

CANFOR PULP INCOME FUND ANNOUNCES SECOND QUARTER 2007 RESULTS

July 24, 2007 – Vancouver, B.C. – Canfor Pulp Income Fund (the “Fund”) (TSX:CFX.UN) announced today its second quarter 2007 results as well as the results of Canfor Pulp Limited Partnership (the “Partnership”) in which the Fund has a 49.8% ownership.

The Partnership reported sales of \$239.4 million and net income of \$35.9 million, or \$0.51 per unit, for the quarter ended June 30, 2007. These results are down from the prior quarter due primarily to the impact of the strengthening Canadian dollar, which more than offset increases in NBSK list prices. An increase of 7% in fibre costs also contributed to the lower earnings. The second quarter 2007 results are significantly better than those in the same period a year ago, when sales were \$196.1 million with net income of \$15.9 million (\$0.22 per unit), primarily because of higher pulp pricing, partially offset by both higher fibre costs and the strong Canadian dollar.

The Partnership generated distributable cash of \$38.4 million, or \$0.54 per unit, during the second quarter, which compares to \$51.9 million, or \$0.73 per unit, in the prior quarter. The reduction is mainly attributable to the lower operating income noted above.

During June 2007 the House of Commons passed legislation to implement a tax on distributions paid by publicly traded income trusts in Canada, commencing in 2011. As a result of this new legislation, Canadian accounting guidance requires that the Fund record a future tax liability and a corresponding one-time non-cash charge to net income of \$39.3 million in the second quarter. Since this tax will not be in effect until 2011, any changes to the tax legislation, or to the legal structure of the Fund or the Partnership prior to that time could have a material effect on the level of the future income taxes recorded by the Fund. Based on the Partnership’s results, the Fund earned pre-tax net income of \$17.9 million, or \$0.51 per Fund unit, in the second quarter of 2007. After recording the one-time non-cash tax charge, the Fund had a net loss after tax of \$21.4 million, or \$0.60 per Fund unit.

The Partnership’s NBSK pulp production of 258,300 tonnes, was similar to the prior quarter’s 258,900 tonnes. The Partnership’s pulp mills had scheduled maintenance downtime during the quarter resulting in lost production of approximately 8,600 tonnes, similar to that in the prior quarter. When compared to the prior year, an improvement in NBSK production of 30,500 tonnes was mainly attributable to the longer scheduled maintenance downtime taken in the second quarter of 2006 and a 4% improvement in mill productivity in 2007.

Fibre costs increased during the quarter by 7%, due to higher prices paid for residual chips. When compared to the same period in the prior year, fibre costs increased by 57% as a 15% increase in pulp sales returns directly resulted in an increase in residual chip prices.

Prices for NBSK pulp continued to increase in all markets during the quarter, with list prices at the end of the quarter at US\$800 for delivery to Northern Europe and US\$810 to the United States. Commenting on the market conditions, Paul Richards, President and CEO of the Partnership said: “The NBSK pulp market is currently strong, with curtailments and closures in the printing and writing paper sector in both North America and Europe, combined with price sensitivity in Asia being balanced by the threat of further curtailments and closures on the supply side due to fibre shortages and the impact of the strong Canadian dollar.”

The Fund also announced that its cash distribution for the month of July will be unchanged at \$0.18 per Fund unit, to be paid on August 15, 2007 to unitholders of record at the close of business on July 31, 2007.

The Fund declares distributions on a monthly basis with the record date on the last day of each month and payable within the 15 days following. These monthly distributions are intended to be equal to the monthly distributions of the Partnership on which they are dependent. The Partnership’s cash distributions are based on estimates of cash flow from operations, less capital spending and a reserve

for future major capital expenditures. The Partnership periodically reviews the level of its cash distributions, taking into account current and expected future performance and cash flow requirements.

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	Q2 2007	Q1 2007	YTD 2007	Q2 2006	YTD 2006
Sales ¹	239.4	238.2	477.6	196.1	391.6
EBITDA ^{1,2}	51.7	60.1	111.8	28.0	60.2
Operating income ¹	39.2	48.0	87.2	16.9	36.6
Net income	35.9	48.6	84.5	15.9	36.3
Per Partnership unit, basic and diluted					
Net income	0.51	0.68	1.19	0.22	0.51
EBITDA ¹	0.73	0.84	1.57	0.39	0.85
Average Canadian/US exchange rate ³	0.911	0.854	0.881	0.891	0.879

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

² For calculation of EBITDA, see supplementary financial information

³ Source – Bank of Canada (average noon rate for the period)

EBITDA for the second quarter of 2007 decreased by \$8.4 million from the previous quarter but improved by \$23.7 million when compared to the second quarter of 2006. The impact of the strengthening Canadian dollar and higher fibre costs were partially offset by improved NBSK pulp prices and higher sales volumes. The negative impact on operating income from the strengthening Canadian dollar in the second quarter was approximately \$13 million. Realized prices in Canadian dollar terms decreased by 4% quarter over quarter but improved by 15% when compared to the same quarter a year ago. Shipments returned to normal levels in the quarter as the backlog from the CN strike in the first quarter cleared itself through the rail and port system.

