

CANFOR PULP INCOME FUND

Second Quarter Report

For the three and six months ended June 30, 2009

**Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Second Quarter 2009
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, 2009 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, 2008 and 2007, as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2008 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 17, 2009, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

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

The information in this report is as at July 24, 2009.

Forward-Looking Statements

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

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

- *“Critical Accounting Estimates” on page 5;*
- *“Conversion to International Financial Reporting Standards” on pages 4 and 5;*
- *“Outlook – Pulp” on page 10;*
- *“Outlook – Kraft Paper” on page 11;*
- *“Liquidity and Financial Requirements” on page 13;*
- *“Critical Accounting Estimates” on page 15;*
- *“Conversion to International Financial Reporting Standards” on page 14;*
- *“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 Partnership. Additional information concerning these and other factors can be found in the Fund’s Annual Information Form dated February 17, 2009, which is available on www.sedar.com.

CANFOR PULP INCOME FUND

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

At July 24, 2009, 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 and Canfor held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable LP 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 Canfor Pulp Holding Inc. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable LP 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.

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Equity income (loss) in Canfor Pulp Limited Partnership	724	(10,740)	(12,947)	5,513	9,046	21,667	5,999	16,541
Net income (loss)	4,406	(10,740)	(13,686)	5,208	7,015	21,667	8,703	16,541
Net income (loss) per Fund unit	\$0.12	\$(0.30)	\$(0.39)	\$0.15	\$0.20	\$0.61	\$0.25	\$0.46
Distributions earned from the Partnership and declared to unitholders	1,065	2,130	9,938	12,778	12,777	12,778	13,487	19,167
Distributions declared per Fund unit	\$0.03	\$0.06	\$0.28	\$0.36	\$0.36	\$0.36	\$0.38	\$0.54

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, 2009, the Fund had net income of \$4.4 million. The net income is comprised of the Fund's share of the Partnership's income for the second quarter of 2009 and a reduction of future income taxes. The Fund's equity income in the Partnership is \$11.5 million higher than the prior quarter due to the Fund's share of the Partnership's reduction in operating and non-operating losses. The Fund's share of operating losses decreased by \$2.4 million due primarily to lower unit manufacturing costs, partially offset by a reduction in realized prices in Canadian dollar terms for the Partnership's pulp and paper products. Non-operating income for the second quarter of 2009 totaled \$3.2 million compared to a loss of \$5.9 million in the first quarter of 2009 with the improvement mainly the result of a foreign exchange gain on translation of US dollar denominated long-term debt, and a reduction in losses on settlement and revaluation to market of derivative financial instruments. In the second quarter of 2009 a future income tax reduction of \$3.7 million was recorded as a result of a change in legislation impacting future taxation rates for Specified Investment Flow Through Trusts. Distributions declared by the Partnership and accruing to the Fund were \$1.1 million of which \$0.4 million was receivable at June 30, 2009. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership's discussion of operating results and liquidity on pages 7 through 13 of this 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 2009, the Fund declared distributions of \$0.03 per Fund unit or \$1.1 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 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

FUND UNITS

At July 24, 2009, 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, 2009 were \$1.1 million of which \$0.7 million was received, with the balance of \$0.4 million receivable on June 30, 2009.

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. Management periodically evaluates whether there has been an other than temporary decline in the value of the investment in the Partnership. The Fund relies on the recoverability analysis of the Partnership for the purposes of this assessment. Changes in these estimates could have a material impact on the calculation of the future income tax liability or equity investment in the Partnership.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 13, 2008, the Accounting Standards Board announced that publicly accountable entities will be required to prepare financial statements in accordance with International Financial Reporting Standards (IFRS) for interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Fund 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.

The Partnership has completed the planning and high level diagnosis activities of its transition plan. The Partnership is currently in the analysis and accounting policy design phase and is assessing the impact of these policies on its consolidated financial statements, information systems, processes and controls. As the implementation process evolves, the Partnership expects to adapt its transition plan based on the new information available.

For further details on the key elements of the Partnership's transition plan see the Partnership's disclosure on pages 14 and 15.

The Fund expects the transition to IFRS to impact financial reporting, business processes, and information systems of the Partnership, which the Fund relies on. The Partnership will continue to review all proposed and continuing projects of the International Accounting Standards Board 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.

At this time, the impact on the Fund's future financial position and results of operations is not reasonably determinable.

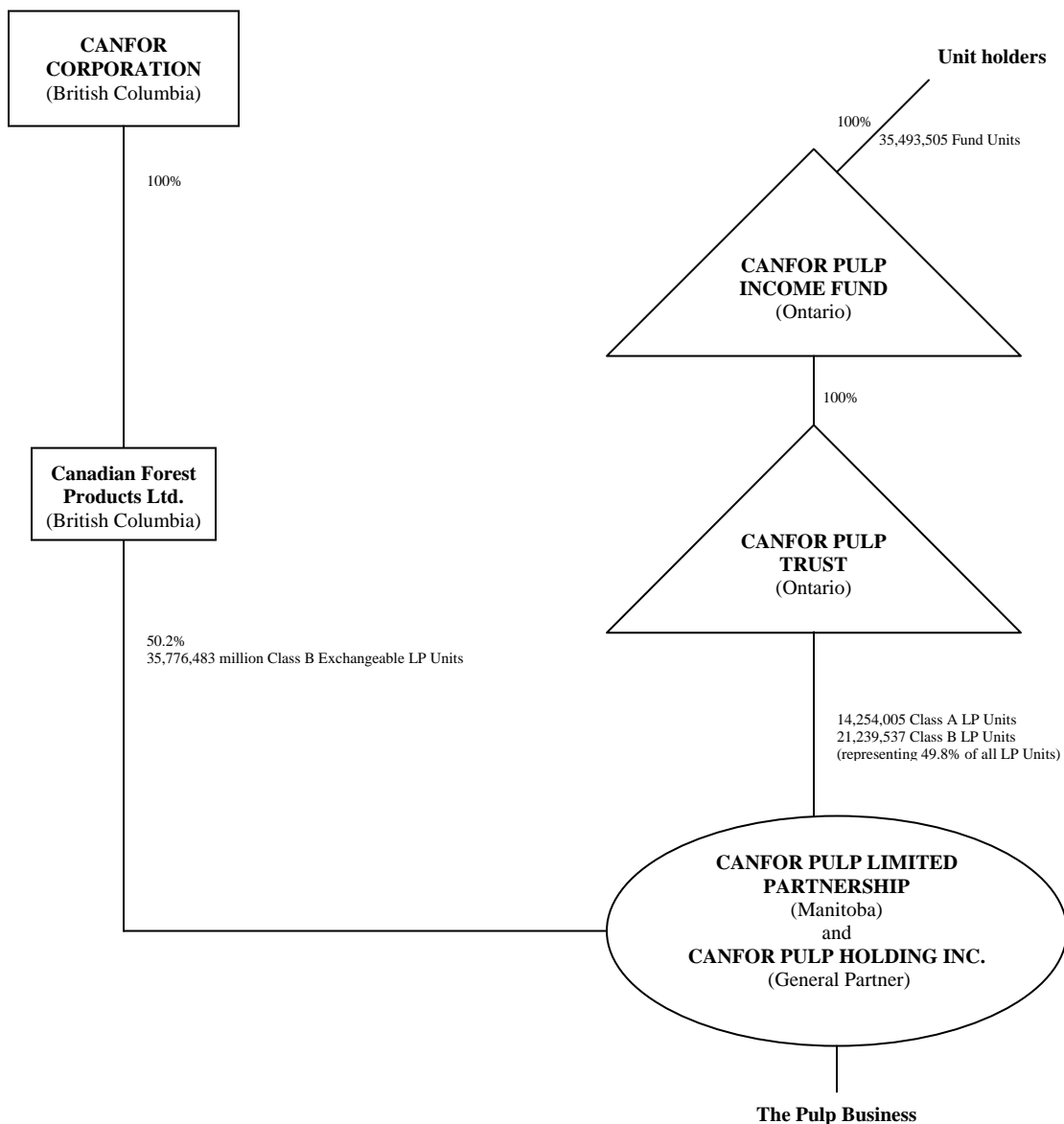
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At July 24, 2009, 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.

