

Canfor Pulp Income Fund
Consolidated Statement of Income and Accumulated Undistributed Earnings

	3 months ended September 30,	
(thousands of dollars, except unit and per unit amounts, unaudited)	2006	
Income		
Equity income in Canfor Pulp Limited Partnership	\$	8,389
Operating Expenses		(15)
Net Income		8,374
Distributions declared (Note 3)		(6,272)
Accumulated undistributed earnings, end of period	\$	2,102
Weighted average number of Units		14,254,005
Net income per unit, basic	\$	0.59

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

**Canfor Pulp Income Fund
Consolidated Cash Flow Statement**

3 months ended September 30,
2006

(thousands of dollars, unaudited)	
Cash generated from (used in)	
Operating activities	
Net income	\$ 8,374
Items not affecting cash:	
Equity income in Canfor Pulp Limited Partnership	(8,389)
Net Change in non-cash working capital	15
<hr/>	
Financing activities	
Distributions paid to Unitholders	(3,421)
	<hr/> (3,421) <hr/>
Investing activities	
Distributions received from Canfor Pulp Limited Partnership	3,421
	<hr/> 3,421 <hr/>
Change in cash and cash equivalents	-
Cash and cash equivalents at the beginning and end of period	\$ -

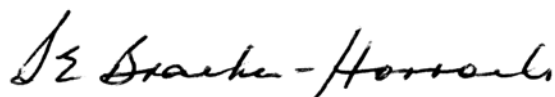
The accompanying notes are an integral part of these interim financial statements.

**Canfor Pulp Income Fund
Consolidated Balance Sheet**

(thousands of dollars)	As at September 30, 2006 (unaudited)
ASSETS	
Current Assets	
Distributions receivable	\$ 2,851
Total current assets	2,851
Equity Investment in Canfor Pulp Limited Partnership	118,677
	\$ 121,528
LIABILITIES	
Current Liabilities	
Accounts payable (Note 5)	15
Distribution payable (Note 3)	2,851
	2,866
UNITHOLDERS' EQUITY	
Unitholders' Equity (Note 4)	116,560
Accumulated undistributed earnings – from inception July 1, 2006	2,102
	118,662
	\$ 121,528

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 Consolidated Financial Statements at September 30, 2006.

1. Description of the Fund

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

Each Unitholder participates pro rata in any distributions from the Fund. Income tax obligations related to the distributions of the Fund are the obligations of the Unitholders.

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

2. Significant Accounting Policies

Basis of Presentation of Financial Statements

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 result there are no comparative figures in the financial statements for any periods prior to the three months ended September 30, 2006.

On July 1, 2006, the Fund completed the indirect acquisition of 20% of the Prince George, B.C. based NBSK pulp and paper business of Canfor Corporation (Canfor). Canfor exchanged 14,254,005 million Class A Limited Partnership Units in for an equal number of Fund Units and these units were then distributed by Canfor to its shareholders. As a result of these transactions, on July 1, 2006, Canfor shareholders owned all of the issued and outstanding Fund Units, and the Fund held all issued and outstanding Class A Limited Partnership Units representing a 20% indirect interest in the Partnership. Canfor, through its ownership of Class B Exchangeable Limited Partnership Units, which are indirectly exchangeable for Fund Units, owns the remaining 80% interest in the Partnership.

The Fund accounts for its investment in the Partnership using the equity method. Under the equity method the Fund records its pro rata share of the Partnership's income as an increase in investment. Any distributions declared by the Partnership and accruing to the Fund reduce the carrying value of the Fund's investment in the Partnership.

Use of 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 reported in the financial statements and accompanying notes. It is reasonably possible that circumstances may arise that cause actual results to differ from management estimates; however, management does not believe it is likely that such differences will materially affect the Pulp Business' financial position. The valuation of the Fund's investment in the Partnership relative to its market value is the only significant estimate in these financial statements.

Net Income per Unit

Basic net income per Fund Unit is based on the weighted average number of Fund Units outstanding during the period. There were no other securities with rights to conversion into Units outstanding, thus no diluted income per Unit is calculated.