Also in the second quarter of 2007, the Partnership recorded a non-operating loss of \$4.2 million reflecting the revaluation to market of outstanding commodity swaps hedging future natural gas purchases, compared to a \$2.2 million gain recorded in the first quarter of 2007.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	Q2 2007	Q1 2007	YTD 2007	Q2 2006	YTD 2006
Sales ¹	205.0	207.7	412.7	168.5	335.9
EBITDA ¹	54.9	63.8	118.7	31.3	64.7
EBITDA margin ¹	27%	31%	29%	19%	19%
Operating income ¹	43.4	52.8	96.2	21.0	43.0
Average pulp list price – US \$ (per tonne, delivered to Northern Europe)	783	757	770	665	642
Average pulp list price in Cdn \$	859	886	874	746	730
Production – pulp (000 mt)	258.3	258.9	517.2	227.8	494.2
Shipments – Partnership-produced pulp (000 mt)	259.8	253.1	512.9	244.6	500.3
Marketed on behalf of HSLP & Canfor (000 mt)	152.1	132.6	284.7	146.8	293.0

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

Second quarter 2007 operating income of the pulp segment decreased by \$9.4 million from the previous quarter but increased by \$22.4 million when compared to the same quarter in the prior year. When compared to the prior quarter, the impact of the strengthening Canadian dollar and higher fibre costs were partially offset by improved NBSK prices and higher sales volumes. Fibre costs increased by 7% when compared to the prior quarter due to higher prices paid for residual chips driven by the lower chip production from sawmills in the BC Interior. When compared to the prior year, the benefit of a 15% increase in Canadian dollar realized price, higher sales and production volumes were partially offset by higher fibre costs.

Operations

NBSK production during the second quarter was 600 tonnes below the first quarter and 30,500 tonnes better than the second quarter of 2006. Scheduled maintenance downtime was taken at the Intercon and Northwood mills in the quarter. Production tonnes lost in the quarter as a result of the downtime were similar to the prior quarter. The large increase in production over the prior year quarter was attributable to shorter scheduled maintenance downtime and a 4% improvement in operating rates in 2007. Scheduled maintenance downtime in the second quarter of 2006 resulted in lost production of approximately 30,900 tonnes, compared to only 8,600 tonnes in the current quarter.

Markets

Market conditions for the second quarter of 2007 remained strong. At 24 days of supply, producer inventories for softwood market pulp have decreased by one day from the level at the end of the first quarter of 2007. Generally, a supply of 30 days is considered a level indicative of a well-balanced market.

The supply side of the market continues to remain tight due to earlier closures of Canadian mills. Fibre supply issues in Canada and in Europe, and the impact of the strengthening Canadian dollar on Canadian producers, may result in additional curtailments. The market concerns over further reductions in supply are currently tempered by a small drop in demand from the printing and writing paper sector. The benchmark list price for delivery to Northern Europe stood at US\$760 per tonne at the end of March 2007 and finished the second quarter at US\$800 per tonne. This is compared to the second quarter of 2006, when the list price to Northern Europe averaged US\$665 per tonne.

Outlook – Pulp Markets

We expect the NBSK supply and demand to remain in balance to the end of 2007, allowing the market price of northern softwood pulp to remain strong. During 2008, there may be some downward pressure on prices as new South American softwood and hardwood capacity impacts the market. Although we do not compete directly with South American pulps, the increased capacity could be expected to cause downward pressure on all pulp prices.

As the pricing differential between hardwood and softwood increases, substitution becomes more economically viable. This situation will be tempered by the possibility that the strong Canadian dollar, high fibre costs and low fibre availability could further reduce NBSK production from producers in Canada and Scandinavia.

Paper

(millions of dollars unless otherwise noted, unaudited)	Q2 2007	Q1 2007	YTD 2007	Q2 2006	YTD 2006
Sales ¹	34.4	30.5	64.9	27.6	55.7
EBITDA ¹	0.9	1.1	2.0	0.6	3.1
EBITDA margin ¹	3%	4%	3%	2%	6%
Operating (loss) income ¹	(0.1)	0.1	-	(0.2)	1.3
Production – paper (000 mt)	33.9	31.6	65.5	30.1	63.2
Shipments – paper (000 mt)	35.9	30.4	66.3	31.3	62.3

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

The operating loss of the paper segment for the second quarter of 2007 was \$0.1 million or \$0.2 million lower than the previous quarter and was a \$0.1 million improvement when compared to the same quarter last year. Higher sales and production volumes were offset by the impact of the strengthening Canadian dollar as realized prices in Canadian terms decreased by 4%. Cost of slush pulp also increased during the quarter, reflecting the increased market price of pulp. When compared to the same period last year, an increase in Canadian dollar realized prices of 9%, higher sales and production volumes were offset by the higher cost for slush pulp (which is transferred at market).

Operations

Paper production during the second quarter was up by 2,300 tonnes over the prior quarter and up 3,800 tonnes when compared to the same period in 2006. Increased production volumes were the result of the differences in scheduled maintenance downtime taken. No maintenance downtime was taken during the second quarter of 2007. Productivity rates were also higher in the second quarter of 2007 when compared to the first quarter of 2007 and the same quarter a year earlier.

Markets

Kraft paper markets continue to be strong globally as supply in Europe has been constrained due to fibre supply issues and capacity reduction. This has been offset by weakened demand in North America due to the slow down in housing starts and the resultant reduction in sack kraft packaging needs for products such as cement. Nevertheless, a 4-5% price increase for bleached paper was implemented in North America in the second quarter of 2007.

Outlook – Kraft Paper Markets

The market is expected to remain healthy through the second half of the year with supply remaining tight. Prices are expected to continue to improve as evidenced by the announced price increase in Europe for July.

Non-Segmented Costs

(millions of dollars, unaudited)	Q2 2007	Q1 2007	YTD 2007	Q2 2006	YTD 2006
Unallocated costs	4.1	4.9	9.0	3.9	7.7
Interest expense, net	1.6	1.8	3.4	-	-
Unrealized (gain) loss on derivative instruments	4.2	(2.2)	2.0	-	-
Unrealized foreign exchange gain on long-term debt	(9.8)	(1.4)	(11.2)	-	-
Foreign exchange loss on working capital ¹	7.2	1.1	8.3	1.2	0.5
Other expense (income)	0.1	0.1	0.2	(0.2)	(0.2)
	7.4	4.3	11.7	4.9	8.0

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

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$4.1 million in the second quarter of 2007 compared to \$4.9 million in the prior quarter and \$3.9 million in the same period last year. The lower costs in the second quarter when compared to the first quarter, were primarily due to lower expense for incentive compensation for salaried employees.

