill in the second quarter of 2010. Energy costs were lower as a result of lower natural gas usage and price when compared to the first quarter of 2010.

Operating income of the pulp segment in the second quarter of 2010 increased by $62.6 million when compared to the same period a year ago. The improved results were primarily attributable to a 54% increase in NBSK pulp US dollar list price and higher energy sales, partially offset by a stronger Canadian dollar and lower shipment volumes. Realized pulp prices in Canadian dollar terms increased 40% as the increase in NBSK pulp US dollar list price was partially offset by a 13% strengthening of the Canadian dollar. Abnormally high pulp shipments into China in the second quarter of 2009 were the primary reason for the 12% reduction in volume in 2010. Unit manufacturing costs remained flat as the impact of higher fibre costs was offset by lower chemical costs when compared to the same period in the prior year. Fibre costs increased 3% due to increased prices of sawmill residual chips, partially offset by a reduction in the volume and cost of whole log chips.

For the six month period ended June 30, 2010, operating income of $93.5 million increased $111.3 million when compared to the same period in 2009. The increase in operating results was attributable to higher realized prices in Canadian dollar terms, lower unit manufacturing costs and higher energy sales. Realized pulp prices in Canadian dollar terms increased 27% as a 42% increase in the NBSK pulp US dollar list price was partially offset by a 17% strengthening of the Canadian dollar when compared to the same period in 2009. Lower unit manufacturing costs were attributable to the impact of higher production volumes and lower chemical costs.

Operations

The Partnership's facilities set a record for average daily production rate during the second quarter of 2010. NBSK market pulp production during the second quarter was 10,000 tonnes higher than the first quarter of 2010, and 3,700 tonnes higher than the second quarter of 2009. The improved production when compared to the prior quarter was a result of record production rates in the current period and reduced production in the first quarter of 2010 as a result of the maintenance outage completed at the Prince George Pulp and Paper (PGPP) Mill, partially offset by the scheduled maintenance outage at the Intercontinental Pulp Mill in the second quarter of 2010. When compared to the same period in the prior year the increased production was primarily attributable to higher production rates in the current period.

For the six month period ended June 30, 2010 production of 517,600 tonnes was 27,100 tonnes higher than the same period in 2009. The increase is attributable to the higher production rates in the current period and the impact of the market curtailment in January 2009, partially offset by the extended maintenance outage completed at the PGPP Mill in the first quarter of 2010.

Markets – Pulp

Softwood pulp markets remained tight through the second quarter of 2010 as steady demand and the continued tight supply of global softwood pulp supported further price increases. The tight supply conditions continued as a result of maintenance downtime in the second quarter of 2010, the prolonged impact of the Chilean earthquake on February 27, 2010 and delayed restarts of idled mills.

Global printing and writing paper demand remained strong. The printing and writing paper manufacturing sector experienced improved demand through May 2010 (the latest published information available), with demand up 10.3% over May 2009. For May year-to-date, printing and writing paper demand is up 9.9% versus the same period in 2009.

The steady improvement in consumption coupled with the supply side reductions have resulted in very low global pulp inventory levels. At the end of May 2010, World 20[1] producers inventories of bleached softwood pulp inventories was 22 days of supply, a decrease of 1 day over March 2010. By comparison, May 2009 inventories were 29 days of supply. Market conditions are generally considered balanced when inventories fall in the 27-30 days of supply range.

As a result of these tight market conditions, producers were successful at implementing further price increases each month in the second quarter of 2010. The NBSK pulp list price in North America during June 2009 was US$660 per tonne with successive price increases through March 2010 resulting in a price of US$910 per tonne. Monthly price increases in the second quarter of 2010 have resulted in a price for June 2010 of US$1,020 per tonne. In Canadian dollar terms the price increases have been somewhat mitigated by the strengthening of the Canadian dollar which has appreciated 10% over the past year.

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

Outlook – Pulp

Global softwood inventories held by producers and customers are at low levels compared to what is considered a balanced market. However, global hardwood inventories are starting to rise due to the ramp up of new capacity in Latin America and the restart of Chilean capacity. Through the first five months of 2010 softwood demand has increased 2.8% when compared to the same period in the prior year. Conversely, hardwood demand has fallen 1.1% over the same period. The North American NBSK pulp list price for July is unchanged from June of US$1,020 per tonne. A price reduction of US$30 to US$990 per tonne has been announced effective August 1.

Although the supply/demand balance of global softwood is still in favour of producers, there are signs of potential changes in the market and on softwood pricing. Downward pressure on pricing is currently coming from China. In addition, with pressure on hardwood prices, a reduction in demand from Asia and a typical seasonal slowdown during the summer months, there may be market pressure to reduce NBSK pulp list prices over the next three to six months.