3. Distributions

The Fund declared distributions in its first three months of operation as follows:

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

Record Date	Payable Date	Amount	Amount per Fund Unit
		\$	\$
August 2, 2006	August 15, 2006	1,710.5	0.12
August 31, 2006	September 15, 2006	1,710.5	0.12
September 30, 2006	October 13, 2006	2,850.8	0.20
Total		6,271.8	0.44

The Fund's monthly distributions are based on the Partnership's monthly distributions. To September 30, 2006 distributions amounts declared by the Fund equaled those declared by the Partnership.

4. Unitholders' Equity

The Fund may issue an unlimited number of Fund Units for the consideration of, and on the terms and conditions determined by the Trustees. Each Fund Unit is transferable and represents an equal and undivided beneficial interest in any distributions from the Fund. All Fund Units are of the same class and have equal rights and privileges.

On initial distribution on July 1, 2006, the total number of Fund Units issued was 14,254,005, equal to the number of Class A Limited Partnership Units for which they were exchanged.

Redemption rights

Fund Units are redeemable at any time on demand by the holders thereof upon delivery to the Fund of a duly completed and properly executed notice requesting redemption in a form approved by the Fund Trustees. Upon receipt of the redemption notice by the Fund, all rights with respect to the Fund Units tendered for redemption, including the right to receive any distributions which are declared payable to the Unitholders of record on a date subsequent to the date of receipt by the Fund of such notice, will be surrendered and the Unitholder will be entitled to receive a price per Fund Unit equal to the lesser of 90% of the market price of the Fund Units as of the date on which the Fund Units are surrendered for redemption ("Redemption Date"); and 100% of the closing market price on the Redemption Date.

Exchange rights

The holders of Class B Exchangeable Limited Partnership Units have the ability to indirectly exchange the Class B Exchangeable Limited Partnership Units on a one for-one basis into Fund Units.

5. Related Party Transactions

All accounting, treasury, legal and administrative functions for the Fund are performed on behalf of the Fund by the Partnership pursuant to a support agreement. For the three months ended September 30, 2006 the Fund had incurred operating expenses with third parties of \$15,000, which were paid by the Partnership, and at end of the period remain as an amount payable to the Partnership.

6. Guarantees

The Fund Declaration provides that its Trustees will act honestly and in good faith with a view to the best interest of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Fund Declaration provides that each Trustee will be entitled to indemnification and reimbursement from the Fund out of the assets of the Fund in respect of the exercise of the Trustee's powers and the discharge of the Trustee's duties, provided that the Trustee acts honestly and in good faith with a view to the best interests of the Fund.

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

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2006	2005	2006	2005
Sales	\$ 214.3	193.1	\$ 605.4	575.2
Costs and expenses				
Manufacturing and product costs	118.4	147.5	380.2	438.3
Freight and other distribution costs	27.9	31.2	85.9	85.0
Amortization	12.8	12.2	36.4	34.9
Selling and administration costs	5.5	5.3	17.1	17.0
	164.6	196.2	519.6	575.2
Operating income (loss)	49.7	(3.1)	85.8	-
Business acquisition costs (note 3)	(5.9)	-	(5.9)	-
Interest expense, net	(1.8)	-	(1.8)	-
Other	(0.1)	-	0.2	(0.1)
	(7.8)	-	(7.5)	(0.1)
Net income (loss)	\$ 41.9	(3.1)	\$ 78.3	(0.1)
Net income (loss) per Partnership unit (in dollars) (note 10)				
Basic	\$ 0.59	(0.04)	1.10	-
Partners' equity, beginning of period	582.8	791.7	728.7	740.0
Issuance of promissory note on acquisition (notes 1, 3 & 4)	-	-	(125.0)	-
Net transactions with Canfor (note 1)	-	(27.2)	(57.3)	21.5
Net income (loss) for the period	41.9	(3.1)	78.3	(0.1)
Distributions to partners	(31.4)	-	(31.4)	-
Partners' equity, end of period	\$ 593.3	761.4	593.3	761.4