Partnership Structure



Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Sales	205.0	186.3	391.3	212.6	424.0
EBITDA ¹	7.2	2.2	9.4	24.0	66.5
Operating income (loss)	(5.0)	(9.8)	(14.8)	11.6	42.2
Net income (loss)	1.5	(21.6)	(20.1)	18.2	61.7
Per Partnership unit, basic and diluted					
Net income (loss)	0.02	(0.30)	(0.28)	0.26	0.87
EBITDA	0.10	0.03	0.13	0.33	0.93
Average exchange rate (US\$/Cdn\$) ²	0.858	0.803	0.829	0.990	0.993

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 2009 increased by \$5.0 million from the first quarter of 2009 and was \$16.8 million lower when compared to the second quarter of 2008. The impact of lower realized prices was more than offset by lower unit manufacturing costs and \$3.5 million from final settlement of the insurance claim relating to the Prince George Pulp and Paper Mill fire in 2008. Lower unit manufacturing costs were the result of higher production volumes, lower spending on fixed costs, and lower fibre and chemical prices. Lower spending on fixed costs was attributable to the seasonal impact of natural gas usage and lower energy prices, combined with a continued focus on cost reduction and discretionary spending. Fibre costs decreased approximately 7% due to a reduction in higher cost whole log chip volume. Freight costs were 8% lower when compared to the prior quarter primarily due to the impact of the stronger Canadian dollar. Realized pulp and paper prices decreased 8% and 16% respectively when compared to the first quarter of 2009.

When compared to the second quarter of 2008, the \$16.8 million decrease in EBITDA was primarily attributable to lower NBSK pulp US dollar list prices, partially offset by lower unit manufacturing costs, higher shipment volumes, and a weaker Canadian dollar. The NBSK pulp US dollar list price decreased 27% when compared to the same period a year ago which was partially offset by the weaker Canadian dollar. Unit manufacturing costs decreased 15% due to lower fibre and energy prices, lower overall spending on fixed costs, and the impact of higher production volumes as a result of the scheduled maintenance outage at the Northwood Pulp mill and the impact of the Prince George Pulp and Paper mill fire in the second quarter of 2008. Fibre costs decreased approximately 17% due to lower prices for sawmill residual and whole log chips. Realized paper prices in Canadian dollar terms decreased by 11% when compared to the second quarter of 2008. Shipment volumes of market pulp increased 22% when compared to the second quarter of 2008 due primarily to increased volume into China.

For the six months ended June 30, 2009, EBITDA of \$9.4 million decreased by \$57.1 million when compared to the same period in 2008. The decrease in EBITDA was attributable to lower realized prices for the Partnership's pulp and paper products, partially offset by lower unit manufacturing costs and higher shipment volumes. Pulp realized prices in Canadian dollar terms decreased 17%, as a 25% decrease in NBSK pulp US dollar list price, and a higher percentage of sales into lower margin business, including non-contract business and the tissue segment, were partially offset by a 17% weakening of the Canadian dollar when compared to the same period in 2008. Lower unit

manufacturing costs were attributable to the impact of a reduction in scheduled maintenance outages, lower spending on fixed costs and lower fibre costs. Shipment volumes of market pulp increased 14% when compared to the same period in 2008 due primarily to increased volume into China.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Sales ¹	173.8	159.2	333.0	178.2	354.4
EBITDA (loss) ¹	5.1	(0.5)	4.6	24.4	68.4
EBITDA (loss) margin ¹	3%	0%	1%	14%	19%
Operating income (loss) ¹	(6.2)	(11.6)	(17.8)	13.1	46.1
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	645	673	659	880	880
Average NBSK pulp list price – (Cdn\$ per tonne, delivered to USA)	752	838	795	889	886
Production – pulp (000 mt)	260.1	230.4	490.5	226.1	457.6
Shipments – Partnership-produced pulp (000 mt)	286.2	240.3	526.5	233.8	462.7
<i>Marketed on behalf of HSLP & Canfor (000 mt)</i>	140.0	107.2	247.2	151.9	280.3

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

The second quarter 2009 operating loss of the pulp segment of \$6.2 million was a \$5.4 million dollar improvement when compared to the first quarter of 2009. The impact of lower realized prices was more than offset by lower unit manufacturing costs and \$3.5 million from final settlement of the insurance claim relating to the Prince George Pulp and Paper Mill fire in 2008. The reduction in unit manufacturing costs resulted from higher production volumes, reduced chemical prices and lower energy and fibre costs. Production volumes were higher in the second quarter due to the impacts of the market curtailment and cold weather in the first quarter of 2009. Lower energy costs in the second quarter of 2009, as compared to the prior quarter, were primarily attributable to lower natural gas price and usage. Fibre costs decreased approximately 7% due to a reduction in higher cost whole log chip volume. Realized pulp prices in Canadian dollar terms decreased 8% when compared to the prior quarter due to a 4% decrease in NBSK pulp US dollar list price and the impact of the stronger Canadian dollar.

The second quarter 2009 operating results were \$19.3 million lower than the same period a year ago. The decrease was the result of lower NBSK pulp US dollar list prices, partially offset by lower unit manufacturing costs, a weaker Canadian dollar and higher shipment volumes. A 20% decrease of realized prices in Canadian dollar terms was attributable to a 27% decrease of NBSK pulp US dollar list price and increases in the Partnership's sales into lower margin businesses, partially offset by a 13% weakening of the Canadian dollar. Lower unit manufacturing costs were due to lower fibre and energy prices, lower overall spending on fixed costs, and the impact of higher production volumes as a result of the scheduled maintenance outage at the Northwood Pulp Mill and the impact of the Prince George Pulp and Paper Mill fire in the second quarter of 2008. Fibre costs decreased approximately 17% due to lower prices for sawmill residual and whole log chips. Shipment volumes increased 52,400 tonnes when compared to the same period in 2008 primarily due to increased volume into China.

For the six month period ended June 30, 2009, the operating loss of \$17.8 million represents a deterioration of \$63.9 million when compared to the same period in 2008. The decrease in operating results was attributable to lower realized prices in Canadian dollar terms, partially offset by lower unit manufacturing costs and higher shipment volumes. Realized pulp prices in Canadian dollar terms decreased 17% as a 25% decrease in NBSK pulp US dollar list price and a higher percentage of sales into lower margin business including non-contract business and the tissue segment, were partially offset by a 17% weakening of the Canadian dollar when compared to the same period in 2008. Lower unit manufacturing costs were attributable to the impact of a reduction in scheduled maintenance outages, lower spending on fixed costs, and lower fibre costs. Fibre costs decreased approximately 12% due to lower prices for sawmill residual and whole log chips. Lower spending on fixed costs was attributable to lower energy prices, lower maintenance costs and cost reduction initiatives including reductions in discretionary spending.