A scheduled maintenance outage is planned for the Northwood Pulp Mill in the third quarter of 2010 with an estimated 10,000 tonnes of reduced production, with no maintenance outages planned for the fourth quarter of 2010.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q2 2010**	Q1 2010	**YTD 2010**	Q2 2009	YTD 2009
Sales	**32.5**	34.5	**67.0**	31.2	58.3
EBITDA	**0.3**	0.1	**0.4**	4.4	9.0
EBITDA margin	**1%**	0%	**1%**	14%	15%
Operating income (loss)	**(0.5)**	(0.6)	**(1.1)**	3.5	7.3
Production – paper (000 mt)	**36.3**	31.0	**67.3**	30.6	59.0
Shipments – paper (000 mt)	**34.4**	37.7	**72.1**	34.3	59.5

The operating loss of the paper segment for the second quarter of 2010 was a $0.1 million improvement when compared to the first quarter of 2010, and a $4.0 million deterioration when compared to the same period last year. The marginal increase when compared to the first quarter of 2010 was primarily attributable to higher realized paper prices in Canadian dollar terms offset by higher unit manufacturing costs. Realized prices in Canadian dollar terms increased by approximately 3%. Higher unit manufacturing costs were the result of higher costs for slush pulp partially offset by the impact of higher production volumes and lower spending on maintenance costs. The slush pulp is transferred to the paper segment at a market price with the increase directly attributable to the increase in the realized pulp price in Canadian dollar terms. Higher production volumes and lower maintenance costs are the result of a maintenance outage completed in the first quarter of 2010.

When compared to the second quarter of 2009 the reduction in operating earnings was due to higher unit manufacturing costs, partially offset by a 4% increase in realized prices in Canadian dollar terms. Higher unit manufacturing costs were primarily attributable to higher costs for slush pulp partially offset by higher production volumes.

For the six month period ended June 30, 2010 operating results of the paper segment declined by $8.4 million when compared to the same period in 2009. The reduction in operating earnings is attributable to higher unit manufacturing costs and a 5% decline of realized paper prices in Canadian dollar terms. Higher paper unit manufacturing costs are attributable to higher costs for slush pulp partially offset by the impact of higher production volumes.

Operations

The Paper machine set a record for average daily production rate during the second quarter of 2010. When compared to the first quarter of 2010, paper production increased by 5,300 tonnes due to record production rates and a scheduled maintenance outage in the first quarter of 2010. When compared to the same period in the prior year, production was 5,700 tonnes higher due to higher production rates and a scheduled maintenance outage in the second quarter of 2009.

For the six month period ended June 30, 2010 production of 67,300 tonnes was 8,300 tonnes higher than the same period in 2009. The increase is attributable to the higher production rates in the current period and the impact of the market curtailment in January 2009.

Markets

Kraft paper markets are solid with strong demand and tight supply through the second quarter of 2010. The American Forest and Paper Association reported that US total kraft paper shipments for June 2010 increased 11% when compared to June 2009 and were up 7% when compared to May 2010. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for June 2010 reveal that industry paper consumption was up 8% from the previous month and 6% when compared to June 2009. The April 1, 2010 price increase was successfully implemented in all markets.

The Partnership's prime bleached shipments increased to 78% of the total from 73% in the prior quarter and 54% when compared to the same period in the prior year.

Outlook – Kraft Paper

The favourable kraft paper market conditions are expected to continue through the third quarter of 2010. Order backlogs are very healthy in both bleached and unbleached heading into the seasonally strongest part of the year. Price increases announced for North America and Europe take effect in July 2010.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q2 2010**	Q1 2010	**YTD 2010**	Q2 2009	YTD 2009
Unallocated costs	**4.3**	4.0	**8.3**	2.3	4.3
Interest expense, net	**1.9**	2.0	**3.9**	2.5	5.1
Foreign exchange loss (gain) on long-term debt	**5.0**	(3.4)	**1.6**	(10.7)	(6.8)
Loss (gain) on derivative financial instruments	**3.8**	(0.4)	**3.4**	(0.3)	5.4
Foreign exchange loss (gain) on working capital	**(2.1)**	1.8	**(0.3)**	2.2	1.6
Other income	**(0.1)**	-	**(0.1)**	(0.2)	-
	12.8	4.0	**16.8**	(4.2)	9.6

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $4.3 million in the second quarter of 2010 compared to $4.0 million in the first quarter of 2010 and $2.3 million in the second quarter of 2009. The increase in unallocated costs when compared to the same period in the prior year is attributable to higher accruals for performance based incentive plans.

For the six month period ended June 30, 2010 unallocated costs totalled $8.3 million compared to $4.3 million for the same period in 2009. The increase in unallocated costs is attributable to higher accruals for performance based incentive plans and expenses in relation to the planned conversion to a corporation on January 1, 2011.