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 September 30,		9 months ended September 30,	
	2006	2005	2006	2005
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income (loss)	\$ 41.9	(3.1)	\$ 78.3	(0.1)
Items not affecting cash:				
Amortization	12.8	12.2	36.4	34.9
Employee future benefits	1.5	0.8	6.0	2.2
Other	-	-	(0.3)	0.1
Cash flow from operations before working capital changes	56.2	9.9	120.4	37.1
Changes in non-cash working capital (note 12)	(19.8)	22.1	(15.7)	(9.8)
	36.4	32.0	104.7	27.3
Financing activities				
Net transactions with Canfor	-	(27.2)	(57.3)	21.5
	-	(27.2)	(57.3)	21.5
Investing activities				
Property, plant, equipment	(6.1)	(5.6)	(14.5)	(49.7)
Distributions paid to partners	(17.1)	-	(17.1)	-
Other	0.1	-	-	(0.1)
	(23.1)	(5.6)	(31.6)	(49.8)
Increase (decrease) in cash and cash equivalents	13.3	(0.8)	15.8	(1.0)
Cash and cash equivalents, beginning of period	3.2	1.2	0.7	1.4
Cash and cash equivalents, end of period	\$ 16.5	0.4	\$ 16.5	0.4
Cash payments in the period				
Interest, net	\$ 1.8	-	\$ 1.8	-

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

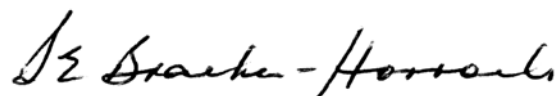
**Canfor Pulp Limited Partnership
Consolidated Balance Sheets**

(millions of dollars, unaudited)	As at September 30, 2006	As at December 31, 2005
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 16.5	\$ 0.7
Accounts receivable		
Trade	151.9	127.9
Other	9.5	10.0
Inventories (note 6)	99.8	107.0
Prepaid expenses	22.6	4.9
Total current assets	300.3	250.5
Property, plant and equipment (note 8)	606.1	628.0
	\$ 906.4	\$ 878.5
LIABILITIES		
Current Liabilities		
Accounts payable and accrued liabilities	\$ 142.4	\$ 124.1
Distributions payable	14.3	-
Promissory Note (notes 1,3 & 4)	125.0	-
Total current liabilities	281.7	124.1
Other accruals and liabilities (note 5)	31.4	25.7
	\$ 313.1	\$ 149.8
PARTNERS' EQUITY		
Capital – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Exchangeable Limited Partnership Units. (note 1 & 3)	593.3	728.7
Total Partners' Equity	593.3	728.7
	\$ 906.4	\$ 878.5

Commitments and contingencies (note 13)

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 Consolidated Financial Statements

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).

On July 1, 2006, Canfor transferred the Pulp Business to the Partnership in exchange for a \$125 million promissory note, 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Exchangeable Limited Partnership Units (the Spinout). Canfor then exchanged its Class A Limited Partnership Units for equal number of Units of Canfor Pulp Income Fund (the Fund). Finally Canfor distributed to its shareholders, for each Canfor share held by them, one New Common Share of Canfor and 0.1 of a Unit of the Fund (Fund Unit), with the distribution of the Fund Units being structured as a return of capital on the Canfor Shares. As a result, on the date of the Spinout Canfor shareholders owned all of the issued and outstanding Fund Units, with the outstanding Fund Units representing a 20% indirect interest in the Pulp Business. Through its ownership of Class B Exchangeable Limited Partnership Units, which are indirectly exchangeable for an equal number of Fund Units, Canfor owns the remaining 80% interest in the Partnership and thus the Pulp Business.

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

All pulp produced by the Pulp Business is sold by the Pulp Business' sales and marketing group to customers primarily in North America, Europe and Asia. The kraft paper produced by the Pulp Business is sold by a 50% owned general partnership to customers in North America and Europe.

For all periods ending prior to July 1, 2006, these 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. 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 of 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 the net transactions with Canfor line in the Partners' equity.

The statements of income for all periods prior to July 1, 2006 include selling and administration expenses of the Pulp Business, as historically reported in Canfor's financial statements, that have been allocated to the Pulp Business based on specific identification and, where specific identification has been deemed impractical, on a basis which management believes reasonably reflects the cost of services provided. Employee benefits, consisting of such costs as pension, health and welfare and payroll taxes are based on a percentage of actual payroll or allocated payroll charges to the Pulp Business. Amortization is based upon specific identification of the assets utilized in the Pulp Business. Allocated corporate expenses have been charged to the Pulp Business based on specific identification or, when this is deemed impractical, on a basis that management believes reasonably reflects the cost of services provided. Management believes these expense allocations adequately reflect the estimated cost of services provided but may not necessarily be indicative of actual costs that would have been incurred if Canfor had not provided these services.

