CANFOR PULP INCOME FUND

First Quarter Report

For the three months ended March 31, 2010

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

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the unaudited interim consolidated financial statements with accompanying notes are presented for both the Fund and the Partnership. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the quarter ended March 31, 2010 relative to the same period in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes for the quarters ended March 31, 2010 and 2009, as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2009 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF) dated February 18, 2010, is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

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

The information in this report is as at April 26, 2010.

Forward-Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could" and variations of such words and similar expressions are intended to identify such forward-looking statements. 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 the Partnership, its prospects and uncertainties relating to the Fund, the 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 the 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 the Partnership assume no obligation to update such information to reflect later events or developments, except as required by law.

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

- *"Critical Accounting Estimates" on page 5;*
- *"SIFT Conversion Rules" on page 6;*

- *"Conversion to International Financial Reporting Standards" on page 6;*
- *"Outlook – Pulp" on page 10;*
- *"Outlook – Kraft Paper" on page 11;*
- *"Financial Requirements and Liquidity" on page 13;*
- *"Critical Accounting Estimates" on page 14;*
- *"Conversion to International Financial Reporting Standards" on pages 14 and 15;*
- *"Distributable Cash and Cash Distributions" on page 16.*

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

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
First Quarter 2010
The information in this report is as at April 26, 2010.

CANFOR PULP INCOME FUND

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

At April 26, 2010, there were a total of 35,493,505 Fund units issued and outstanding, and the Fund indirectly held a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership. Canadian Forest Products Ltd. (Canfor) held 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of the Partnership. The Class B Exchangeable Limited Partnership Units are indirectly exchangeable for an equivalent number of Fund Units pursuant to the terms of an exchange agreement (Exchange Agreement) dated July 1, 2006 among Canfor, the Fund, the Trust, the Partnership and the General Partner. The Exchange Agreement contains, among other things, the procedure through which the Class B Exchangeable Limited Partnership Units may be exchanged for Fund Units.

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

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q1 2010**	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Equity income (loss) in Canfor Pulp Limited Partnership	**16,222**	7,562	9,098	724	(10,740)	(12,947)	5,513	9,046
Net income (loss)	**16,544**	6,903	8,497	4,406	(10,740)	(13,686)	5,208	7,015
Net income (loss) per Fund unit	**$0.47**	$0.20	$0.24	$0.12	$(0.30)	$(0.39)	$0.15	$0.20
Distributions earned from the Partnership and declared to unitholders	**11,357**	4,969	1,065	1,065	2,130	9,938	12,778	12,777
Distributions declared per Fund unit	**$0.32**	$0.14	$0.03	$0.03	$0.06	$0.28	$0.36	$0.36
Partnership adjusted distributable cash per unit[1]	**$0.57**	$0.31	$0.16	$0.02	$(0.06)	$0.02	$0.54	$0.19

Note: [1] Represents the Partnership's adjusted distributable cash on which the Fund is dependent to make its own distributions. For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 16 and 17.

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 March 31, 2010, the Fund had net income of $16.5 million or $0.47 per Fund unit. The net income was the Fund's share of the Partnership's income for the first quarter of 2010, and also includes a future income tax recovery of $0.3 million. The future income tax recovery represents an adjustment to the future income tax liability based on the Fund's share of the differences between accounting and income tax values of the Partnership's assets and liabilities. The Fund's equity income in the Partnership increased by $8.6 million when compared to the prior quarter due to the Fund's share of increased operating earnings of the Partnership, partially offset by the Fund's share of non-operating items. The Fund's share of operating earnings increased by $9.0 million due primarily to higher realized prices in Canadian dollar terms for the Partnership's pulp and paper products and lower unit manufacturing costs. The Fund's share of non-operating items included in equity income of the Partnership for the first quarter of 2010 is nil, as the foreign exchange gain on translation of US dollar denominated long-term debt and the gain on derivative financial instruments were offset by a foreign exchange loss on working capital and net interest expense. Distributions declared by the Partnership and accruing to the Fund were $11.4 million of which $4.3 million was receivable at March 31, 2010. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership. For further information refer to the Partnership's discussion of operating results and liquidity on pages 8 through 14 of this press release.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions payable by the Partnership to the Fund and distributions payable by the Fund to its unitholders are recorded when declared. During the first quarter of 2010, the Fund declared distributions of $0.32 per Fund unit or $11.4 million.