Interest Expense

Net interest expense during the second quarter of 2007 was lower than the prior quarter primarily due to interest income on higher cash and cash equivalent balances in the quarter. No interest expense is shown for periods prior to July 2006, when the pulp business was an operating segment of Canfor Corporation (Canfor) and interest expense was not allocated.

Other Non-segmented Items

The unrealized gains and losses on derivative instruments result from the adoption of the Canadian Institute of Chartered Accountants (CICA) new Handbook Section 3855 "Financial Instruments" at January 1, 2007. The net unrealized loss of \$4.2 million recorded in the period relates to a revaluation to market of outstanding natural gas swaps at the end of the quarter.

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

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Partnership's financial position as at the end of the following periods:

(millions of dollars, except for ratios, unaudited)	Q2 2007	YTD 2007	Q2 2006	YTD 2006
Ratio of current assets to current liabilities	1.86	1.86	1.86	1.86
Ratio of net debt to partners' equity ¹	0.14	0.14	-	-
Increase in cash and cash equivalents	6.0	5.7	2.8	2.6
Comprised of cash flow from (used in):				
Operating activities	46.0	97.9	32.6	68.3
Financing activities	-	-	(25.3)	(57.2)
Investing activities	(40.0)	(92.2)	(4.5)	(8.5)

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

Changes in Financial Position

Operating activities generated \$46.0 million in cash in the second quarter of 2007 compared to \$51.9 million in the prior quarter and \$32.6 million when compared to the same period last year. The reduction compared to the prior quarter, was primarily due to lower earnings in the current quarter, as a result of the strengthening Canadian dollar and higher fibre costs.

There were no financing activities in the current period. Cash flows from financing activities in the prior year represent net cash transactions with Canfor prior to the spinout.

The \$40.0 million of cash used in investing activities in the quarter represents \$32.8 million of distributions paid to the limited partners, Canfor Corporation and the Fund, and \$7.2 million relating to net capital expenditures.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership had cash and cash equivalents totaling \$34.1 million. The Partnership had bank operating lines of credit of \$75.0 million, of which \$30.6 million was reserved for a standby letter of credit issued to BC Hydro.

ASSET RETIREMENT OBLIGATIONS

The Partnership maintains several ash ponds and landfills to dispose of fly ash from the power boilers. Historically, the fair value and timing for retiring these long-lived assets has not been reasonably determinable. An environmental containment liability has been identified at the Intercon mill site arising from the normal operation of the ash pond. During the second quarter of 2007 the Partnership developed a site containment plan encompassing a reasonable estimate of fair value and time of completion. As a result, the partnership has recorded an obligation based on the fair value of the containment estimate of \$2.4 million, with a corresponding capital addition to the related asset, which will be amortized over the following 12 months.

FUTURE INCOME TAXES

In June 2007, federal legislation was substantively enacted to implement a tax on distributions paid by publicly traded income trusts in Canada, commencing in 2011. As a result, under Canadian accounting guidance, the Fund is required to recognize the future income tax assets and liabilities expected to arise when the tax on distributions becomes applicable. The future income tax assets and liabilities are based on the expected difference between a business's tax basis of the assets and liabilities and the corresponding amounts recorded in its financial statements. For the Fund, the tax basis is determined in reference to the underlying assets and liabilities of the Partnership.

The Fund has estimated that at June 30, 2007 it has a potential future income tax liability of \$39.3 million based on enacted tax rate of 31.5% and the assumption that it will be a taxable entity in 2011. Correspondingly, a non-cash charge to earnings in the same amount was recorded in the second quarter. In future periods, adjustments to this future tax liability will be required based on changes in the differences between the tax basis and financial statement basis of the Fund's and Partnership's assets and liabilities, and these adjustments could be material. Consistent with the initial recognition, any future adjustments will be non-cash in nature and will be either a charge or an addition to earnings of the period.

Since this tax will not be in effect until 2011, any changes to the tax legislation or to the legal structure of the Fund or the Partnership prior to that time could have a material effect on the level of the future income taxes recorded by the Fund.

OUTSTANDING UNITS

At July 24, 2007, 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 Corporation.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties was included in the Fund's 2006 Annual Report, which is available at www.canforpulp.com or www.sedar.com.

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(unaudited)	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005
Sales and Income (millions of dollars)								
Sales ¹	239.4	238.2	225.2	213.6	196.1	195.5	195.9	193.1
Operating income (loss) ¹	39.2	48.0	45.5	49.0	16.9	19.7	16.7	(3.1)
EBITDA ¹	51.7	60.1	58.1	61.8	28.0	32.2	29.0	9.1
Net income (loss)	35.9	48.6	44.8	41.9	15.9	20.4	16.6	(3.1)
Per Partnership unit (dollars) ²								
Net income (loss), basic and diluted	0.51	0.68	0.63	0.59	0.22	0.29	0.23	(0.04)
Statistics								
Pulp shipments (000 mt)	259.8	253.1	249.8	251.4	244.6	255.7	260.7	257.9
Paper shipments (000 mt)	35.9	30.4	32.8	29.5	31.3	31.0	30.6	31.1
Average exchange rate (Cdn\$/US\$) ³	0.911	0.854	0.878	0.892	0.891	0.866	0.852	0.832
Average NBSK pulp list price – US\$ (per tonne, delivered to Northern Europe)	783	757	730	710	665	618	600	587

Notes: ¹ Comparative figures have been reclassified to conform to current year presentation.
² Based on partnership units outstanding at June 30, 2007 (71,270,025) for all periods
³ Source – Bank of Canada (average noon rate for the period)