The balance sheet at December 31, 2005 includes all assets and liabilities directly attributable to the Pulp Business including an allocation of certain Canfor's corporate assets and liabilities. Employee future benefit liabilities include the obligations for health care and other non-pension benefits for the active salaried employees and active and retired hourly employees of the Pulp Business. The Pulp Business participated in the centralized cash management systems of Canfor, and as a result, did not have separate bank accounts, except for cash held in international marketing operations.

These 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.

2. Significant Accounting Policies

These unaudited interim financial statements do not include all of the note disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the Pulp Business' annual financial statements and notes included in the April 28, 2006, Canfor Information Circular, available at www.canforpulp.com or www.sedar.com. With the exception of the Partnership's accounting policy on cash and cash equivalents, all relevant accounting policies are included in the Pulp Business' financial statements referred to above.

The unaudited interim financial statements for the period ended September 30, 2006, including comparative periods, reflects the current activities of the Pulp Business and the Partnership and have been prepared based on the most recent information available to management.

Cash and cash equivalents

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

3. Business Acquisition Costs and Partners' Equity

The Partnership incurred costs related to its initial organization and the acquisition of the Pulp Business from Canfor principally comprised of legal, accounting, audit and consulting fees.

Prior to the transfer the net value of the Pulp Business is reflected in Partners' Equity. On July 1, 2006 the value of the Pulp Business transferred to the Partnership was represented as follows:

Net assets transferred

(millions of dollars)

Working capital	124.7
Property plant and equipment	612.9
Other accruals and liabilities	(29.8)
	707.8

Consideration provided

(millions of dollars)

Promissory note	125.0
Partners' equity	582.8
	707.8

4. Credit facilities

At September 30, 2006, the Partnership had a \$50 million revolving operating line of credit available, of which \$33.9 million was used for a standby letter of credit (note 13), and a fully drawn \$125 million non-revolving loan evidenced by a promissory note. The interest rate on the promissory note is at prime plus 0.5%. Both credit facilities are unsecured, repayable by December 31, 2006 and were provided by Canfor.

5. Other Accruals and Liabilities

(millions of dollars, unaudited)	September 30, 2006	December 31, 2005
Accrued pension obligations	2.8	0.9
Post employment benefits	28.6	24.8
Total other accruals and provisions	31.4	25.7

6. Inventories

(millions of dollars, unaudited)	September 30, 2006	December 31, 2005
Pulp	38.5	46.9
Paper	11.0	6.7
Wood chips	6.4	9.0
Processing materials and supplies	43.9	44.4
	99.8	107.0

7. Employee Future Benefits

Total employee future benefit expenses were as follows:

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2006	2005	2006	2005
Pension plans	0.8	1.0	2.9	3.0
Other employee future benefit plans	1.5	1.3	4.9	3.9
Contributions to forest industry union plans	1.8	1.8	5.5	5.5
	4.1	4.1	13.3	12.4

8. Property Plant and Equipment

(millions of dollars, unaudited)	September 30, 2006		
	Cost	Accumulated amortization	Net
Land	5.4	-	5.4
Buildings, machinery and equipment	1,730.3	1,134.0	596.3
Construction in progress	4.4	-	4.4
	1,740.1	1,134.0	606.1

(millions of dollars, unaudited)	December 31, 2005		
	Cost	Accumulated amortization	Net
Land	5.2	-	5.2
Buildings, machinery and equipment	1,715.3	1,095.8	619.5
Construction in progress	3.3	-	3.3
	1,723.8	1,095.8	628.0

9. Related party transactions

The Partnership's transactions with related parties are based on agreed upon amounts, unless otherwise noted below. Outstanding payable and receivable amounts with related parties are subject to the same terms and conditions as similar transactions with unrelated parties.