Interest Expense

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

Other Non-segmented Items

The foreign exchange loss on long-term debt of $5.0 million resulted from translating the US$110 million debt at period-end exchange rates, reflecting the weaker Canadian dollar as of June 30, 2010 as compared to March 31, 2010.

The net loss of $3.8 million on derivative financial instruments recorded in the second quarter of 2010 relates to the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and US dollar forward contracts. A loss of $0.8 million on settlement of natural gas swaps was recorded in the second quarter of 2010. The natural gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. In the second quarter of 2010 the Partnership recorded a net gain of $0.3 million on settlement of US dollar forward contracts to hedge the impact of currency fluctuations on US dollar working capital. The revaluation to market of outstanding derivative instruments recorded in the quarter resulted in a loss of $3.3 million and relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at the end of the quarter.

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)		June 30, 2010		December 31, 2009
Ratio of current assets to current liabilities		**2.13**		2.04
Ratio of net debt to partners' equity [1]		**0.14**		0.19

	Q2 2010	YTD 2010	Q2 2009	YTD 2009
Increase in cash and cash equivalents	**5.6**	**26.8**	16.3	17.9
Comprised of cash flow from (used in):				
Operating activities	**41.1**	**84.6**	22.8	44.6
Financing activities	**(31.4)**	**(51.3)**	(4.6)	(18.6)
Investing activities	**(4.1)**	**(6.5)**	(1.9)	(8.1)

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

Changes in Financial Position

Cash generated from operating activities was $41.1 million in the second quarter of 2010 compared to $22.8 million in the second quarter of 2009. The increase in cash generated from operations was primarily attributable to higher realized pulp prices in Canadian dollar terms, partially offset by lower pulp shipment volumes and higher freight costs. The increase of cash used in working capital during the second quarter of 2010 was primarily the result of an increase in the value of trade receivables due to price increases for the Partnership's pulp and paper products, and an increase in the volume of the Partnership's finished goods inventories.

The cash used in financing activities of $31.4 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 $4.1 million relating to capital expenditures. Included in capital expenditures are reimbursable amounts of $1.6 million relating to approved projects under the Canadian federal government's Green Transformation Program.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At June 30, 2010 the Partnership had outstanding long-term debt of $116.7 million (December 31, 2009 – $115.1 million, US$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

At June 30, 2010, the Partnership had cash and cash equivalents of $40.3 million. The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at June 30, 2010 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2011, to cover the $16.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. Interest and other costs of the bank credit facility are at market rates.

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

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

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

On October 9, 2009 the Canadian federal government announced the allocation of credits from the billion dollar Pulp and Paper Green Transformation Program (the Program). The Partnership has been allocated $122.2 million from the Program announced by the Canadian government on June 17, 2009. The Program is designed as a reimbursement of funds to be spent on qualifying energy and environmental capital projects. Credits may be used until the program end date of March 31, 2012. The Partnership received Program approval to proceed with two projects totaling $15.6 million on June 30 2010, and expects to submit further projects over the balance of 2010. These projects are expected to provide economic and environmental benefits to the Partnership's operations.

OUTSTANDING UNITS

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

RELATED PARTY TRANSACTIONS

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending June 30, 2010, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Fund's Annual Information Form dated February 18, 2010, which is available on www.sedar.com and www.canforpulp.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q2 2010**	Q1 2010	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008
Sales and Income								
Sales	**247.6**	239.5	220.2	202.0	205.0	186.3	186.1	215.4
Operating income (loss)	**51.6**	32.5	14.4	12.4	(5.0)	(9.8)	(1.0)	27.5
EBITDA	**63.7**	44.1	27.3	25.1	7.2	2.2	9.8	40.6
Net income (loss)	**43.1**	32.5	15.2	18.3	1.5	(21.6)	(26.0)	11.1
Per Partnership unit (dollars)								
Net income (loss) basic and diluted	**$0.60**	$0.46	$0.21	$0.26	$0.02	$(0.30)	$(0.36)	$0.15
Statistics								
Pulp shipments (000 mt)	**252.3**	268.4	258.6	259.5	286.2	240.3	208.2	234.5
Paper shipments (000 mt)	**34.4**	37.7	38.1	37.4	34.3	25.2	24.4	31.6
Average exchange rate (US$/Cdn$)[1]	**0.973**	0.961	0.947	0.912	0.858	0.803	0.825	0.960
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**993**	880	820	733	645	673	787	880
Per Partnership unit (dollars)								
Adjusted distributable cash per unit[2]	**$0.88**	$0.57	$0.31	$0.16	$0.02	$(0.06)	$0.02	$0.54
Distributions declared per unit	**$0.52**	$0.32	$0.14	$0.03	$0.03	$0.06	$0.28	$0.36

Notes: [1] Source – Bank of Canada (average noon rate for the period).
[2] For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 17 and 18.