Shipment volumes increased 63,800 tonnes when compared to the same period in 2008 primarily due to increased volumes into China.

Operations

NBSK market pulp production during the second quarter of 2009 was 29,700 tonnes higher than the first quarter of 2009. The major components of increased production were significantly higher operating rates in the second quarter of 2009 and the impact of the market related curtailments totalling 14,000 tonnes in the first quarter of 2009. Higher operating rates were primarily attributable to operating issues in the first quarter of 2009 as a result of cold weather and start-up issues coming out of the market curtailment.

When compared to the same period in 2008, second quarter 2009 production of 260,100 tonnes was 34,000 tonnes higher. The major components of increased production in the second quarter of 2009 were decreased scheduled maintenance outages (second quarter 2009 – 7,000 tonnes, second quarter 2008 – 32,900 tonnes), the impact of the Prince George Pulp and Paper Mill fire which reduced production by approximately 6,100 tonnes in the second quarter of 2008 and higher overall operating rates achieved in the second quarter of 2009.

For the six months ended June 30, 2009 production of 490,500 tonnes was 32,900 tonnes higher than the same period in 2008. The major components of the increased production were decreased scheduled maintenance outages (2009 – 14,100 tonnes, 2008 – 32,900 tonnes) and the Prince George Pulp and Paper Mill fire in 2008 totalling 28,100 tonnes of reduced production, partially offset by the market curtailment totalling approximately 14,000 tonnes reduced production in the first quarter of 2009 (2008 – nil).

Markets – Pulp

During the second quarter of 2009, continued weakness in global pulp demand was more than offset by supply reductions due to temporary and permanent mill closures, resulting in significant reductions in producer inventory stocks. Year-to-date demand for market pulp was below 2008 levels, mainly due to reduced demand for printing and writing papers over the same period. According to the latest available information from PPPC¹, global demand for printing and writing papers decreased 18% for May 2009 year-to-date, when compared to the same period in 2008.

The reduction in supply has resulted in declining pulp inventories from the beginning of the year. At the end of June 2009, World 20¹ producer bleached softwood pulp inventories were down to 26 days of supply (June 2008 – 29 days), after peaking at 43 days in January 2009.

The low inventory levels and tighter pulp market conditions allowed for NBSK market pulp list price increases of US\$25 per tonne during the second quarter to US\$660 in the USA and US\$50 to US\$630 in Europe. Asia experienced the largest increase with net prices in China of US\$490 at the beginning of the quarter and US\$550 at the end of the second quarter.

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

The outlook for the second half of 2009 is one of moderate optimism. Supply has been reduced to a level that balances demand and when combined with low pulp producer inventories, provides an opportunity for additional price increases in the coming months. The reductions in supply are the result of temporary and permanent mill closures in Canada and Scandinavia as high cost NBSK pulp facilities strive to conserve cash and control inventories. Partially offsetting the mill closures has been the impact of the US Black Liquor tax subsidy, which may have enabled some higher cost US pulp mills to continue to operate. Demand is expected to recover slightly from earlier this year, but remain weak relative to 2008. Overall, we expect additional modest improvements in price during the remainder of 2009.

The Canadian Green Transformation Program is not expected to have a major impact on supply. The program was announced by the Canadian government on June 17, 2009 and proposes to provide \$0.16 per litre credit to qualifying Canadian facilities for black liquor consumption from January 1, 2009 onwards until the cap of one billion dollars is reached. The program is to take the form of funding for qualifying energy and environmental capital projects.

Although all details of the program have not been finalized it is estimated that the one billion dollar ceiling based on black liquor consumption would be reached by the Canadian industry sometime during the summer of 2009. The Partnership expects to qualify for funding under this program and has commenced development of a list of significant qualifying capital projects in anticipation of submission once the program details are finalized.

Paper

<i>(millions of dollars unless otherwise noted, unaudited)</i>	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Sales ¹	31.2	27.1	58.3	34.4	69.6
EBITDA ¹	4.4	4.6	9.0	2.8	5.1
EBITDA margin ¹	14%	17%	15%	8%	7%
Operating income ¹	3.5	3.8	7.3	1.8	3.2
Production – paper (000 mt)	30.6	28.4	59.0	34.2	66.6
Shipments – paper (000 mt)	34.3	25.2	59.5	33.7	68.8

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

The operating income of the paper segment for the second quarter of 2009 was \$0.3 million lower than the first quarter of 2009 and \$1.7 million higher than the same period last year. The decrease when compared to the first quarter of 2009 was primarily attributable to lower realized prices in Canadian dollar terms, partially offset by lower unit manufacturing costs. Realized prices in Canadian dollar terms decreased by approximately 16% as a result of continued pressure on global paper prices and a 7% strengthening of the Canadian dollar. Lower unit manufacturing costs were the result of lower costs for slush pulp and the impact of higher production volumes.

When compared to the second quarter of 2008, the improved operating earnings were due to lower unit manufacturing costs partially offset by lower realized prices in Canadian dollar terms. The lower unit manufacturing costs were the result of lower costs for slush pulp and lower spending on fixed costs, partially offset by the impact of lower production volumes.

For the six month period ended June 30, 2009, operating income of \$7.3 million improved by \$4.1 million when compared to the same period in 2008. The increase is attributable to lower unit manufacturing costs partially offset by lower realized paper prices in Canadian dollar terms and lower sales volumes. The lower unit manufacturing costs are the result of lower raw material costs for slush pulp and lower spending on fixed costs, partially offset by the impact of lower production volumes. Realized prices in Canadian dollar terms decreased by approximately 3%.

Operations

A scheduled maintenance outage was completed in the second quarter of 2009 representing approximately 2,300 tonnes of reduced paper production. When compared to the first quarter of 2009 paper production increased by 2,200 tonnes as the completion of the market curtailment in January 2009 was partially offset by completion of the scheduled maintenance outage. When compared to the second quarter of 2008, production was 3,600 tonnes lower due to lower overall operating rates and the scheduled maintenance outage in the second quarter of 2009.

For the six month period ended June 30, 2009, paper production of 59,000 tonnes was 7,600 tonnes lower than the same period in 2008. In addition to the scheduled maintenance outage completed in the second quarter of 2009 the market curtailment completed in January 2009 resulted in approximately 4,700 tonnes of lost production.

Markets – Paper

Weak North America kraft paper demand continued in the second quarter of 2009 compared to 2008. A primary driver for the overall market weakness continued to be the global economic recession and low consumer confidence. Prices slipped a further 3% in the second quarter and mill nets were further negatively impacted by an overall stronger Canadian dollar.

The Partnership's total prime paper shipments in the second quarter 2009 increased by 31% from the first quarter of 2009. The Partnership's second quarter 2009 bleached shipments increased by 10% from the first quarter of 2009 but remained below last year's levels.

The "Paper Shipping Sack Manufacturers' Association" reported that June 2009 year-to-date industry paper consumption was down 19% from the same period last year. However, customer restocking appears to have taken place in the second quarter of 2009, signalling that paper markets may have bottomed out. American Forest and Paper Association (AF&PA) reported that US total kraft paper shipments increased 6.3% in May over April and increased another 7.6% in June over May. Bleached shipments increased 10.7% in May over April and another 5.9% in June over May.

Outlook – Kraft Paper

Some softening of prices may occur during the summer period, but we believe that prices are now at or near the bottom of the cycle. Looking forward, demand is expected to continue to improve through the third quarter of 2009.