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

RISKS AND UNCERTAINTIES

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

FUND UNITS

At April 26, 2010, there were a total of 35,493,505 Fund units outstanding.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf, without charge, by the Partnership pursuant to a support agreement. Distributions earned from the Partnership for the three months ended March 31, 2010 were $11.4 million of which $7.1 million was received, with the balance of $4.3 million receivable on March 31, 2010.

CRITICAL ACCOUNTING ESTIMATES

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

SIFT CONVERSION RULES

On June 12, 2007, legislation was substantively enacted whereby distributions made by publicly traded income trusts and partnerships will be taxed similar to that of income earned and distributed by a corporation. The Specified Investment Flow-Through Trust (SIFT) tax will become effective on January 1, 2011. On March 12, 2009 the Canadian government enacted legislation (SIFT Conversion Rules) which enables the conversion of a SIFT into a corporation on a tax-free rollover basis, prior to 2013. The Fund has reviewed its options and a Plan of Arrangement will be presented for approval by unitholders at the annual general meeting on April 27, 2010. If approved, the Plan of Arrangement will result in the reorganization of the Fund's income trust structure into a dividend paying public corporation to be named "Canfor Pulp Products Inc." (CPPI), and the unitholders will become the sole shareholders of CPPI which will own the 49.8% interest in the Partnership. The Fund expects the date of conversion to take place on or about January 1, 2011.

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

A detailed analysis has been completed and a number of areas were identified for further consideration before the date of transition. Various accounting policy choices have been identified to date and are being considered by the steering committee of the Partnership. The Partnership continues to monitor standards development as issued by the International Accounting Standards Board (IASB) and the AcSB, as well as regulatory developments as issued by the Canadian Securities Administrators, which may affect the timing, nature, or disclosure of the Partnership's adoption of IFRS. The IASB has issued several exposure drafts for new or amended IFRS, which will likely have mandatory application for the 2011 calendar year.