Sales are primarily influenced by changes in market pulp prices, sales volumes and fluctuations in Canadian dollar exchange rates. Operating income, net income and EBITDA are primarily impacted by the level of sales and price fluctuations in raw material inputs, energy prices, maintenance costs and the timing of scheduled maintenance downtime. The third quarter of 2006 also included transaction costs (\$5.9 million) related to the spinout of Canfor's pulp business into the Partnership.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	3 months ended		6 months ended
	June 30, 2007	March 31, 2007	June 30, 2007
RECONCILIATION OF NET INCOME TO EBITDA			
Net Income	\$ 35.9	\$ 48.6	\$ 84.5
Add (deduct):			
Amortization	12.5	12.1	24.6
Net interest expense	1.6	1.8	3.4
Unrealized foreign exchange gain on long-term debt	(9.8)	(1.4)	(11.2)
Unrealized loss (gain) on derivative instruments	4.2	(2.2)	2.0
Foreign exchange loss on working capital	7.2	1.1	8.3
Other expense	0.1	0.1	0.2
EBITDA (operating income before amortization)	\$ 51.7	\$ 60.1	\$ 111.8
CALCULATION OF DISTRIBUTABLE CASH			
Cash flow from operating activities	\$ 46.0	\$ 51.9	\$ 97.9
Change in working capital	(0.4)	6.6	6.2
Deduct:			
Salary pension plan contribution	-	(3.4)	(3.4)
Capital expenditures, net	(7.2)	(3.2)	(10.4)
Distributable cash	\$ 38.4	\$ 51.9	\$ 90.3
Distributable cash – per Partnership unit (in dollars)	\$ 0.54	\$ 0.73	\$ 1.27
Cash distributions declared (paid and payable)	35.6	29.9	65.5
Cash distributions declared – per Partnership unit (in dollars)	\$ 0.50	\$ 0.42	\$ 0.92

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

Distributions are declared monthly with date of record on the last day of the month and payable within 15 days following. The Partnership began active operation, including monthly distributions, in July 2006 and thus there were no distributions prior to that date.

EBITDA and Distributable Cash are not measures determined in accordance with Canadian generally accepted accounting principles and should not be considered as alternatives to net income or cash flow from operations. As there is no standardized method of calculating EBITDA or Distributable Cash, the Partnership's use of these terms may not be directly comparable with similarly titled measures used by other companies or income funds.

Additional Information

Management's discussion and analysis (MD&A) and financial statements for the Partnership and the Fund are available on the Partnership's website at www.canforpulp.com.

The Fund and the Partnership will also hold a conference call at 7:30 a.m. (PDT) on Wednesday, July 25, 2007 to discuss the second quarter 2007 results.

The call can be accessed by dialing 416-641-6127 or 1-866-542-4238 (toll free).

The call will be simultaneously webcast at www.canforpulp.com/investors/webcasts.asp.

About Canfor Pulp Income Fund

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

For more information about Canfor Pulp Income Fund and Canfor Pulp Limited Partnership, please visit www.canforpulp.com.

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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, its prospects and uncertainties relating to the Fund 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 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 assumes no obligation to update such information to reflect later events or developments, except as required by law.

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

<small>(thousands of dollars, except unit and per unit amounts, unaudited)</small>	3 months ended		6 months
	June 30, 2007	March 31, 2007	June 30, 2007
Income			
Equity income in Canfor Pulp Limited Partnership	\$ 17,900	\$ 24,203	\$ 42,103
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Net income before income taxes	17,900	24,203	42,103
Future income taxes (notes 2, 7)	(39,337)	-	(39,337)
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Net income (loss)	(21,437)	24,203	2,766
Distributions declared (note 4)	(17,747)	(14,907)	(32,654)
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Earnings in excess of distributions - surplus (deficit)	(39,184)	9,296	(29,888)
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Weighted average number of units	35,493,542	35,493,542	35,493,542
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Net income (loss) per unit , basic and diluted (in dollars)	\$ (0.60)	\$ 0.68	\$ 0.08
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Net income (loss) for the period	\$ (21,437)	\$ 24,203	\$ 2,766
Other comprehensive income			
Equity interest in other comprehensive income of Canfor Pulp Limited Partnership	98	980	1,078
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Comprehensive income (loss)	\$ (21,339)	\$ 25,183	\$ 3,844
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Accumulated Earnings and Distributions			
Balance, beginning of period – Accumulated earnings in excess of distributions - surplus (deficit)	\$ 1,798	\$ (9,861)	\$ (9,861)
Accounting policy change (note 2)	-	2,363	2,363
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Balance, beginning of period – Accumulated earnings in excess of distributions - surplus (deficit), as restated	1,798	(7,498)	(7,498)
Earnings in excess of distributions - surplus (deficit) - current period	(39,184)	9,296	(29,888)
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Balance, end of period – Accumulated earnings in excess of distributions - surplus (deficit)	\$ (37,386)	\$ 1,798	\$ (37,386)

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

Canfor Pulp Income Fund
Consolidated Cash Flow Statement

(thousands of dollars, unaudited)	3 months ended June 30, 2007	6 months ended June 30, 2007
Cash generated from (used in)		
Operating activities		
Net income (loss)	\$ (21,437)	\$ 2,766
Distributions received from Canfor Pulp Limited Partnership	16,327	39,043
Items not affecting cash:		
Equity in Canfor Pulp Limited Partnership	(17,900)	(42,103)
Future income taxes (notes 2, 7)	39,337	39,337
	16,327	39,043
Financing activities		
Distributions paid to Unitholders (note 4)	\$ (16,327)	\$ (39,043)
Beginning, change and ending balance in cash and cash equivalents	\$ -	\$ -