Non-Segmented Costs

(millions of dollars, unaudited)	Q2 2009	Q1 2009	YTD 2009	Q2 2008	YTD 2008
Unallocated costs	2.3	2.0	4.3	3.3	7.1
Interest expense, net	2.5	2.6	5.1	1.7	3.4
Foreign exchange loss (gain) on long-term debt	(10.7)	3.9	(6.8)	(0.6)	2.7
Loss (gain) on derivative financial instruments	(0.3)	5.7	5.4	(8.0)	(14.9)
Foreign exchange loss (gain) on working capital	2.2	(0.6)	1.6	0.3	(2.3)
Net property damage insurance gain	(0.2)	-	(0.2)	-	(8.5)
Other expense	-	0.2	0.2	-	0.1
	(4.2)	13.8	9.6	(3.3)	(12.4)

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$2.3 million in the second quarter of 2009 compared to \$2.0 million in the first quarter of 2009 and \$3.3 million in the second quarter of 2008. The decrease in unallocated costs when compared to the second quarter of 2008 was mainly attributable to lower incentive plan accruals and reduced industry association dues.

For the six month period ended June 30, 2009, unallocated costs were reduced by \$2.8 million when compared to the same period in the prior year. The reduction was primarily attributable to lower annual incentive plan accruals and reduced industry association dues. The Partnership requires a minimum threshold of profitability prior to any payout under the annual incentive plan. Management reviews the Partnership's financial performance on an ongoing basis and adjusts the accruals accordingly.

Interest Expense

The increased net interest expense in the quarter and six month period ended June 30, 2009 compared to the same periods in the prior year, was due to the cost of funding short-term working capital requirements.

Other Non-segmented Items

The foreign exchange gain on long-term debt resulted from translating the US\$110 million debt at period-end exchange rates.

The gain of \$0.3 million on derivative financial instruments recorded in the second quarter of 2009 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 foreign exchange hedging contracts. The declining price of natural gas in the second quarter of 2009 resulted in a loss for the quarter of \$2.1 million on settlement of contracts. The natural

gas swaps are used to fix the price on a portion of the Partnership's future natural gas requirements. The increasing value of the Canadian dollar in the second quarter of 2009 resulted in a gain for the quarter of \$2.3 million on settlement of US dollar foreign exchange contracts to hedge the impact of currency fluctuations on US dollar working capital. This gain was partially offset by the foreign exchange loss on working capital of \$2.2 million. The revaluation to market of outstanding derivative instruments recorded in the quarter of \$0.1 million relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar foreign exchange hedging 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, 2009		December 31, 2008	
Ratio of current assets to current liabilities	1.78		1.91	
Ratio of net debt to partners' equity ¹	0.25		0.30	
	Q2 2009	YTD 2009	Q2 2008	YTD 2008
Increase in cash and cash equivalents	16.3	17.9	(20.5)	(0.2)
Comprised of cash flow from (used in):				
Operating activities	22.8	44.6	4.9	56.5
Financing activities	(4.6)	(18.6)	(20.7)	(46.3)
Investing activities	(1.9)	(8.1)	(4.7)	(10.4)

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

Changes in Financial Position

Cash generated from operating activities was \$22.8 million in the second quarter of 2009 compared to \$4.9 million in the second quarter of 2008. The increase was primarily due to a decrease in cash used in working capital partially offset by lower cash generated from operations. During the quarter and six months ended June 30, 2009 the Partnership focused on inventory management, resulting in a significant reduction in pulp finished goods inventory to more normal levels for the business. Paper finished goods and wood chip inventories were also reduced from the beginning of the year. The lower cash generated from operations was primarily attributable to reductions in the price for the Partnership's pulp and paper products.

The cash used in financing activities of \$4.6 million in the quarter represents \$2.1 million of distributions paid to the limited partners, namely Canfor and the Fund, and a reduction of \$2.5 million in utilization of the Partnership's Revolving Facility.

The cash used in investing activities in the quarter is comprised of \$2.2 million relating to capital expenditures, offset by \$0.3 million relating to proceeds on settlement of the property damage claim for the 2008 Prince George Pulp and Paper Mill fire.

Prince George Pulp and Paper Mill Fire and Insurance Settlement

During the second quarter of 2009 the Partnership reached a final settlement with the insurers for the claim from the Prince George Pulp and Paper Mill fire in 2008. Total business interruption insurance accrued and received was \$25.6 million, which is net of a 3-day equivalent deductible of \$1.0 million. Total business interruption insurance recorded in the second quarter of 2009 was \$3.5 million, with \$3.2 million recorded as revenue and \$0.3 million recorded as a credit to manufacturing and product costs.

Total property damage insurance accrued and received was \$12.4 million, which is net of aggregate policy deductibles of \$3.25 million. Total property damage insurance proceeds recorded as a non-operating gain in the second quarter of 2009 were \$0.2 million.

Final payment received in the second quarter of 2009 was \$8.2 million, of which \$6.8 million related to the business interruption insurance and \$1.4 million to property damage, of which \$0.3 million has been classified as an investing activity on the cash flow statement, with the balance of \$1.1 million representing demolition costs.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership had cash and cash equivalents of \$18.3 million. The Partnership has a \$75 million syndicated unsecured revolving bank credit facility (the Revolving Facility), maturing in November 2009, of which \$35.2 million is available, with \$24.7 million of the Revolving Facility reserved for standby letters of credit issued to BC Hydro and \$15.1 million drawn to fund working capital requirements as of June 30, 2009. The Partnership expects to renew the Revolving Facility for a similar amount, with terms and interest rates based on prevailing market conditions at the time of renewal.

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, and use of the Revolving 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 utilizes discounting of letters of credit on outstanding trade receivables to reduce borrowing costs, to reduce credit and foreign currency exposure, and to increase short-term liquidity.

The agreements covering the Revolving Facility and the long term Notes contain similar financial covenants including four quarter trailing maximum allowable debt to EBITDA leverage ratio of 3.25 and minimum required EBITDA to interest coverage ratio of 2.5. The Partnership remained in compliance with all covenants at June 30, 2009, and believes it will remain in compliance with all covenants for the balance of 2009 based on current forecasts. A comprehensive discussion of risks and uncertainties that may impact the Partnership's forecasts is included in the Fund's Annual Information Form dated February 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

OUTSTANDING UNITS

At July 24, 2009, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) are owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units are owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2008 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 10 of the unaudited interim consolidated financial statements.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending June 30, 2009, 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 17, 2009, which is available on www.sedar.com and www.canforpulp.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008	Q1 2008	Q4 2007	Q3 2007
Sales and Income								
Sales	205.0	186.3	186.1	215.4	212.6	211.4	215.1	228.9
Operating income (loss)	(5.0)	(9.8)	(1.0)	27.5	11.6	30.6	11.7	35.4
EBITDA	7.2	2.2	9.8	40.6	24.0	42.5	27.9	48.8
Net income (loss)	1.5	(21.6)	(26.0)	11.1	18.2	43.5	12.1	33.2
Per Partnership unit (dollars) ¹								
Net income (loss) basic and diluted	0.02	(0.30)	(0.36)	0.15	0.26	0.61	0.17	0.46
Statistics								
Pulp shipments (000 mt)	286.2	240.3	208.2	234.5	233.8	228.9	253.6	257.1
Paper shipments (000 mt)	34.3	25.2	24.4	31.6	33.7	35.1	32.4	30.8
Average exchange rate (US\$/Cdn\$) ²	0.858	0.803	0.825	0.960	0.990	0.996	1.019	0.957
Average NBSK pulp list price – (US\$ per tonne, delivered to USA)	645	673	787	880	880	880	857	837

Notes: ¹ Based on Partnership units outstanding at June 30, 2009 (71,270,025) for all periods.

