CANFOR PULP INCOME FUND

CANFOR PULP LIMITED PARTNERSHIP

Unaudited Interim Consolidated Financial Statements

For the three and six months ended June 30, 2008

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

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended **June 30, 2008**	Three months ended June 30, 2007	Six months ended **June 30, 2008**	Six months ended June 30, 2007
Income				
Equity income in Canfor Pulp Limited Partnership	**$ 9,046**	$ 17,900	**$ 30,713**	$ 42,103
Net income before future income taxes	**9,046**	17,900	**30,713**	42,103
Future income taxes (note 8)	**2,031**	39,337	**2,031**	39,337
Net income (loss)	**7,015**	(21,437)	**28,682**	2,766
Distributions declared (note 5)	**(12,777)**	(17,747)	**(25,555)**	(32,654)
Earnings in excess of distributions – surplus (deficit)	**$ (5,762)**	$ (39,184)	**$ 3,127**	$ (29,888)
Net income (loss) per unit, basic and diluted	**$ 0.20**	$ (0.60)	**$ 0.81**	$ 0.08
Weighted average number of units	**35,493,505**	35,493,542	**35,493,524**	35,493,542

Net income (loss) for the period	**$ 7,015**	$ (21,437)	**$ 28,682**	$ 2,766
Equity interest in other comprehensive income (loss) of Canfor Pulp Limited Partnership	**(126)**	98	**(180)**	1,078
Comprehensive income (loss)	**$ 6,889**	$ (21,339)	**$ 28,502**	$ 3,844

Accumulated Earnings and Distributions				
Balance, beginning of period – accumulated earnings in excess of distributions – surplus (deficit)	**$ (35,907)**	$ 1,798	**$ (44,796)**	$ (7,498)
Earnings in excess of distributions – surplus (deficit) – current period	**(5,762)**	(39,184)	**3,127**	(29,888)
Balance, end of period – Accumulated earnings in excess of distributions – surplus (deficit)	**$ (41,669)**	$ (37,386)	**$ (41,669)**	$ (37,386)

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

Canfor Pulp Income Fund
Consolidated Statements of Cash Flows

(thousands of dollars, unaudited)	Three months ended **June 30, 2008**	Three months ended June 30, 2007	Six months ended **June 30, 2008**	Six months ended June 30, 2007
Cash generated from (used in)				
Operating activities				
Net income (loss)	**$ 7,015**	$ (21,437)	**$ 28,682**	$ 2,766
Items not affecting cash:				
Equity income in Canfor Pulp Limited Partnership	**(9,046)**	(17,900)	**(30,713)**	(42,103)
Future income taxes	**2,031**	39,337	**2,031**	39,337
Distributions received from Canfor Pulp Limited Partnership	**12,777**	16,327	**25,555**	39,043
	12,777	16,327	**25,555**	39,043
Financing activities				
Distributions paid to Unitholders	**$ (12,777)**	$ (16,327)	**$ (25,555)**	$ (39,043)
Beginning, change and ending balance in cash and cash equivalents	**$ -**	$ -	**$ -**	$ -

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

Canfor Pulp Income Fund
Consolidated Balance Sheets

(thousands of dollars, unaudited)		**As at June 30, 2008**		As at December 31, 2007
ASSETS				
Current assets				
Distributions receivable from Canfor Pulp Limited Partnership (note 7)	$	**4,259**	$	4,259
Total current assets		**4,259**		4,259
Equity investment in Canfor Pulp Limited Partnership (note 4)		**296,436**		291,458
	$	**300,695**	$	295,717
LIABILITIES				
Current liabilities				
Distributions payable (note 5)	$	**4,259**	$	4,259
Total current liabilities		**4,259**		4,259
Future income taxes (note 8)		**38,664**		36,633
	$	**42,923**	$	40,892
UNITHOLDERS' EQUITY				
Unitholders' equity – 35,493,505 Fund units outstanding	$	**299,351**	$	299,351
Accumulated earnings and distributions		**(41,669)**		(44,796)
Accumulated other comprehensive income (note 9)		**90**		270
Total Unitholders' Equity		**257,772**		254,825
	$	**300,695**	$	295,717

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

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

Approved by the Trustees

<< *Stan Bracken-Horrocks* >>   << *Charles Jago* >>

Stan Bracken-Horrocks   Charles Jago

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

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

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

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

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

2. Significant Accounting Policies

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

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

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

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

4. Equity Investment in Canfor Pulp Limited Partnership

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

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

5. Distributions

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

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

Record Date	**Payable Date**	**Amount per Fund Unit $**	**Amount $**
January 31, 2008	February 15, 2008	0.12	4,260
February 29, 2008	March 14, 2008	0.12	4,259
March 31, 2008	April 15, 2008	0.12	4,259
April 30, 2008	May 15, 2008	0.12	4,259
May 30, 2008	June 13, 2008	0.12	4,259
June 30, 2008	July 15, 2008	0.12	4,259
		0.72	25,555

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

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

6. Fund Units

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

7. Related Party Transactions

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended June 30, 2008 was $12.8 million of which $8.5 million was paid, with the balance of $4.3 million receivable on June 30, 2008.