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

**Canfor Pulp Income Fund
Consolidated Balance Sheets**

(thousands of dollars, unaudited)	As at June 30, 2007	As at December 31, 2006
ASSETS		
Current Assets		
Distributions receivable from Canfor Pulp Limited Partnership	\$ 6,389	\$ 12,778
Total current assets	6,389	12,778
Equity Investment in Canfor Pulp Limited Partnership (note 3)	301,465	289,490
	\$ 307,854	\$ 302,268
LIABILITIES		
Current Liabilities		
Distribution payable (note 4)	6,389	12,778
Total current liabilities	6,389	12,778
Future income taxes (notes 2, 7)	39,337	-
	45,726	12,778
UNITHOLDERS' EQUITY		
Unitholders' equity - 35,493,542 Fund units outstanding	299,351	299,351
Accumulated earnings and distributions	(37,386)	(9,861)
Accumulated other comprehensive income (note 6)	163	-
Total Unitholders' Equity	262,128	289,490
	\$ 307,854	\$ 302,268

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

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

Approved by the Trustees

Stan Bracken-Horrocks

Charles Jago

Canfor Pulp Income Fund

Notes to the Interim Consolidated Financial Statements as at June 30, 2007.

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.

These unaudited interim consolidated financial statements include the accounts of the Fund and the Trust. From the date of its establishment on April 21, 2006 to June 30, 2006 the Fund was inactive. As a result there are no comparative figures in the unaudited interim consolidated financial statements for the second quarter of 2006.

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 2006 Annual Report. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2006 consolidated financial statements, except as noted below.

Financial Instruments

Effective January 1, 2007, the Partnership adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3855 "Financial Instruments – recognition and measurement" and Section 1530 "Comprehensive Income". These standards were adopted retroactively and comparative amounts of prior periods have not been restated.

Section 3855 prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses. Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the Consolidated Balance Sheet at fair value on initial recognition except for certain related party transactions. Subsequent measurement depends on the initial classification of the instrument. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the Consolidated Balance Sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in income.

As a result of adopting these new standards, the Fund has classified its distribution receivable as loans and receivables. Distributions payable are classified as other liabilities and are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income") must be temporarily presented outside of net income in a new Statement of Comprehensive Income.

Comprehensive income is the change in the Fund's Unitholder's equity that result from transactions, events and circumstances from sources other than the Unitholders. For the period ended June 30, 2007, the Fund's other comprehensive income resulted from its equity interest in the Partnership (see notes to the Partnership's unaudited interim consolidated financial statements).

Future Income Taxes

In June 2007 legislation was substantively enacted to tax distributions of publicly traded income trusts, commencing in 2011. As a result, the Fund is now required to recognize the future income tax assets and liabilities expected to arise when the tax on distributions becomes applicable.

Future income tax assets and liabilities are determined based on the difference between the tax basis of the Fund's and Partnership's assets and liabilities and the respective amounts reported in the financial statements. Future tax assets or liabilities are calculated using the tax rates for the periods in which the differences are expected to be settled. Future tax assets are recognized to the extent that they are considered more likely than not to be realized.

3. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	6 months ended June 30, 2007	6 months ended December 31, 2006
Balance, beginning of the period	289,490	116,560
Accounting policy change – Partners' equity of the Partnership	2,363	-
Accounting policy change – Accumulated other comprehensive income of the Partnership	(915)	-
Issuance of Fund units for exchangeable Partnership units (November 30, 2006) – 21,239,537 Fund units	-	182,791
Equity in income of the Partnership	42,103	20,558
Equity interest in other comprehensive income of the Partnership	1,078	-
Distributions received and receivable	(32,654)	(30,419)
Balance, end of period	301,465	289,490

Accounting policy changes above represent the Fund's share (49.8%) of the Partnership's adjustments to opening Partners' equity arising from the adoption of new accounting pronouncements and changes in accounting policies, all as described in notes to the unaudited interim consolidated financial statements of the Partnership.

4. Distributions

The Fund declared distributions during the first 6 months of 2007 as follows:

(thousands of dollars, except per unit amounts, unaudited)			
Record Date	Payable Date	Amount per Fund Unit	Amount
		\$	\$
January 31, 2007	February 15, 2007	0.14	4,969
February 28, 2007	March 15, 2007	0.14	4,969
March 30, 2007	April 13, 2007	0.14	4,969
April 30, 2007	May 15, 2007	0.14	4,969
May 31, 2007	June 15, 2007	0.18	6,389
June 29, 2007	July 13, 2007	0.18	6,389
		0.92	32,654

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

In accordance with the partnership agreement the Partnership covers all operating expenses of the Fund.

6. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	6 months ended June 30, 2007
Balance, beginning of period – January 1, 2007	-
Accounting policy change - Accumulated other comprehensive loss of the Partnership	(915)
Balance, beginning of period – January 1, 2007 as restated	(915)
Other comprehensive income	1,078
Balance, end of period – June 30, 2007	163

7. Future Income Taxes

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

(millions of dollars, unaudited)	June 30, 2007	December 31, 2006
Expected income tax expense at statutory tax rate of nil (2006 – nil)	-	-
Future income taxes on temporary differences	39.3	-
	39.3	-

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

(millions of dollars, unaudited)	June 30, 2007
Future income tax liability:	
Equity investment in the Partnership	52.2
Expected reversal of temporary differences prior to 2011	(12.9)
	39.3

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund has recognized a future income tax liability and corresponding non-cash future tax charge to net income in the second quarter of 2007. 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.