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

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

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

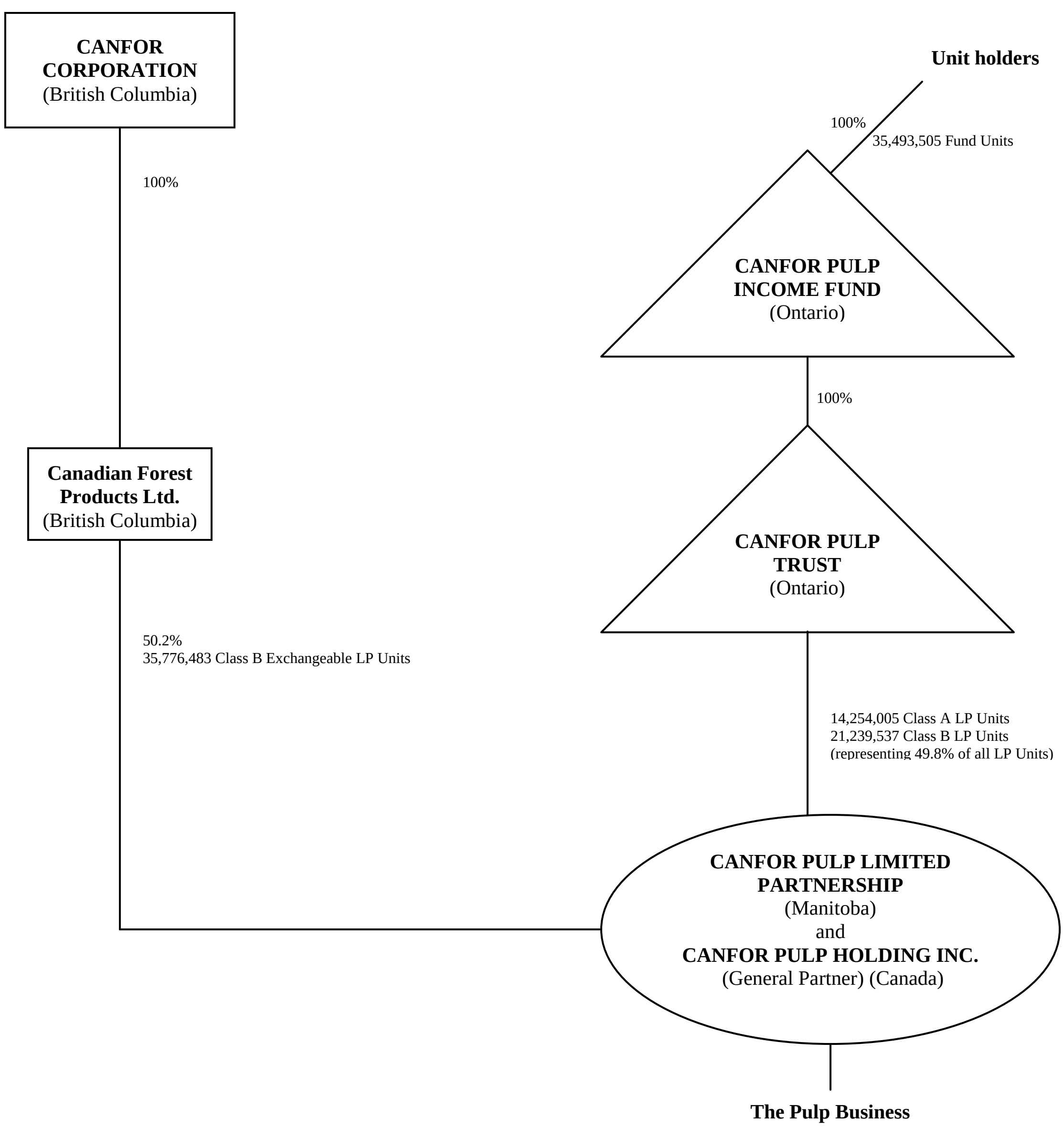
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At April 26, 2010, the Fund indirectly held a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner. Below is a simplified schematic of the ownership structure.

Ownership Structure



The Business

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

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

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q1 2010**	Q4 2009	Q1 2009
Sales	**239.5**	220.2	186.3
EBITDA [1]	**44.1**	27.3	2.2
Operating income (loss)	**32.5**	14.4	(9.8)
Net income (loss)	**32.5**	15.2	(21.6)
Per Partnership unit, basic and diluted			
Net income (loss)	**$0.46**	$0.21	$(0.30)
EBITDA	**$0.62**	$0.39	$0.03
Average exchange rate (US$/Cdn$) [2]	**0.961**	0.947	0.803

Notes: [1] For calculation of EBITDA, see supplementary financial information on page 166.
[2] Source – Bank of Canada (average noon rate for the period).

EBITDA for the first quarter of 2010 increased by $16.8 million from the fourth quarter of 2009 and was $41.9 million higher when compared to the first quarter of 2009. The improved results when compared to the fourth quarter of 2009 are attributable to higher prices for pulp and paper products, lower unit manufacturing costs and higher pulp shipments, partially offset by the stronger Canadian dollar and lower electricity sales. Realized pulp prices in Canadian dollar terms increased 6% due to a 7% increase in NBSK pulp US dollar list price, partially offset by the strengthening of the Canadian dollar. Realized paper prices in Canadian dollar terms increased 8% when compared to the fourth quarter of 2009. Unit manufacturing costs decreased 4% when compared to the prior quarter due to lower spending on maintenance costs, partially offset by higher fibre costs. Fibre costs increased 2% when compared to the prior quarter due to an increase in the price of sawmill residual chips.