8. Future Income Taxes

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

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

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

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

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

9. Accumulated Other Comprehensive Income

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

10. Capital Disclosures

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

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

Note: [1] Excludes accumulated other comprehensive income.

The Fund has no external capital requirements or covenants.

11. Financial Instruments

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

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

12. Segmented Information

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

Canfor Pulp Limited Partnership

Consolidated Statements of Income, Comprehensive Income and Partners' Equity

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

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

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

Supplementary cash flow information (note 15).

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

Canfor Pulp Limited Partnership
Consolidated Balance Sheets

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

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

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

<< *Stan Bracken-Horrocks* >>

Stan Bracken-Horrocks

Director

<< *Paul Richards* >>

Paul Richards

Director

Canfor Pulp Limited Partnership

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

1. Business Description and Basis of Presentation

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

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

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

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

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

Economic Dependence

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

2. Significant Accounting Policies

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

3. Changes in Accounting Policies

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

Section 1535 – Capital Disclosures

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

Section 3031 – Inventories

This Section replaces section 3030 and prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on assigning costs to inventories and in conjunction with section 3061 "Property, Plant and Equipment", provides guidance on classification of major spare parts.

As a result of its adoption of the new guidance, the Partnership reclassified $6.8 million dollars in major spare parts from inventory to property, plant and equipment in the first quarter of 2008. This reclassification was made retrospectively, without prior period restatement or adjustments to opening equity as it was considered impracticable to determine the impact on prior periods.

Section 3862 – Financial Instruments – Disclosures

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

Section 3863 – Financial Instruments – Presentation

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

4. Inventories

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

5. Property, Plant and Equipment

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

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

6. Deferred Charges and Other Assets

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

7. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

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

8. Asset Retirement Obligations

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

9. Credit Facilities and Long-term Debt

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

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

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

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

10. Long-term Liabilities

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

11. Capital Disclosures

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

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

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

Note: [1] Excludes accumulated other comprehensive income.

Management determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital and long-term deferred maintenance, less actual capital expenditures, a reserve for future major capital replacements (estimated at $4 million per year) and a contingency reserve. During the year distributions are based on estimates of full year cash flow and capital spending; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in non-cash working capital will be funded from cash resources or the revolving short-term credit facility, and thus will not significantly affect the level of distributions.

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

12. Related Party Transactions

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

(millions of dollars, unaudited)	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Transactions				
Canfor	**37.6**	34.2	**77.0**	69.3
Howe Sound LP – commission	**0.7**	0.9	**1.4**	1.7
Howe Sound LP – purchase of wood chips	**0.1**	-	**0.4**	-
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	**2.9**	3.5	**4.0**	6.9

	June 30, 2008	June 30, 2007
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**35.0**	32.1
Howe Sound LP	**44.1**	53.9
Lakeland Mills Ltd. and Winton Global Lumber Ltd.	**0.8**	1.1
Included in trade accounts receivable:		
Product marketed for Canfor	**16.3**	11.0
Product marketed for Howe Sound LP	**39.2**	49.0

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

13. Income per Partnership Unit

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

14. Financial Instruments

Classification of Financial Instruments

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

Financial Risk Management

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

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

I. Credit risk:

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

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

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

II. Liquidity risk:

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

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

III. Market risk:

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

a. Interest rate risk:

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

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

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

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

b. Currency risk:

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

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

Derivative Instruments

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

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

15. Supplementary Cash Flow Information

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

16. Distributions

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

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

Record Date	**Payable Date**	**Amount per Partnership Unit $**	**Amount $**
January 31, 2008	February 15, 2008	0.12	**8.5**
February 29, 2008	March 14, 2008	0.12	**8.5**
March 31, 2008	April 15, 2008	0.12	**8.6**
April 30, 2008	May 15, 2008	0.12	**8.5**
May 30, 2008	June 13, 2008	0.12	**8.6**
June 30, 2008	July 15, 2008	0.12	**8.6**
		0.72	**51.3**

17. Accumulated Other Comprehensive Income

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

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

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

18. Prince George Pulp and Paper Mill Fire and Insurance

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

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

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

19. Segmented Information [a]

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

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada. Substantially all sales are exported outside Canada, with sales to the United States representing 45% (Year 2007 – 41%).

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

(c) Sales of slush pulp to the paper segment are accounted for at approximate market value. The sales are transacted as a cost transfer and are not reflected in Pulp sales.