The Partnership purchased wood chips and hog fuel from Canfor sawmills in the amount of \$18.2 million for the three months ended September 30, 2006 (2005 — \$17.8 million) and \$54.9 million for the nine months ended September 30, 2006 (2005 — \$85.5 million). The Partnership also purchased wood chips from Lakeland Mills Ltd. and Winton Global Lumber Ltd., in which Canfor owns a one-third interest. Purchases from these entities for the three months ended September 30, 2006 were \$2.4 million (2005 — \$1.9 million) and \$6.7 million (2005 — \$12.5 million) for the nine months ended September 30, 2006.

Effective July 1, 2006, the Partnership entered into a services agreement under which Canfor provides certain business and administrative services. Total value of the services provided in the three months ended September 30, 2006 was \$1.7 million (2005— \$2.9 million) and for the nine months ended September 30, 2006 was \$7.1 million (2005— \$8.7 million). The corporate costs in comparative periods prior to the acquisition were based on estimates of the Pulp Businesses share of Canfor's corporate costs.

Effective July 1, 2006, the Partnership entered into an incidental services agreement with Canfor, under which the Partnership provides certain business and administrative services to Canfor. Total value of the services provided in the three months ended September 29, 2006 was \$0.4 million (2005— \$0.4 million) and for the nine months ended September 30, 2006 was \$1.1 million (2005— \$1.1 million).

The Partnership markets bleached chemi-thermo-mechanical pulp production from Canfor's Taylor pulp mill for which it earned commissions totaling \$0.7 million for the three months ended September 30, 2006 (2005 — \$0.6 million) and \$2.2 million for the nine months ended September 30, 2006 (2005 — \$2.2 million). The Partnership also purchased chemi-thermo mechanical pulp from the Canfor Taylor pulp mill for resale totaling \$3.2 million for the three months ended September 30, 2006 (2005 — \$2.5 million) and \$7.8 million for the nine months ended September 30, 2006 (2005 — \$5.5 million). In respect of the products marketed and service provided for the Canfor Taylor pulp mill, the partnership held balances of \$13.5 million in accounts receivable - trade and \$16.3 million in accounts payable to Canfor at September 30, 2006 (2005 — \$9.8 million accounts receivable - trade and \$10.6 million in accounts payable to Canfor).

The Partnership markets the NBSK pulp produced by Howe Sound Pulp and Paper Limited Partnership (HSLP) for which it earned commissions totaling \$1.3 million for the three months ended September 30, 2006 (2005 — \$1.4 million) and \$4.0 million for the nine months ended September 30, 2006 (2005 — \$4.5 million). In respect of the products marketed and service provided for HSLP, the partnership held balances of \$45.0 million in accounts receivable - trade and \$45.9 million in accounts payable to HSLP at September 30, 2006 (2005 — \$28.5 million in accounts receivable - trade and \$33.8 million in accounts payable to HSLP).

On July 1, 2006, Canfor transferred the Pulp Business to the Partnership in exchange for a \$125 million promissory note, 14.254 million Class A Limited Partnership Units and 57.016 million Class B Exchangeable Limited Partnership Units. The promissory note bears interest at prime rate plus 0.50% and for the three months ended September 30, 2006 total interest expensed was \$1.9 million of which \$1.3 million was paid with the balance of \$0.6 million payable on September 30, 2006.

At September 30, 2006 a total of \$10.1 million was outstanding as accounts payable to Canfor in respect of purchases of wood chips, hog fuel, services and amounts paid on behalf of the Partnership.

During the three months ended September 30, 2006 the Partnership declared distributions totaling \$31.4 to its limited partners. Distributions to Canfor were \$25.1 million, of which \$13.7 million was paid, with the balance of \$11.4 million payable on October 13, 2006. Distributions to the Fund were \$6.3 million, of which \$3.4 million was paid, with the balance of \$2.9 million payable on October 13, 2006.

The Pulp Business sold \$2.0 million of wood chips to Fibreco Export Inc. during 2005, before Canfor disposed of its investment in that company in July 2005.

10. 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 units outstanding, thus no diluted income per unit was calculated.

11. Financial Instruments

The Partnership uses a variety of financial instruments to reduce its exposure to risks associated with fluctuations in foreign currency exchange rates, pulp prices and energy costs.