The Prince George Pulp and Paper Mill maintenance outage, initially scheduled to take place in the second quarter of 2010 was moved to coincide with unplanned maintenance requiring the shutdown of the mill's recovery boiler. This shutdown reduced pulp production by approximately 22,000 tonnes and reduced EBITDA by approximately $11.0 million in the quarter. Included in these amounts were approximately 4,000 tonnes and $4.0 million attributable to the maintenance outage originally planned for the second quarter of 2010. The major maintenance expenditures incurred during the shutdown were deferred and will be amortized in accordance with the Partnership's accounting policy for treating "Major Maintenance Costs".

When compared to the first quarter of 2009, the $41.9 million increase in EBITDA was primarily attributable to a 31% increase in NBSK pulp US dollar list price, lower unit manufacturing costs and higher sales volumes, all of which were partially offset by a stronger Canadian dollar and lower realized paper prices in Canadian dollar terms. Realized pulp prices in Canadian dollar terms increased 15% as a 31% increase in NBSK pulp US dollar list price and a decrease in the proportion of sales into lower margin business, were partially offset by a 20% strengthening of the Canadian dollar. Unit manufacturing costs were 9% lower when compared to the same period in the prior year. The reduction in unit manufacturing costs was the result of higher production volumes, and lower fibre, chemical and energy costs. Production volumes were higher primarily as a result of the market curtailment in January 2009 and significantly improved operating rates in the current period. The reduction in fibre costs is attributable to a reduction in the volume and cost of whole log chips, partially offset by increased price of sawmill residual chips. Paper prices decreased 15%

when compared to the first quarter of 2009 due to the stronger Canadian dollar, partially offset by improved paper markets.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q1 2010**	Q4 2009	Q1 2009
Sales	**204.8**	186.9	159.2
EBITDA (loss)	**47.9**	29.9	(0.5)
EBITDA margin	**23%**	16%	0%
Operating income (loss)	**37.1**	17.9	(11.6)
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**880**	820	673
Average NBSK pulp list price – (Cdn$ per tonne, delivered to USA)	**916**	866	838
Production – pulp (000 mt)	**253.8**	251.9	230.4
Shipments – Partnership-produced pulp (000 mt)	**268.4**	258.6	240.3
Marketed on behalf of HSLP & Canfor (000 mt)	**138.7**	126.1	107.2

The first quarter 2010 operating income for the pulp segment of $37.1 million was a $19.2 million improvement when compared to the fourth quarter of 2009. The improved results are attributable to higher realized prices in Canadian dollar terms, lower unit manufacturing costs and higher shipment volumes, partially offset by a reduction in electricity sales. The increased realized pulp prices in Canadian dollar terms of 6% was primarily attributable to a similar increase in NBSK pulp US dollar list price partially offset by the strengthening of the Canadian dollar. The lower unit manufacturing costs resulted from lower spending on maintenance costs, partially offset by higher fibre costs. Maintenance costs were lower due to the impact of the scheduled maintenance outage at the Northwood Pulp Mill in the fourth quarter of 2009. Fibre costs increased 2% when compared to the prior quarter due to an increase in the price of sawmill residual chips.

First quarter 2010 operating income of the pulp segment increased by $48.7 million when compared to the same period a year ago. The improved results were primarily attributable to a 31% increase in NBSK pulp US dollar list price, lower unit manufacturing costs and higher sales volumes, all of which were partially offset by a stronger Canadian dollar. Realized pulp prices in Canadian dollar terms increased 15% as a 31% increase in NBSK pulp US dollar list price and the impact of a higher proportion of sales in the first quarter of 2009 into lower margin business were partially offset by a 20% strengthening of the Canadian dollar. Unit manufacturing costs were 10% lower when compared to the same period in the prior year. The reduction in unit manufacturing costs was the result of higher production volumes, and lower fibre, chemical and energy costs. Production volumes were higher primarily as a result of the market curtailment in January 2009 and significantly improved operating rates in the current period.