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

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income (loss), net income (loss) and EBITDA are primarily impacted by the level of sales, freight costs and fluctuations of fibre, chemicals 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 the Canadian dollar exchange rate, market price of natural gas, the revaluation to the period end rate of US dollar denominated working capital balances and long-term debt, and revaluation of outstanding natural gas commodity swaps and US dollar forward sales 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, asset retirement obligations, and provisions for insurance claims, 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

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

The Partnership has completed the planning and high level diagnosis activities of its transition plan. The Partnership is currently in the analysis and accounting policy design phase and is assessing the impact of these policies on its consolidated financial statements, information systems, processes and controls. As the implementation process evolves, the Partnership expects to adapt its transition plan based on the new information available.

The key elements of the transition plan are as follows:

Project Structure

The Partnership has appointed a dedicated project manager to lead the conversion to IFRS. The project manager is

working with other members of the finance team to execute the implementation plan. An implementation team is working closely with senior management in a number of different business areas to ensure that the impacts of the conversion throughout the business are managed in a timely and efficient manner. A steering committee has been established to oversee the project.

Process and Timing

The process of converting to IFRS has been divided into a number of different stages, many of which will run concurrently. A detailed analysis is scheduled to be completed early in the third quarter. Various accounting policy choices have been identified to date and are being considered by the steering committee.

Any changes required to systems and controls (including information technology systems) will be identified as the project progresses; these are currently projected to be designed and tested by the end of the fourth quarter of 2009. The implementation of any significant changes to systems and controls, as well as related training, is currently scheduled for the second half of 2009.

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

Progress to Date

At June 30, 2009, the Partnership is close to completing a detailed diagnostic of the impact of IFRS on the Partnership's financial statements. A number of issues had been identified for discussion by senior management before final decisions are made with respect to accounting policy choices and elections. The Partnership has identified a number of key areas where it is likely to be impacted by changes in accounting policy. These include:

- Employee future benefits
- Property, plant, equipment
- Impairment of assets
- Provisions, including asset retirement obligations
- Presentation of financial statements

As a first-time adopter of IFRS, the Partnership is required to apply IFRS 1 "First time adoption of International Financial Reporting Standards". A number of exemptions are available under this Standard which the Partnership is currently evaluating. The more significant exemptions include: recognizing through opening retained earnings all cumulative actuarial gains and losses on employee benefit plans, avoiding a retroactive restatement of previous business combinations under IFRS; and electing to use fair value at the transition date as deemed cost for capital assets in certain circumstances.

No significant impact on the Partnership's systems and controls has currently been identified from the review carried out to date. Further training of impacted staff will be carried out in the second half of 2009 and going forward.

CANFOR PULP LIMITED PARTNERSHIP
SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
RECONCILIATION OF NET INCOME TO EBITDA				
Net Income (loss)	\$ 1.5	\$ 18.2	\$ (20.1)	\$ 61.7
Add (deduct):				
Amortization	12.2	12.0	24.2	23.6
Net interest expense	2.5	1.7	5.1	3.4
Foreign exchange loss (gain) on long-term debt	(10.7)	(0.6)	(6.8)	2.7
Loss (gain) on derivative financial instruments	(0.3)	(8.0)	5.4	(14.9)
Foreign exchange loss (gain) on working capital	2.2	0.3	1.6	(2.3)
Loss on disposal of fixed assets	-	0.3	-	0.5
Net property damage insurance gain	(0.2)	-	(0.2)	(8.5)
Other expense	-	0.1	0.2	0.3
EBITDA	\$ 7.2	\$ 24.0	\$ 9.4	\$ 66.5
EBITDA per Partnership unit	\$ 0.10	\$ 0.34	\$ 0.13	\$ 0.93

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH				
Cash flow from operating activities ¹	\$ 22.8	\$ 4.9	\$ 44.6	\$ 56.5
Deduct: Capital expenditures – cash	(2.2)	(9.1)	(8.2)	(18.4)
Standardized distributable cash (deficiency) ¹	\$ 20.6	\$ (4.2)	\$ 36.4	\$ 38.1
Adjustments to standardized distributable cash:				
Add (deduct):				
Increase (decrease) in non-cash working capital ¹	(22.2)	14.6	(45.0)	9.1
Net long-term deferred maintenance	2.0	3.1	1.1	2.1
Capital expenditures - accruals	0.7	(0.5)	4.3	5.6
Asset retirement obligation – current expenditures and accruals ¹	-	0.4	-	0.9
Adjusted distributable cash (deficiency)	\$ 1.1	\$ 13.4	\$ (3.2)	\$ 55.8
Standardized distributable cash (deficiency) – per Partnership unit (in dollars) ¹	\$ 0.29	\$ (0.06)	\$ 0.51	\$ 0.53
Adjusted distributable cash (deficiency) – per Partnership unit (in dollars)	\$ 0.02	\$ 0.19	\$ (0.04)	\$ 0.78
Cash distributions declared (paid and payable)	\$ 2.1	\$ 25.7	\$ 6.4	\$ 51.3
Cash distributions declared – per Partnership unit (in dollars)	\$ 0.03	\$ 0.36	\$ 0.09	\$ 0.72

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

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 as reported in the GAAP financial statements, including the effects of changes in non-cash working capital less total capital expenditures as reported in the GAAP financial statements.

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

Management determines the level of cash distributions based on the level of cash flow from operations before changes in non-cash working capital and long-term deferred maintenance, asset retirement obligation expenditures and accruals, less actual 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.

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

(thousands of dollars, except unit and per unit amounts, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Income (loss)				
Equity income (loss) in Canfor Pulp Limited Partnership	\$ 724	\$ 9,046	\$ (10,016)	\$ 30,713
Net income (loss) before future income taxes	724	9,046	(10,016)	30,713
Future income taxes (recovery) (note 6)	(3,682)	2,031	(3,682)	2,031
Net income (loss)	4,406	7,015	(6,334)	28,682
Distributions declared (note 4)	(1,065)	(12,777)	(3,195)	(25,555)
Earnings in excess of distributions – surplus (deficit)	\$ 3,341	\$ (5,762)	\$ (9,529)	\$ 3,127
Net income (loss) per unit, basic and diluted	\$ 0.12	\$ 0.20	\$ (0.30)	\$ 0.81
Weighted average number of units	35,493,505	35,493,505	35,493,505	35,493,524
Net income (loss) for the period	\$ 4,406	7,015	(6,334)	28,682
Equity interest in other comprehensive loss of Canfor Pulp Limited Partnership	(9)	(126)	(30)	(181)
Comprehensive income (loss)	\$ 4,397	\$ 6,889	\$ (6,364)	\$ 28,501
Accumulated Earnings and Distributions				
Balance, beginning of period – distributions in excess of earnings	\$ (85,733)	\$ (35,907)	\$ (72,863)	\$ (44,796)
Earnings in excess of distributions – surplus (deficit), current period	\$ 3,341	\$ (5,762)	\$ (9,529)	\$ 3,127
Balance, end of period – Accumulated distributions in excess of earnings	\$ (82,392)	\$ (41,669)	\$ (82,392)	\$ (41,669)