Canfor Pulp Limited Partnership
Consolidated Statements of Income, Comprehensive Income and Partners' Equity

(millions of dollars, unaudited)	3 month ended June 30,		6 months ended June 30,	
	2007	2006	2007	2006
Sales	\$ 239.4	\$ 196.1	\$ 477.6	\$ 391.6
Costs and expenses				
Manufacturing and product costs	151.9	134.3	295.1	261.8
Freight and other distribution costs	29.1	27.9	57.6	57.9
Amortization	12.5	11.1	24.6	23.6
Selling and administration costs	6.7	5.9	13.1	11.7
	200.2	179.2	390.4	355.0
Operating income	39.2	16.9	87.2	36.6
Interest expense, net	(1.6)	-	(3.4)	-
Unrealized foreign exchange gain on long-term debt	9.8	-	11.2	-
Unrealized loss on derivative instruments (note 13)	(4.2)	-	(2.0)	-
Foreign exchange loss on working capital	(7.2)	(1.2)	(8.3)	(0.5)
Other income (expense)	(0.1)	0.2	(0.2)	0.2
	(3.3)	(1.0)	(2.7)	(0.3)
Net Income	35.9	15.9	84.5	36.3
Other comprehensive income				
Adjustment for realized derivatives (note 16)	0.2	-	2.2	-
Comprehensive Income	\$ 36.1	\$ 15.9	\$ 86.7	\$ 36.3
Net income per Partnership unit (in dollars) (note 12)				
Basic and diluted	\$ 0.51	\$ 0.22	\$ 1.19	\$ 0.51
Weighted average Partnership units outstanding	71,270,025	71,270,025	71,270,025	71,270,025
Partners' Equity				
Balance, beginning of period	\$ 604.3	\$ 717.2	\$ 581.0	\$ 728.7
Accounting policy change (note 3)	-	-	4.7	-
Balance, beginning of period as restated	604.3	717.2	585.7	728.7
Net transactions with Canfor	-	(25.3)	-	(57.2)
Issuance of promissory Note on acquisition	-	(125.0)	-	(125.0)
Net Income	35.9	15.9	84.5	36.3
Distributions to partners (note 15)	(35.3)	-	(65.5)	-
Accumulated other comprehensive income (note 16)	0.2	-	0.4	-
Balance, end of period	\$ 605.1	\$ 582.8	\$ 605.1	\$ 582.8

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

Canfor Pulp Limited Partnership
Consolidated Statements of Cash Flows

(millions of dollars, unaudited)	3 months ended June 30,		6 months ended June 30,	
	2007	2006	2007	2006
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income	\$ 35.9	\$ 15.9	\$ 84.5	\$ 36.3
Items not affecting cash:				
Amortization	12.5	11.1	24.6	23.6
Unrealized foreign exchange gain on long-term debt	(9.8)	-	(11.2)	-
Unrealized loss on derivative instruments	4.2	-	2.0	-
Employee future benefits	1.6	4.6	3.3	4.6
Other	1.2	(8.4)	0.9	(8.4)
Cash flow from operations before working capital changes	45.6	23.2	104.1	56.1
Changes in non-cash working capital (note 14)	0.4	9.4	(6.2)	12.2
Cash flow from operating activities	46.0	32.6	97.9	68.3
Financing activities				
Net transactions with Canfor	-	(25.3)	-	(57.2)
	-	(25.3)	-	(57.2)
Investing activities				
Property, plant and equipment, net	(7.2)	(4.5)	(10.4)	(8.5)
Distributions paid to partners	(32.8)	-	(78.4)	-
Salary pension plan contribution	-	-	(3.4)	-
	(40.0)	(4.5)	(92.2)	(8.5)
Increase in cash and cash equivalents	6.0	2.8	5.7	2.6
Cash and cash equivalents, beginning of period	28.1	0.4	28.4	0.6
Cash and cash equivalents, end of period	\$ 34.1	\$ 3.2	\$ 34.1	\$ 3.2

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

**Canfor Pulp Limited Partnership
Consolidated Balance Sheets**

(millions of dollars, unaudited)	As at June 30, 2007	As at December 31, 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 34.1	\$ 28.4
Accounts receivable (note 11)		
Trade	170.7	130.9
Other	8.3	6.7
Inventories (note 4)	118.9	111.0
Prepaid expenses	17.6	13.1
Total current assets	349.6	290.1
Property, plant and equipment (note 5)	584.4	598.6
Deferred charges and other assets (note 6)	12.1	4.7
	\$ 946.1	\$ 893.4
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 11)	\$ 174.8	\$ 125.5
Distributions payable (note 15)	12.8	25.8
Total current liabilities	187.6	151.3
Long-term debt (note 9)	117.0	128.2
Long-term liabilities (note 10)	36.4	32.9
	\$ 341.0	\$ 312.4
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)	605.1	581.0
	\$ 946.1	\$ 893.4

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

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

Stan Bracken-Horrocks
Director

Paul Richards
Director

Canfor Pulp Limited Partnership

Notes to the Interim Consolidated Financial Statements as at June 30, 2007

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, 2007, Canfor owns 50.2% and Canfor Pulp Income Fund (the Fund) indirectly owns 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.

For all periods ending prior to July 1, 2006, these unaudited interim consolidated financial statements present the financial position, results of operations, and cash flows of the Pulp Business on a carve out basis from Canfor as if operated as a stand-alone partnership entity subject to Canfor control. As a result, the transaction has been accounted for as a continuity of interests. For these periods, the accompanying financial statements include allocations of certain of Canfor's assets, liabilities and costs. The financial condition, results of operations, and cash flows of the Pulp Business for these comparative periods are not necessarily indicative of the financial condition, results of operations or cash flows that would have been incurred if the Pulp Business was a separate legal entity. Prior to July 1, 2006, the Pulp Business did not operate bank accounts independent or separate from Canfor (other than for marketing subsidiaries) and, as a result and for purposes of prior periods, the combined effect of all transactions is reflected in "Net transactions with Canfor" in Partners' equity.

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% of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2006 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 audited consolidated financial statements included in the Fund's 2006 Annual Report available at www.canforpulp.com or www.sedar.com.