Operations

During the quarter, the Northwood Pulp Mill achieved production records for both total tonnes and average daily operating rate. NBSK market pulp production during the first quarter was 1,900 tonnes higher than the fourth quarter of 2009, and 23,400 tonnes higher than the first quarter of 2009. The improved production when compared to the prior quarter is a result of higher operating rates in the current period and reduced production in the fourth quarter of 2009 as a result of the planned Northwood Pulp Mill maintenance outage, partially offset by a maintenance outage completed at the Prince George Pulp and Paper (PGPP) Mill. The PGPP Mill maintenance outage, initially scheduled to take place in the second quarter of 2010, was moved to coincide with unplanned maintenance requiring the shutdown of the mill's recovery boiler.

The increase of market pulp production when compared to the same period in the prior year is attributable to the higher operating rates in the current period and the impact of the market curtailment in January 2009, partially offset by the extended maintenance outage completed at the PGPP Mill in the first quarter of 2010.

Markets – Pulp

Pulp markets tightened further in the first quarter of 2010 as a result of improved demand and large incremental supply side reductions. Constrained supply conditions at the end of 2009 were the result of pulp mill closures during the year. In the first quarter of 2010, a number of supply side events have created even tighter pulp market conditions. The largest impact was the Chilean earthquake on February 27, 2010 which removed approximately 8% of global softwood pulp supply for an expected duration of two to three months. Additional impacts on global softwood pulp supply were weather related issues in the southern US and Russia throughout the first quarter, and a Finnish port strike in March 2010.

Pulp consumption levels have been steadily increasing since the second quarter of 2009. The printing and writing paper manufacturing sector experienced improved demand through February 2010, with demand up 10.6% over February 2009. For February year to date, printing and writing paper demand is up 9.1% versus the same period in 2009.

The steady improvement in consumption coupled with the supply side reductions have resulted in very low pulp inventory levels. At the end of March 2010, World 20[1] producers of bleached softwood pulp inventories stood at 23 days of supply. By comparison, March 2009 inventories stood at 40 days of supply. Market conditions are considered balanced when inventories fall in the 27-30 days of supply range.

As a result of these tight market conditions, producers were successful at implementing further price increases in the first quarter of 2010. The NBSK pulp list price in North America during March 2009 was US$650 per tonne with price increases throughout 2009 resulting in a price of US$830 per tonne for December 2009. Price increases in the first quarter of 2010 have resulted in a price for March 2010 of US$910 per tonne. In Canadian dollar terms the price increases have been somewhat mitigated by the strengthening of the Canadian dollar which has appreciated 19% over the past year.

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

Outlook – Pulp

We expect the market to remain strong through the second quarter of 2010. Inventories held by producers and customers are at low levels compared to what is considered a balanced market and are expected to fall further mainly due to the Chilean pulp mill downtime. A NBSK pulp list price increase in May to US$1,000 per tonne for North America was successfully implemented. With the supply/demand balance in the favour of producers, there is potential for additional price increases through the second quarter of 2010. Any relative weakness of the US dollar versus the Canadian dollar or the Euro is also likely to exert upward pressure on NBSK pulp US dollar list prices.