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

Canfor Pulp Income Fund
Consolidated Statements of Cash Flows

(thousands of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash generated from (used in)				
Operating activities				
Net income (loss)	\$ 4,406	\$ 7,015	\$ (6,334)	\$ 28,682
Items not affecting cash:				
Equity (income) loss in Canfor Pulp Limited Partnership	(724)	(9,046)	10,016	(30,713)
Future income taxes (recovery)	(3,682)	2,031	(3,682)	2,031
Distributions received from Canfor Pulp Limited Partnership	1,065	12,777	4,259	25,555
	1,065	12,777	4,259	25,555
Financing activities				
Distributions paid to Unitholders	\$ (1,065)	\$ (12,777)	\$ (4,259)	\$ (25,555)
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, 2009	As at December 31, 2008
ASSETS		
Current assets		
Distributions receivable from Canfor Pulp Limited Partnership (notes 4,5)	\$ 355	\$ 1,420
Total current assets	355	1,420
Equity investment in Canfor Pulp Limited Partnership (note 3)	253,033	266,274
	\$ 253,388	\$ 267,694
LIABILITIES		
Current liabilities		
Distributions payable (note 4)	\$ 355	\$ 1,420
Total current liabilities	355	1,420
Future income taxes (note 6)	36,027	39,709
	\$ 36,382	\$ 41,129
UNITHOLDERS' EQUITY		
Unitholders' equity – 35,493,505 Fund units outstanding	\$ 299,351	\$ 299,351
Accumulated earnings and distributions	(82,392)	(72,863)
Accumulated other comprehensive income (note 7)	47	77
Total Unitholders' Equity	217,006	226,565
	\$ 253,388	\$ 267,694

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"

Stan Bracken-Horrocks

"Charles Jago"

Charles Jago

Canfor Pulp Income Fund

Notes to the Unaudited Interim Consolidated Financial Statements as at June 30, 2009

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, BC, 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 2008 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2008 audited consolidated financial statements.

3. 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, 2009	Year ended December 31, 2008
Balance, beginning of period	266,274	291,458
Equity interest in income (loss) of the Partnership	(10,016)	23,280
Equity interest in other comprehensive loss of the Partnership	(30)	(193)
Distributions from the Partnership	(3,195)	(48,271)
Balance, end of period	253,033	266,274

4. Distributions

The Fund declared distributions during the first six months of 2009 as follows:

(thousands of dollars, except per unit amounts, unaudited)			
Record Date	Payable Date	Amount per Fund Unit \$	Amount \$
January 30, 2009	February 13, 2009	0.04	1,420
February 27, 2009	March 13, 2009	0.01	355
March 31, 2009	April 15, 2009	0.01	355
April 30, 2009	May 15, 2009	0.01	355
May 29, 2009	June 15, 2009	0.01	355
June 30, 2009	July 15, 2009	0.01	355
		0.09	3,195

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.

5. 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, 2009 were \$1.1 million of which \$0.7 million was received, with the balance of \$0.4 million receivable on June 30, 2009.

6. 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, 2009	Year ended December 31, 2008
Expected income tax expense at statutory tax rate of nil (2008 – nil)	-	-
Future income taxes (recovery) on temporary differences	(3,682)	3,076
	(3,682)	3,076

The temporary differences based on the Fund's 49.8% ownership of the Partnership are as follows:

(thousands of dollars, unaudited)	June 30, 2009	December 31, 2008
Future income tax liability:		
Equity investment in the Partnership	43,682	44,453
Expected reversal of temporary differences prior to 2011	(7,655)	(4,744)
	36,027	39,709

In the second quarter of 2009 a future income tax recovery of \$3.7 million was recorded as a result of a change in legislation impacting future taxation rates for Specified Investment Flow Through Trusts.

The future income tax liability is based on a current estimate of the balance at the beginning of 2011. The balance 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.

7. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	77	270
Other comprehensive loss	(30)	(193)
Balance, end of period	47	77

8. 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.

9. 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 (Loss), Comprehensive Income (Loss) and Partners' Equity

(millions of dollars, except units and per unit amounts, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Revenue				
Sales	\$ 205.0	\$ 212.6	\$ 391.3	\$ 424.0
Business interruption insurance	3.2	3.3	3.2	14.7
	208.2	215.9	394.5	438.7
Costs and expenses				
Manufacturing and product costs	162.3	159.0	312.1	307.9
Freight and other distribution costs	32.1	27.2	60.9	52.5
Amortization	12.2	12.0	24.2	23.6
Selling and administration costs	6.6	6.1	12.1	12.5
	213.2	204.3	409.3	396.5
Operating income (loss)	(5.0)	11.6	(14.8)	42.2
Net property damage insurance gain	0.2	-	0.2	8.5
Interest expense, net	(2.5)	(1.7)	(5.1)	(3.4)
Foreign exchange gain (loss) on long-term debt	10.7	0.6	6.8	(2.7)
Gain (loss) on derivative financial instruments (note 12)	0.3	8.0	(5.4)	14.9
Foreign exchange gain (loss) on working capital	(2.2)	(0.3)	(1.6)	2.3
Other expense	-	-	(0.2)	(0.1)
	6.5	6.6	(5.3)	19.5
Net income (loss)	1.5	18.2	(20.1)	61.7
Other comprehensive loss				
Adjustment for derivatives (note 15)	(0.1)	(0.2)	(0.1)	(0.3)
Comprehensive income (loss)	\$ 1.4	\$ 18.0	\$ (20.2)	\$ 61.4
Net income (loss) per Partnership unit (in dollars) (note 11)				
Basic and diluted	\$ 0.02	\$ 0.26	\$ (0.28)	\$ 0.87
Weighted average Partnership units outstanding	71,270,025	71,270,025	71,270,025	71,270,025
Partners' Equity				
Balance, beginning of period	\$ 508.5	\$ 602.7	\$ 534.4	\$ 584.9
Net income (loss)	1.5	18.2	(20.1)	61.7
Distributions declared to partners (note 14)	(2.1)	(25.7)	(6.4)	(51.3)
Other comprehensive loss (note 15)	(0.1)	(0.2)	(0.1)	(0.3)
Balance, end of period	\$ 507.8	\$ 595.0	\$ 507.8	\$ 595.0

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	\$ 1.5	\$ 18.2	\$ (20.1)	\$ 61.7
Items not affecting cash:				
Amortization	12.2	12.0	24.2	23.6
Foreign exchange loss (gain) on long-term debt	(10.7)	(0.6)	(6.8)	2.7
Reduction (increase) in value of outstanding derivative financial instruments (note 12)	(0.1)	(8.0)	2.8	(14.9)
Employee future benefits	0.7	1.9	2.2	4.1
Loss on disposal of fixed assets	-	0.3	-	0.5
Net property damage insurance gain	(0.2)	-	(0.2)	(8.5)
Change in long-term maintenance provision	0.6	3.5	1.5	4.9
Other	-	0.1	-	0.3
Asset retirement obligation expenditures	-	(0.4)	-	(0.9)
Salary pension plan contribution	(0.8)	(0.9)	(1.4)	(0.9)
Long-term maintenance expenditure	(2.6)	(6.6)	(2.6)	(7.0)
Cash flow from (used in) operations before working capital changes	0.6	19.5	(0.4)	65.6
Changes in non-cash working capital (note 13)	22.2	(14.6)	45.0	(9.1)
	22.8	4.9	44.6	56.5
Financing activities				
Distributions paid to partners	(2.1)	(25.7)	(8.5)	(51.3)
Operating loan draw (repayment) (note 8)	(2.5)	5.0	(10.1)	5.0
	(4.6)	(20.7)	(18.6)	(46.3)
Investing activities				
Property, plant and equipment, net (note 13)	(2.2)	(9.1)	(8.2)	(18.4)
Net insurance proceeds	0.3	4.4	0.1	8.0
	(1.9)	(4.7)	(8.1)	(10.4)
Increase in cash and cash equivalents	16.3	(20.5)	17.9	(0.2)
Cash and cash equivalents, beginning of period	2.0	22.9	0.4	2.6
Cash and cash equivalents, end of period	\$ 18.3	\$ 2.4	\$ 18.3	\$ 2.4

Cash and cash equivalents include cash on hand and highly liquid investments with an original maturity date of 90 days or less net of outstanding cheques.