At September 30, 2006, the Partnership had outstanding pulp swaps to hedge 15,000 tonnes (2500 tonnes per month to March 2007) of future pulp sales at an average price of US\$683 per tonne, along with matching US dollar forward contracts for the exchange of US\$10.2 million at an average rate to 1.1107. There was a combined unrealized loss of \$1.5 million on the pulp swaps and forward contracts at the end of the period.

At September 30, 2006, the Partnership had outstanding commodity swaps hedging future natural gas purchases of 3.8 million gigajoules extending to October 2009 with an unrealized loss of \$2.1 million.

12. Changes in Non-Cash Working Capital

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2006	2005	2006	2005
Accounts receivable	(30.2)	6.5	(23.5)	5.6
Inventories	(2.4)	24.0	7.2	2.9
Prepaid expenses	5.8	1.9	(17.7)	(1.1)
Accounts payable, accrued liabilities	7.0	(10.3)	18.3	(17.2)
	(19.8)	22.1	(15.7)	(9.8)

13. Commitments and contingencies

In 2003 Canfor entered into an agreement with BC Hydro to build an electrical co-generation facility at the Prince George Pulp and Paper Mill. Under the agreement, BC Hydro contributed \$45.8 million of the project costs, with Canfor contributing the balance. The agreement was assigned to the Partnership effective July 1, 2006, with incentive payments totaling \$11.4 million outstanding. The final incentive payment of \$11.4 million was received August 9, 2006 and transferred to Canfor. The total incentive payments of \$45.8 million were accounted for as a reduction of property, plant and equipment transferred to the Partnership. The project was completed in the second quarter of 2005 at a net cost to the Pulp Business of \$69.6 million. The agreement entails a 15 year commitment with BC Hydro for power displacement at the co-generation facility, whereby a proportionate repayment is required should the facility not generate the minimum of 390 gigawatt hours of electricity per year. As required under the agreement the Partnership has posted a letter of credit in the amount of \$33.9 million as security. As of August 11, 2006 the co-generation facility produced a total of 390.5 gigawatt hours of electricity.

As of September 30, 2006, the partnership has no repayment obligation under the terms of the agreement.

14. Segmented Information ^(a)

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs ^(c)	Total
3 months ended September 30, 2006				
Sales to external customers	\$ 187.4	26.9	-	214.3
Sales of pulp to paper segment ^(b)	\$ 18.7	(18.7)	-	-
Operating income (loss)	\$ 52.5	1.0	(3.8)	49.7
Amortization	\$ 11.7	1.0	0.1	12.8
Capital expenditures	\$ 5.8	0.3	-	6.1
3 months ended September 30, 2005				
Sales to external customers	\$ 164.4	28.7	-	193.1
Sales of pulp to paper segment ^(b)	\$ 15.6	(15.6)	-	-
Operating income (loss)	\$ 0.3	(0.1)	(3.3)	(3.1)
Amortization	\$ 11.3	0.9	-	12.2
Capital expenditures	\$ 5.6	-	-	5.6
9 months ended September 30, 2006				
Sales to external customers	\$ 523.3	82.1	-	605.4
Sales of pulp to paper segment ^(b)	\$ 51.3	(51.3)	-	-
Operating income (loss)	\$ 98.5	1.0	(13.7)	85.8
Amortization	\$ 33.4	2.8	0.2	36.4
Capital expenditures	\$ 12.5	0.2	1.8	14.5
Identifiable assets	\$ 805.6	70.6	30.2	906.4
9 months ended September 30, 2005				
Sales to external customers	\$ 485.5	89.7	-	575.2
Sales to other segments ^(b)	\$ 50.1	(50.1)	-	-
Operating income (loss)	\$ 12.7	1.5	(14.2)	-
Amortization	\$ 32.1	2.8	-	34.9
Capital expenditures	\$ 48.9	0.2	0.6	49.7
Identifiable assets	\$ 743.4	77.9	79.4	900.7

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada.

(b) 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.

(c) Unallocated costs represent actual head office administrative costs in the third quarter of 2006. For all periods prior to July 1, 2006, head office administrative costs were based on allocated Canfor corporate expenses as described in Note 1.