A scheduled maintenance outage is planned for the Intercontinental Pulp Mill in the second quarter of 2010 with an estimated 9,000 tonnes of reduced production.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q1 2010**	Q4 2009	Q1 2009
Sales	**34.5**	32.3	27.1
EBITDA	**0.1**	0.9	4.6
EBITDA margin	**0%**	3%	17%
Operating income (loss)	**(0.6)**	0.1	3.8
Production – paper (000 mt)	**31.0**	38.4	28.4
Shipments – paper (000 mt)	**37.7**	38.1	25.2

The operating income of the paper segment for the first quarter of 2010 was $0.7 million lower than the fourth quarter of 2009 and $4.4 million lower than the same period last year. The decrease when compared to the fourth quarter of 2009 was primarily attributable to higher unit manufacturing costs, partially offset by higher realized paper prices in

Canadian dollar terms. Higher unit manufacturing costs were the result of higher costs for slush pulp and the impact of lower production volumes. The slush pulp is transferred to the paper segment at a market price with the increase directly attributable to the increase in the realized pulp price in Canadian dollar terms. Lower production volumes are the result of a maintenance outage completed in the first quarter of 2010 and lower operating rates when compared to the prior quarter. Realized prices in Canadian dollar terms increased by approximately 8%.

When compared to the first quarter of 2009 the reduction in operating earnings was due to a 15% decrease in realized prices in Canadian dollar terms and higher unit manufacturing costs, partially offset by higher sales volumes. Higher unit manufacturing costs were primarily attributable to higher costs for slush pulp partially offset by higher production volumes. Production volumes were higher primarily as a result of the market curtailment in January 2009. Sales volumes increased 12,500 tonnes due to the market curtailment and weak demand in the first quarter of 2009.

Operations

When compared to the fourth quarter of 2009, paper production decreased by 7,400 tonnes due to a scheduled maintenance outage and the unplanned recovery boiler maintenance in the first quarter of 2010, and lower overall operating rates when compared to the fourth quarter of 2009. When compared to the same period in the prior year, production was 2,600 tonnes higher due to the impact of the market curtailment in the first quarter of 2009, partially offset by reduced production as a result of the scheduled maintenance outage and the recovery boiler maintenance in the current period.

Markets

Kraft paper demand in the first quarter remained strong. The American Forest and Paper Association reported that US total kraft paper shipments for March 2010 increased 22% from February and 33% when compared to March 2009. The Paper Shipping Sack Manufacturers' Association shipping sack statistics for March 2010 reveal that industry paper consumption was up 7% from the previous month and 11% when compared to March 2009. Price increases have been announced for all markets and are expected to take effect in the second quarter of 2010.

The Partnership's total prime paper shipments in the first quarter of 2010 remained relatively unchanged from the prior quarter of 2009 and were 12,000 tonnes higher than the first quarter of 2009. Prime bleached shipments increased to 73% of the total from 63% in the prior quarter and the same period in the prior year.

Outlook – Kraft Paper

The current strong demand is expected to continue through the second quarter of 2010. Prices are expected to increase as North American price announcements in the first quarter of 2010 are expected to be fully implemented in April 2010 and European price increases are expected to take effect in May 2010. The impact of increased prices in US dollar terms is vulnerable to the relative strength of the Canadian dollar in relation to other currencies, primarily the US dollar.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q1 2010**	Q4 2009	Q1 2009
Unallocated costs	**4.0**	3.6	2.0
Interest expense, net	**2.0**	2.2	2.6
Foreign exchange (gain) loss on long-term debt	**(3.4)**	(2.9)	3.9
Loss (gain) on derivative financial instruments	**(0.4)**	(0.5)	5.7
Foreign exchange loss (gain) on working capital	**1.8**	0.5	(0.6)
Other (income) expense	**-**	(0.1)	0.2
	4.0	2.8	13.8

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $4.0 million in the first quarter of 2010 compared to $3.6 million in the fourth quarter of 2009 and $2.0 million in the first quarter of 2009. The increase in unallocated costs when compared to the same period in the prior year is attributable to higher accruals for performance based incentive plans.

Interest Expense

The decreased net interest expense in relation to the first quarter of 2009 was attributable to the reduction in operating line borrowing.

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, reflecting the stronger Canadian dollar.