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to asset useful lives for amortization, impairment of long-lived assets, pension and other employee future benefit plans and asset retirement obligations, based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Partnership's financial condition.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Project Update

The Partnership has completed the detailed diagnostic phase of its transition plan. The key areas where changes in accounting policies are expected that may impact the Partnership's consolidated financial statements are set out on page 27 of the Fund's 2009 annual report. The list and comments should not be regarded as a complete list of changes that will result from transition to IFRS. It is intended to highlight those areas we believe to be most significant; however, analysis of changes is still in process and not all decisions have been finalized where choices of accounting policies are available.

At June 30, 2010, the Partnership could not reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Partnership's most recent assumptions and expectations; circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect the Partnership's expectations based on information available at June 30, 2010. Changes in IFRS standards or circumstances relating to the Partnership may cause the Partnership to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

No significant changes to systems (including information technology systems) have been identified to date. The implementation team will continue to assess the impact on systems as the project progresses.

A draft opening balance sheet prepared under IFRS at the date of transition (January 1, 2010) is planned to be completed in 2010. In addition, during 2010, draft financial statements and disclosure information will be prepared for each quarter (to be used for comparative purposes in 2011). Reporting under IFRS will commence for interim and annual periods in 2011.

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

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

- Borrowing costs:

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

- Employee benefits:

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

- Business combinations:

  The Partnership intends to apply the business combinations exemption in IFRS 1 to not apply IFRS 3 Business Combinations retrospectively to past business combinations. Accordingly, the Partnership will not modify the carrying amounts of assets and liabilities arising on business combinations occurring before the transition date.

Disclosure Controls and Internal Controls over Financial Reporting

Financial reporting controls will change due to the transition to IFRS. The majority of change surrounds new or modified processes due to the fact that IFRS requires more judgment with respect to various accounting treatments. Processes and controls will be put in place to ensure the Partnership is making the appropriate judgments and following the IFRS accounting policies selected.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)		Three months ended June 30, 2010		Three months ended June 30, 2009		Six months ended June 30, 2010		Six months ended June 30, 2009
RECONCILIATION OF NET INCOME (LOSS) TO EBITDA								
Net income (loss)	**$**	**43.1**	$	1.5	**$**	**75.6**	$	(20.1)
Add (deduct):								
Amortization		**12.0**		12.2		**23.6**		24.2
Net interest expense		**1.9**		2.5		**3.9**		5.1
Foreign exchange loss (gain) on long-term debt		**5.0**		(10.7)		**1.6**		(6.8)
Loss (gain) on derivative financial instruments		**3.8**		(0.3)		**3.4**		5.4
Foreign exchange loss (gain) on working capital		**(2.1)**		2.2		**(0.3)**		1.6
Other income		**-**		(0.2)		**-**		-
EBITDA	**$**	**63.7**	$	7.2	**$**	**107.8**	$	9.4
EBITDA per Partnership unit	**$**	**0.89**	$	0.10	**$**	**1.51**	$	0.13

(millions of dollars, unaudited)		Three months ended June 30, 2010		Three months ended June 30, 2009		Six months ended June 30, 2010		Six months ended June 30, 2009
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH								
Cash flow from operating activities	**$**	**41.1**	$	22.8	**$**	**84.6**	$	44.6
Deduct: Capital expenditures – cash		**(2.5)**		(2.2)		**(4.9)**		(8.2)
Standardized distributable cash	**$**	**38.6**	$	20.6	**$**	**79.7**	$	36.4
Adjustments to standardized distributable cash:								
Add (deduct):								
Increase (decrease) in non-cash working capital		**22.4**		(22.2)		**24.2**		(45.0)
Net long-term deferred maintenance		**1.3**		2.0		**(0.7)**		1.1
Capital expenditure accruals – net		**0.2**		0.7		**0.3**		4.3
Adjusted distributable cash	**$**	**62.5**	$	1.1	**$**	**103.5**	$	(3.2)
Standardized distributable cash – per Partnership unit (in dollars)	**$**	**0.54**	$	0.29	**$**	**1.12**	$	0.51
Adjusted distributable cash – per Partnership unit (in dollars)	**$**	**0.88**	$	0.02	**$**	**1.45**	$	(0.04)
Cash distributions declared (paid and payable)	**$**	**37.1**	$	2.1	**$**	**59.9**	$	6.4
Cash distributions declared – per Partnership unit (in dollars)	**$**	**0.52**	$	0.03	**$**	**0.84**	$	0.09

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

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

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

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