Supplementary cash flow information (note 13).

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, 2009	As at December 31, 2008
ASSETS		
Current assets		
Cash and cash equivalents	\$ 18.3	\$ 0.4
Accounts receivable (note 10)		
Trade	113.0	77.0
Insurance	-	7.4
Other	4.0	7.5
Inventories (note 3)	133.9	176.7
Prepaid expenses and other assets	13.2	16.5
Total current assets	282.4	285.5
Property, plant and equipment (note 4)	549.8	570.2
Other long-term assets (note 5)	14.0	13.2
	\$ 846.2	\$ 868.9
LIABILITIES		
Current liabilities		
Operating loan (note 8)	15.1	25.2
Accounts payable and accrued liabilities (note 10)	142.9	121.6
Distributions payable (note 14)	0.7	2.8
Total current liabilities	158.7	149.6
Long-term debt (note 8)	127.9	134.7
Long-term liabilities (note 9)	51.8	50.2
	\$ 338.4	\$ 334.5
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)	507.8	534.4
	\$ 846.2	\$ 868.9

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

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, 2009

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, 2009, 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 64% (2008 Year – 64%) of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. 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. The Partnership's accounting policies are as disclosed in the annual consolidated financial statements of the Partnership included in the Fund's 2008 Annual Report available at www.canforpulp.com or www.sedar.com. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2008 audited consolidated financial statements.

3. Inventories

(millions of dollars, unaudited)	June 30, 2009	December 31, 2008
Pulp	56.1	86.7
Paper	18.7	20.6
Wood chips	14.0	23.3
Processing materials and supplies	45.1	46.1
	133.9	176.7

4. Property, Plant and Equipment

(millions of dollars, unaudited)	June 30, 2009		
	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,321.8	781.8	540.0
Construction in progress	2.9	-	2.9
	1,332.4	782.6	549.8

(millions of dollars, unaudited)	December 31, 2008		
	Cost	Accumulated amortization	Net
Land and improvements	5.4	-	5.4
Asset retirement - Landfill	2.3	0.8	1.5
Buildings, machinery and equipment	1,318.6	757.7	560.9
Construction in progress	2.4	-	2.4
	1,328.7	758.5	570.2

5. Other Long-term Assets

(millions of dollars, unaudited)	June 30, 2009	December 31, 2008
Pension benefit plan	11.6	11.7
Maintenance shutdown costs	1.9	0.9
Other	0.5	0.6
	14.0	13.2

6. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Pension plans	1.3	1.0	2.5	1.9
Other employee future benefit plans	0.8	1.5	1.7	3.0
Contributions to forest industry union plans	1.7	1.7	3.3	3.3
	3.8	4.2	7.5	8.2

7. Asset Retirement Obligations

(millions of dollars, unaudited)	June 30, 2009	December 31, 2008
Balance beginning of period	2.8	11.3
Accretion expense	-	0.4
Current expenditures	-	(1.2)
Gain on settlement	-	(0.9)
Change in estimate	-	(6.8)
Balance end of period	2.8	2.8

8. Credit Facilities and Long-term Debt

The Partnership has a \$75.0 million syndicated unsecured revolving bank credit facility (the Revolving Facility), maturing in November 2009, of which \$35.2 million is available with \$24.7 million of the Revolving Facility reserved for standby letters of credit issued to BC Hydro and \$15.1 million drawn to fund working capital requirements as of June 30, 2009. 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. The effective interest rate on the revolving facility for the quarter ended June 30, 2009 was 2.8%.

At June 30, 2009 the Partnership has outstanding long-term debt of \$127.9 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 financial covenants including four quarter trailing maximum allowable debt to EBITDA leverage ratio of 3.25 and minimum required EBITDA to interest coverage ratio of 2.5 and the Partnership remained in compliance with all covenants at June 30, 2009.

The fair value of long-term debt at June 30, 2009 was \$128.5 million (US\$110.6 million).

9. Long-term Liabilities

(millions of dollars, unaudited)	June 30, 2009	December 31, 2008
Accrued pension obligations	5.5	5.9
Post-employment benefits	42.0	40.8
Derivative financial instruments (note 12)	1.5	0.7
Asset retirement obligations (note 7)	2.8	2.8
	51.8	50.2

10. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2008 audited consolidated financial statements and are based on agreed upon amounts between the parties, and are summarized below:

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Transactions				
Canfor	27.7	37.6	55.3	77.0
Howe Sound LP – commission	0.6	0.7	1.2	1.4
Howe Sound LP – sale of wood chips	-	0.1	0.1	0.4
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	1.3	2.9	1.8	4.0

	June 30, 2009	December 31, 2008
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	44.0	27.4
Howe Sound LP	28.9	20.4
Lakeland Mills Ltd. and Winton Global Lumber Ltd.	0.2	0.2
Included in trade accounts receivable:		
Product marketed for Canfor	19.7	9.9
Product marketed for Howe Sound LP	27.0	16.9

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

11. Net Income per Partnership Unit

Basic net 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.

12. 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 liabilities, distributions payable, operating loan 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 Partnership 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, accounts receivable and derivatives.

In order to mitigate the risk of financial loss, cash on deposit is held with major Canadian and international financial institutions. The cash and cash equivalents balance at June 30, 2009 was \$18.3 million. The Partnership does not believe there is any significant credit risk associated with cash on deposit held in major Canadian and international financial institutions.

The Partnership utilizes a combination of credit insurance and self-insurance to manage the risk associated with trade receivables. Approximately 80% of the outstanding trade receivables are covered under credit insurance while the majority of the balance is with large and financially sound customers. In addition, the Partnership requires letters of credit on certain export trade receivables and periodically discounts these letters of credit without recourse. The Partnership recognizes the sale of the letters of credit at the settlement date, and accordingly reduces the related trade account receivable balance. At June 30, 2009, the Partnership had reduced the trade accounts receivable balance by \$33.8 million due to discounting of letters of credit. The Partnership's trade receivable balance at June 30, 2009 was \$113.0 million. The

Partnership believes that its approach to managing credit risk associated with the collection of outstanding trade accounts receivable is appropriate in the current credit market.

The Partnership does not believe that there is any significant counter party credit risk in respect of outstanding derivatives.

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. The Partnership's Revolving Facility matures in November 2009. The Partnership expects to renew the Revolving Facility for a similar amount, with terms and interest rates based on prevailing market conditions at the time of renewal.

Due to the current global financial crisis, the Partnership is also actively reviewing on an ongoing basis, the level of distributions, capital expenditures and timing of scheduled major maintenance outages and may adjust these amounts periodically to ensure adequate cash is available. In addition, the Partnership is utilizing discounting of letters of credit on outstanding trade receivables to manage liquidity risk. At June 30, 2009, the impact of discounting of letters of credit accelerated cash collection and reduced the trade accounts receivable balance by \$33.8 million. The Partnership believes it will be able to meet all financial obligations as they come due.