The net gain of $0.4 million on derivative financial instruments recorded in the first quarter of 2010 relates to the settlement of maturing contracts during the quarter and the revaluation to market of outstanding contracts at the end of the quarter for natural gas swaps and US dollar forward contracts. A loss of $0.9 million on settlement of natural gas swaps was recorded in the first quarter of 2010. 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 first quarter of 2010 resulted in a net gain for the quarter of $2.5 million on settlement of US dollar forward contracts to hedge the impact of currency fluctuations on US dollar working capital. This gain was offset by the foreign exchange loss on working capital of $1.8 million. The revaluation to market of outstanding derivative instruments recorded in the quarter resulted in a loss of $1.2 million and relates to a revaluation to market of outstanding natural gas swaps and outstanding US dollar forward contracts at the end of the quarter.

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**March 31, 2010**	December 31, 2009
Ratio of current assets to current liabilities	**2.08**	2.04
Ratio of net debt to partners' equity [1]	**0.14**	0.19
	Q1 2010	Q1 2009
Increase in cash and cash equivalents	**21.2**	1.6
Comprised of cash flow from (used in):		
Operating activities	**43.5**	21.8
Financing activities	**(19.9)**	(14.0)
Investing activities	**(2.4)**	(6.2)

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 $43.5 million in the first quarter of 2010 compared to $21.8 million in the first quarter of 2009. The increase in cash generated from operations was primarily attributable to higher realized pulp and paper prices in Canadian dollar terms, lower unit manufacturing costs and higher sales volumes. The increase of cash used in working capital during the first quarter of 2010 was primarily the result of an increase in the value of trade receivables due to price increases for the Partnership's pulp and paper products, and an increase in deferred maintenance expenditures due to completion of the PGPP Mill maintenance outage in the first quarter of 2010, partially offset by a reduction in the volume of the Partnership's finished goods inventories.

The cash used in financing activities of $19.9 million in the quarter represents distributions paid to the limited partners, namely Canfor and the Fund.

The cash used in investing activities in the quarter is comprised of $2.4 million relating to capital expenditures.

FINANCIAL REQUIREMENTS AND LIQUIDITY

At March 31, 2010 the Partnership had outstanding long-term debt of $111.7 million (December 31, 2009 – $115.1 million, US$110.0 million) in the form of unsecured US dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

At March 31, 2010, the Partnership had cash and cash equivalents of $34.7 million. The Partnership has a $40.0 million bank credit facility with a maturity date of November 30, 2011, of which $0.5 million was utilized at March 31, 2010 for a standby letter of credit issued for general business purposes. In addition, the Partnership has a separate facility with a maturity date of November 30, 2011, to cover the $16.0 million standby letter of credit issued to BC Hydro under the Electricity Purchase Agreement. Interest and other costs of the bank credit facility are at prevailing market rates. The leverage ratio and interest coverage ratio are consistent with the financial covenants under the Note Agreement.

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

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

The Notes and bank credit agreements each contain similar financial covenants including a maximum allowable debt:EBITDA leverage ratio and minimum required EBITDA:interest coverage ratio. The Partnership remained in compliance with all covenants at March 31, 2010.

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

OUTSTANDING UNITS

At April 26, 2010, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) were owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units were owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