3. Changes in Accounting Policies

The accounting policy changes impacting Partners' equity at January 1, 2007 are comprised of the following:

(millions of dollars, unaudited)

Defined benefit pension plans	6.3
Deferred financing costs	(1.6)
	4.7

The aggregate adjustment resulting from the change in accounting policy and the adoption of new accounting pronouncements was an increase of \$4.7 million to opening Partners' equity.

Employee Future Benefits

During the quarter ended March 31, 2007, the Partnership determined that with respect to its participation in the Canfor salaried pension plans it was able to determine the benefit obligations and the attributable assets related to its employees. The Partnership ceased to account for these pension costs on the basis of a multi-employer plan and adopted the pronouncements applicable to accounting for defined benefit pension plans. This change is presented on a retroactive basis, without restatement, as the relevant information is not available for prior periods. The Partnership's policy is included below and details are provided in note 7.

The Partnership accrues the costs and related obligations of the defined benefit pension plan using the projected benefit actuarial method prorated on service and management's best estimates of salary escalation and other relevant factors. Actuarial gains (losses) arise from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net accumulated actuarial gain or loss over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees, which is 8 years. Past service costs arising from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of the amendment. On January 1, 2000, the Pulp Business (Canfor) adopted the new recommendations of the Canadian Institute of Chartered Accountants relating to the accounting for pensions and other post employment benefits using the prospective application method. The Partnership is amortizing the transitional obligation on a straight-line basis over 13 years, which was the average remaining service period of employees expected to receive benefits under the benefit plan as of January 1, 2000.

Financial Instruments

Effective January 1, 2007, the Partnership adopted the Canadian Institute of Chartered Accountants' new Handbook Section 3855 "Financial Instruments – recognition and measurement", Section 3865 "Hedges" and Section 1530 "Comprehensive Income". These standards were adopted retroactively and comparative amounts of prior periods have not been restated.

Section 3855 prescribes when a financial instrument should be recognized on the balance sheet and at what amount. It also specifies how to present financial instrument gains and losses. Under Section 3855, all financial instruments are classified into one of these five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments and derivatives are measured in the Consolidated Balance Sheet at fair value on initial recognition except for certain related party transactions. Subsequent measurement depends on the initial classification of the instrument. Loans and receivables and other financial liabilities are measured at amortized cost. All derivative instruments, including embedded derivatives, are recorded in the Consolidated Balance Sheet at fair value unless they qualify for the normal sales and purchases exemption. Changes in the fair value of derivatives that are not exempt are recorded in income.

As a result of adopting these new standards, the Partnership has classified its accounts receivable as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, 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, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

As a result of consideration of the new guidance provided in Section 3865 – “Hedges”, on a prospective basis, the Partnership has determined not to utilize hedge accounting on its existing derivative instruments. As a result, these instruments, which were previously recorded using hedge accounting, were measured at fair value on January 1, 2007 with a corresponding adjustment through accumulated other comprehensive income (see note 15).

Section 1530 introduces new requirements for situations when certain gains and losses (“other comprehensive income”) must be temporarily presented outside of net income in a new Statement of Comprehensive Income. Comprehensive income is the change in the Partner’s equity that result from transactions, events and circumstances from sources other than the Partners.

For the quarter ended March 31, 2007, the Partnership recorded the reversal of unrealized losses on derivative instruments outstanding at December 31, 2006 in other comprehensive income. These derivative instruments had previously been accounted for as cash flow hedges and recorded in accordance with hedge accounting.

In accordance with the transitional provisions, the Partnership has transferred the balance of deferred financing costs relating to the credit facilities and long-term debt entered into on November 30, 2006 to Partners’ equity at January 1, 2007.

On a prospective basis the partnership will expense all financing costs.

Asset Retirement Obligations

In accordance with the Canadian Institute of Chartered Accountants’ Handbook Section 3110 “Asset Retirement Obligations”, the Partnership recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made and a legal obligation exists. The asset retirement costs equal to the fair value of the retirement obligations are capitalized as part of the cost of the related long-lived asset and allocated to amortization expense on a basis consistent with the expected useful life of the related asset. The liability is increased or accreted to full value with the passage of time based on the credit adjusted risk free rate with a periodic accretion expense charged to operating income. The liability may also be adjusted for revisions to the timing or amount of the original estimate of undiscounted cash flows to discharge the liability.

4. Inventories

(millions of dollars, unaudited)	June 30, 2007	December 31, 2006
Pulp	54.0	48.9
Paper	11.6	11.6
Wood chips	5.9	5.4
Processing materials and supplies	47.4	45.1
	118.9	111.0

5. Property Plant and Equipment

(millions of dollars, unaudited)	June 30, 2007		
	Cost	Accumulated amortization	Net
Land	5.4	-	5.4
Buildings, machinery and equipment	1,278.7	708.8	569.9
Construction in progress	9.1	-	9.1
	1,293.2	708.8	584.4

(millions of dollars, unaudited)	December 31, 2006		
	Cost	Accumulated amortization	Net
Land	5.4	-	5.4
Buildings, machinery and equipment	1,272.6	684.5	588.1
Construction in progress	5.1	-	5.1
	1,283.1	684.5	598.6

6. Deferred Charges and Other Assets

(millions of dollars, unaudited)	June 30, 2007	December 31, 2006
Salaried pension plan	11.0	-
Maintenance shut down costs	1.1	3.0
Other	-	1.7
	12.1	4.7

7. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	3 months ended June 30		6 months ended June 30	
	2007	2006	2007	2006
Pension plans	1.2	1.2	2.4	2.5
Other employee future benefit plans	1.5	1.6	3.0	3.3
Contributions to forest industry union plans	1.7	1.8	3.3	3.4
	4.4	4.6	8.7	9.2

8. Asset Retirement Obligation

(millions of dollars, unaudited)	3 months ended June 30, 2007
Balance, beginning of period	-
Liabilities incurred	2.4
Accretion expense	-
	2.4

During the quarter ended June 30, 2007, the Partnership recognized an asset retirement obligation in respect of an ash pond at the Intercon mill site. An environmental containment liability has been identified in respect of the normal operations of the ash pond with a fair value of \$2.4 million assuming a 6.2% credit adjusted risk free discount rate.