At June 30, 2009, the Partnership accounts payable and accrued liabilities totalled \$142.9 million, all of which fall due for payment within one year of the balance sheet date. The Partnership's distributions payable at June 30, 2009 totalled \$0.7 million, which fall due for payment on July 15, 2009.

III. Market risk:

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

a. Interest rate risk:

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

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. The Partnership's products are sold globally with prices primarily 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.

The Partnership enters into US dollar forward sales contracts to reduce exposure to fluctuations in US exchange rates on US dollar denominated accounts receivable and accounts payable balances.

c. Commodity price risk:

The Partnership's financial performance is dependant on the selling price of its products and the purchase price of raw material inputs. Consequently, the Partnership is exposed to changes in commodity prices for pulp and paper, as well as changes in fibre, freight, chemical and natural gas prices. The markets for pulp and paper are cyclical and are influenced by a variety of factors. These factors include periods of excess supply due to industry capacity additions, periods of decreased demand due to weak global economic activity, inventory destocking by customers and fluctuations in currency exchange rates. During periods of low prices, the Partnership is subject to reduced revenues and margins, which adversely impact profitability.

The Partnership may periodically use derivative instruments to mitigate commodity price risk. For the quarter ended June 30, 2009 the Partnership used derivative instruments to reduce exposure to natural gas prices.

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, 2009 the Partnership recorded a gain on derivative financial instruments of \$0.3 million (June 30, 2008 – gain of \$8.0 million) relating 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 foreign exchange hedging contracts.

The Partnership recorded losses of \$2.1 million during the second quarter of 2009 (second quarter 2008 – gain of \$0.9 million) relating to settlement of maturing natural gas contracts as a charge to non-operating income. At June 30, 2009 the Partnership had outstanding commodity swaps hedging future natural gas purchases of 2.6 million gigajoules extending to October, 2011. At June 30, 2009 the loss of \$6.1 million (December 31, 2008 – \$3.2 million) on these outstanding commodity swaps is recorded as a liability in accounts payable and accrued liabilities and in long-term liabilities.

The Partnership recorded a gain of \$2.3 million during the second quarter of 2009 (second quarter 2008 – nil) on settlement of maturing US dollar forward sales contracts as a charge to non-operating income. At June 30, 2009 the Partnership had outstanding US dollar forward sales contracts of \$32.5 million extending to October, 2009. At June 30, 2009 the loss of \$1.1 million (December 31, 2008 – \$1.3 million) on these outstanding US dollar forward sales contracts is recorded as a liability in accounts payable and accrued liabilities.

13. Supplementary Cash Flow Information

(millions of dollars, unaudited)	Three months ended		Six months ended	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
Changes in non-cash working capital				
Accounts receivable – trade and other	(14.6)	(2.8)	(32.3)	4.8
Insurance receivable	4.3	8.5	7.3	(5.1)
Inventories	26.9	(5.8)	42.8	(16.3)
Prepaid expenses and other assets	0.4	(8.9)	3.3	(6.1)
Accounts payable and accrued liabilities	5.2	(5.6)	23.9	13.6
	22.2	(14.6)	45.0	(9.1)
Capital expenditures				
Capital expenditures – cash	2.2	9.1	8.2	18.4
Capital expenditures – net accruals	(0.7)	0.5	(4.3)	(5.6)
	1.5	9.6	3.9	12.8
Net interest paid	4.5	3.5	4.8	3.5

Prince George Pulp and Paper Mill Fire and Insurance Settlement

During the second quarter of 2009 the Partnership reached a final settlement with the insurers of the claim from the Prince George Pulp and Paper Mill fire in 2008. Total business interruption insurance accrued and received was \$25.6 million, which is net of a 3-day equivalent deductible of \$1.0 million. Total business interruption insurance recorded in the second quarter of 2009 was \$3.5 million, with \$3.2 million recorded as revenue and \$0.3 million recorded as a credit to manufacturing and product costs.

Total property damage insurance accrued and received was \$12.4 million, which is net of aggregate policy deductibles of \$3.25 million. Total property damage insurance proceeds recorded as a non-operating gain in the second quarter of 2009 were \$0.2 million.

Final payment received in the second quarter of 2009 was \$8.2 million, of which \$6.8 million related to final settlement of the business interruption insurance claim and \$1.4 million for property damage, of which \$0.3 million has been classified as an investing activity on the cash flow statement, with the balance of \$1.1 million representing demolition costs.

14. Distributions

The Partnership declared distributions in the first six months of 2009 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit \$	Amount \$
January 30, 2009	February 13, 2009	0.04	2.9
February 27, 2009	March 13, 2009	0.01	0.7
March 31, 2009	April 15, 2009	0.01	0.7
April 30, 2009	May 15, 2009	0.01	0.7
May 29, 2009	June 15, 2009	0.01	0.7
June 30, 2009	July 15, 2009	0.01	0.7
		0.09	6.4

15. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)

	Six months ended June 30, 2009	Year ended December 31, 2008
Balance, beginning of period	0.1	0.5
Adjustment for exchange translation	(0.1)	0.2
Adjustment for derivatives recorded in other comprehensive income	-	(0.6)
Balance, end of period	-	0.1

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

(millions of dollars, unaudited)

	June 30, 2009
Cumulative comprehensive income	243.2
Cumulative distributions	(322.9)
	(79.7)
Partners' capital – at July 1, 2006	587.5
Partners' equity, end of period	507.8

16. Segmented Information ^(a)

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs	Total
Three months ended June 30, 2009				
Sales to external customers ^(b)	173.8	31.2	-	205.0
Sales of pulp to paper segment ^(c)	12.9	(12.9)	-	-
Operating income (loss)	(6.2)	3.5	(2.3)	(5.0)
Amortization	11.3	0.9	-	12.2
Capital expenditures, net	1.4	-	0.1	1.5
Three months ended June 30, 2008				
Sales to external customers ^(b)	178.2	34.4	-	212.6
Sales of pulp to paper segment ^(c)	20.2	(20.2)	-	-
Operating income (loss)	13.1	1.8	(3.3)	11.6
Amortization	11.0	1.0	-	12.0
Capital expenditures, net	9.4	0.1	0.1	9.6
Six months ended June 30, 2009				
Sales to external customers ^(b)	333.0	58.3	-	391.3
Sales of pulp to paper segment ^(c)	26.6	(26.6)	-	-
Operating income (loss)	(17.8)	7.3	(4.3)	(14.8)
Amortization	22.4	1.7	0.1	24.2
Capital expenditures, net	3.8	-	0.1	3.9
Identifiable assets	740.6	70.5	35.1	846.2
Six months ended June 30, 2008				
Sales to external customers ^(b)	354.4	69.6	-	424.0
Sales of pulp to paper segment ^(c)	40.3	(40.3)	-	-
Operating income (loss)	46.1	3.2	(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

- (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 36% (Year 2008 – 43%).
- (b) Sales to the largest customer represented approximately 9% of pulp segment sales (Year 2008 – 22%).
- (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.

17. Contingency

On June 17, 2009 the Canadian federal government announced the Green Transformation Program (GTP). This program proposes to provide \$0.16 per litre credit to qualifying Canadian facilities for black liquor consumption and is capped at \$1 billion of total funding for the industry. It is intended that to the extent of their credit, eligible companies will be reimbursed for capital expenditures within a three-year period that will improve energy efficiency and environmental performance. As details of the program are still to be determined and the funding is intended to be dependent on the amount that will be spent for qualifying capital expenditures, it is impractical at this time to estimate the impact that the GTP will have on the financial position of the Partnership.