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

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ending March 31, 2010, there were no changes in the Partnership's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(millions of dollars unless otherwise noted, unaudited)	**Q1 2010**	Q4 2009	Q3 2009	Q2 2009	Q1 2009	Q4 2008	Q3 2008	Q2 2008
Sales and Income								
Sales	**239.5**	220.2	202.0	205.0	186.3	186.1	215.4	212.6
Operating income (loss)	**32.5**	14.4	12.4	(5.0)	(9.8)	(1.0)	27.5	11.6
EBITDA	**44.1**	27.3	25.1	7.2	2.2	9.8	40.6	24.0
Net income (loss)	**32.5**	15.2	18.3	1.5	(21.6)	(26.0)	11.1	18.2
Per Partnership unit (dollars)								
Net income (loss) basic and diluted	**$0.46**	$0.21	$0.26	$0.02	$(0.30)	$(0.36)	$0.15	$0.26
Statistics								
Pulp shipments (000 mt)	**268.4**	258.6	259.5	286.2	240.3	208.2	234.5	233.8
Paper shipments (000 mt)	**37.7**	38.1	37.4	34.3	25.2	24.4	31.6	33.7
Average exchange rate (US$/Cdn$)[1]	**0.961**	0.947	0.912	0.858	0.803	0.825	0.960	0.990
Average NBSK pulp list price – (US$ per tonne, delivered to USA)	**880**	820	733	645	673	787	880	880
Per Partnership unit (dollars)								
Adjusted distributable cash per unit[2]	**$0.57**	$0.31	$0.16	$0.02	$(0.06)	$0.02	$0.54	$0.19
Distributions declared per unit	**$0.32**	$0.14	$0.03	$0.03	$0.06	$0.28	$0.36	$0.36

Notes: [1] Source – Bank of Canada (average noon rate for the period).
[2] For further details on the Partnership's adjusted distributable cash see the Partnership's disclosure on pages 16 and 17.

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

CRITICAL ACCOUNTING ESTIMATES

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

CONVERSION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

Project Update

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

At March 31, 2010, the Partnership could not reasonably determine the full impact that adopting IFRS would have on its financial statements, as the current status of the project reflects the Partnership's most recent assumptions and expectations; circumstances may arise, such as changes in existing IFRS, or changes in the regulatory or economic environment, which could alter these assumptions and/or expectations. These disclosures reflect the Partnership's expectations based on information available at March 31, 2010. Changes in IFRS standards or circumstances relating to the Partnership may cause the Partnership to revise its expectations, its project plan, and its potential IFRS accounting policy choices prior to the conversion date.

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

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

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

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

- Borrowing costs:

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

- Employee Benefits:

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

- Business combinations:

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

Disclosure Controls and Internal Controls over Financial Reporting

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

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	Three months ended March 31, 2010	Three months ended March 31, 2009
RECONCILIATION OF NET INCOME (LOSS) TO EBITDA		
Net income (loss)	**$ 32.5**	$ (21.6)
Add (deduct):		
Amortization	**11.6**	12.0
Net interest expense	**2.0**	2.6
Foreign exchange (gain) loss on long-term debt	**(3.4)**	3.9
Loss (gain) on derivative financial instruments	**(0.4)**	5.7
Foreign exchange loss (gain) on working capital	**1.8**	(0.6)
Other expense	**-**	0.2
EBITDA	**$ 44.1**	$ 2.2
EBITDA per Partnership unit	**$ 0.62**	$ 0.03

(millions of dollars, unaudited)	Three months ended March 31, 2010	Three months ended March 31, 2009
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH		
Cash flow from operating activities	**$ 43.5**	$ 21.8
Deduct: Capital expenditures – cash	**(2.4)**	(6.0)
Standardized distributable cash	**$ 41.1**	$ 15.8
Adjustments to standardized distributable cash:		
Add (deduct):		
Increase (decrease) in non-cash working capital	**1.8**	(22.8)
Net long-term deferred maintenance	**(2.0)**	(0.9)
Capital expenditure accruals – net	**0.1**	3.6
Adjusted distributable cash	**$ 41.0**	$ (4.3)
Standardized distributable cash – per Partnership unit (in dollars)	**$ 0.58**	$ 0.22
Adjusted distributable cash – per Partnership unit (in dollars)	**$ 0.57**	$ (0.06)
Cash distributions declared (paid and payable)	**$ 22.8**	$ 4.3
Cash distributions declared – per Partnership unit (in dollars)	**$ 0.32**	$ 0.06

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

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

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

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