It is estimated that the containment work will be completed and obligation settled by the end of May 2008 for an undiscounted value of \$2.5 million with no provision for inflation due to the current nature of the estimate. An accretion expense of \$12,000 was recognized in the period. This liability is included in accrued liabilities.

9. Long-term Debt

At June 30, 2007 the Partnership has outstanding long-term debt of \$117.0 million (US\$110.0 million) in the form of unsecured U.S. 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.

The fair value of long-term debt at June 30, 2007 was \$ 112.9 million (US\$106.1 million).

10. Long-term Liabilities

(millions of dollars, unaudited)	June 30, 2007	December 31, 2006
Accrued pension obligations	3.4	2.7
Post employment benefits (note 7)	33.0	30.2
	36.4	32.9

11. Related Party Transactions

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2006 consolidated financial statements and are based on agreed upon amounts, and are summarized below:

(millions of dollars, unaudited)	3 months ended June 30		6 months ended June 30	
	2007	2006	2007	2006
Transactions				
Canfor	34.1	26.3	69.2	46.7
Howe Sound LP - commission	0.9	1.4	1.6	2.7
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	3.5	2.0	6.9	3.8
			June 30	
			2007	2006
Balance Sheet				
Included in accounts payable and accrued liabilities:				
Canfor			32.1	7.3
Howe Sound LP			53.9	47.9
Lakeland Mills Ltd. and Winton Global Lumber Ltd.			1.1	0.7
Included in trade accounts receivable:				
Product marketed for Canfor			11.0	6.4
Product marketed for Howe Sound LP			49.0	34.5

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

12. 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. For purposes of comparative amounts for periods prior to July 1, 2006, it was assumed that the same number of units was outstanding throughout the comparative periods. There were no other securities with rights to conversion into Partnership units outstanding.

13. Financial Instruments

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.

The net unrealized loss recorded in the quarter ended June 30, 2007 relating to derivative instruments totaled \$4.2 million. This relates to outstanding commodity swaps hedging future natural gas purchases of 2.7 million gigajoules extending to October 2010. This compares to a gain of \$2.2 million recorded in the prior quarter.

14. Changes in Non-Cash Working Capital

(millions of dollars, unaudited)	3 months ended June 30		6 months ended June 30	
	2007	2006	2007	2006
Accounts receivable	(5.7)	6.7	(41.6)	6.5
Inventories	(0.1)	14.1	(7.9)	9.7
Prepaid expenses	(0.7)	(20.2)	(4.5)	(15.4)
Accounts payable and accrued liabilities	6.9	8.8	47.8	11.4
	0.4	9.4	(6.2)	12.2

15. Distributions

The Partnership declared distributions in the first six months of 2007 as follows:

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

Record Date	Payable Date	Amount per Partnership Unit	Amount
		\$	\$
January 31, 2007	February 15, 2007	0.14	10.0
February 28, 2007	March 15, 2007	0.14	9.9
March 30, 2007	April 13, 2007	0.14	10.0
April 30, 2007	May 15, 2007	0.14	10.0
May 31, 2007	June 15, 2007	0.18	12.8
June 29, 2007	July 13, 2007	0.18	12.8
		0.92	65.5

16. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	3 months ended June 30, 2007	6 months ended June 30, 2007
Balance, beginning of period	0.2	-
Accounting policy change for derivative instruments:		
Unrealized loss on natural gas swaps	-	(0.8)
Unrealized loss on pulp swaps	-	(1.0)
Balance, beginning of period, as restated	0.2	(1.8)
Adjustment for derivatives recorded in other comprehensive income	0.2	2.2
Balance, end of period – June 30, 2007	0.4	0.4

The total of the Partnership's net income, accumulated other comprehensive income, less distributions is as follows:

(millions of dollars, unaudited)	3 months ended June 30, 2007	6 months ended June 30, 2007
Net income	35.9	84.5
Accumulated other comprehensive income	0.2	0.4
Distributions to partners	(35.3)	(65.5)
	0.8	19.4

17. Segmented Information ^(a)

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs ^(d)	Total
3 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)	43.4	(0.1)	(4.1)	39.2
Amortization	11.5	1.0	0.0	12.5
Capital expenditures, net	6.4	0.7	0.1	7.2
3 months ended June 30, 2006				
Sales to external customers ^(b)	168.5	27.6	-	196.1
Sales of pulp to paper segment ^(c)	16.2	(16.2)	-	-
Operating income (loss)	21.0	(0.2)	(3.9)	16.9
Amortization	10.3	0.8	-	11.1
Capital expenditures, net	2.9	-	1.6	4.5
6 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)	96.2	-	(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
6 months ended June 30, 2006				
Sales to external customers ^(b)	335.9	55.7	-	391.6
Sales of pulp to paper segment ^(c)	32.7	(32.7)	-	-
Operating income (loss)	43.0	1.3	(7.7)	36.6
Amortization	21.7	1.8	0.1	23.6
Capital expenditures, net	6.6	-	1.9	8.5
Identifiable assets	783.0	84.4	5.7	873.1

- (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 40% (2006 – 45%).
- (b) Sales to the two largest customers represented approximately 34% of pulp segment sales (2006 – 35%).
- (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.
- (d) Unallocated costs represent actual head office administrative costs in the first six months of 2007. For the first six months of 2006, head office administrative costs were based on allocated Canfor corporate expenses as described in Note 1.