

CANFOR PULP INCOME FUND

Third Quarter Report

For the three and nine months ended September 30, 2006

To the Unitholders:

We are pleased to present our first quarterly report on the results of operation of the Canfor Pulp Income Fund (the Fund) and Canfor Pulp Limited Partnership (the Partnership). On July 1, 2006, the Fund acquired a 20 per cent ownership in the pulp and paper business previously wholly owned by Canfor. Units of the Fund were distributed to Canfor shareholders as of July 1 and the units commenced trading on the Toronto Stock Exchange on July 6, 2006 under the symbol CFX.UN.

The Partnership had net sales of \$214.3 million, net income of \$41.9 million and EBITDA of \$62.5 million for the quarter ended September 30, 2006. These results reflect the current strength of the NBSK pulp market, no scheduled maintenance down time and generally good operations at the mills during the quarter, but are partially offset by one-time costs of \$5.9 million related to the Fund creation and acquisition of the business interest. This report contains the Management Discussion and Analysis of the Fund and the Partnership and the separate unaudited interim financial statements of the Fund and of the Partnership.

The Fund declares distributions on a monthly basis with the record date on the last day of the each month and payable within the 15 days following. These monthly distributions are currently intended to be equal to the monthly distributions of the Partnership, on which they are dependent. For the period from inception to the end of the year, 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 to determine distributable cash. The Partnership periodically reviews the level of its cash distributions, taking into account current and expected future performance and cash flow requirements. During the third quarter the Partnership declared distributions of \$0.44 per unit representing about 63 per cent of its distributable cash. The Fund made corresponding distributions of \$0.44 per fund unit or \$6.3 million.

The outlook for the fourth quarter is generally positive, as NBSK pulp inventories are low and prices remain strong around the world. A potential risk ahead is the reduction in chip supply. Chip prices have increased as sawmills have announced down time to cope with extremely low lumber prices. We have initiated a program to deliver pulp logs to a chipping facility in Prince George to mitigate this risk. Given our low cost and efficient operations we believe we are in a relatively strong position to cope with this uncertainty.



Dr. Charles Jago
Trustee of Canfor Pulp Income Fund and
Chairman of Canfor Pulp Holding Inc.,



Paul Richards
President and Chief Executive Officer of
Canfor Pulp Holding Inc.,

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership Third Quarter 2006 – Report to Unitholders Management’s Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 20% 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 financial statements, with accompanying notes are presented for both the Fund and the Partnership. In addition, this Management’s Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership’s performance, and therefore the Fund performance, during the third quarter of 2006 relative to the previous quarter and relative to the comparative quarter in 2005. The Partnership did not have an operating business prior to July 1, 2006 and the comparative results prior to this date represent the northern bleached softwood kraft (NBSK) business of Canfor Corporation (Canfor), which the Partnership acquired on July 1, 2006. This MD&A should be read in conjunction with the unaudited interim consolidated financial statements and accompanying notes, as well as the MD&A and audited consolidated financial statements and notes which were included in Canfor’s Information Circular dated April 28, 2006. (available at www.canforpulp.com and www.sedar.com) and Canfor’s Annual Report available on www.canfor.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 or operating income before amortization) and 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. Distributable cash is a measure of cash flow used by management to determine level of cash distributions. EBITDA and 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 these measures, the Partnership’s use of these terms may not be directly comparable with similarly titled measures used by other companies or income funds.

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

The information in this report is as at October 23, 2006.

All financial references are in millions of Canadian dollars unless otherwise noted.

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 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.

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. Canfor exchanged 14,254,005 million Class A Limited Partnership Units 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.

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 and the Fund is only taxable on any amount not allocated to the unitholders.

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.

OPERATING RESULTS AND LIQUIDITY

For the three month period ended September 30, 2006, the Fund had earnings of \$8.4 million, or \$0.59 per unit, representing its share of earnings of the Partnership for the period. Distributions declared by the Partnership and accruing to the Fund were \$6.3 million or which \$2.9 million was receivable at quarter end. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements of administrative services are minimal and are provided by the Partnership. Operating expenses reflect fees paid to third parties.

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 day of each month and payable within the 15 days following. Distributions from the Fund's investment in the units of the Partnership and distributions payable by the Fund to its unitholders are recorded when declared. During the third quarter the Fund declared distributions of \$0.44 per unit or a total of \$6.3 million.

UNITS

At September 30, 2006, throughout the quarter and as of the date of this report, the Fund had 14,254,005 units outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Management of the Fund will regularly review its estimates and assumptions based on historical experience and other factors that it believes would result in reasonable estimates. Actual results could differ from those estimates under different assumptions. The following accounting policy requires significant judgment by management.

Investments

The valuation of the Fund's investment in the Partnership will be regularly reviewed by management to ensure that any decline in the market value that is considered other than temporary will be reflected in the carrying value of the investment. In making the assessment, several factors will be considered including the amount by which the carrying value exceeds the market value, the duration of any market value decline and expected future cash flows from the Partnership.

RISKS AND UNCERTAINTIES

The risk factors and uncertainties of the Fund are derived from its investment in the Partnership and thus the risks and uncertainties of the Partnership are also applicable to the Fund. A comprehensive discussion of these can be found in the MD&A of the Partnership and also in the April 28, 2006 Information Circular issued by Canfor and available at www.canforpulp.com or www.sedar.com.

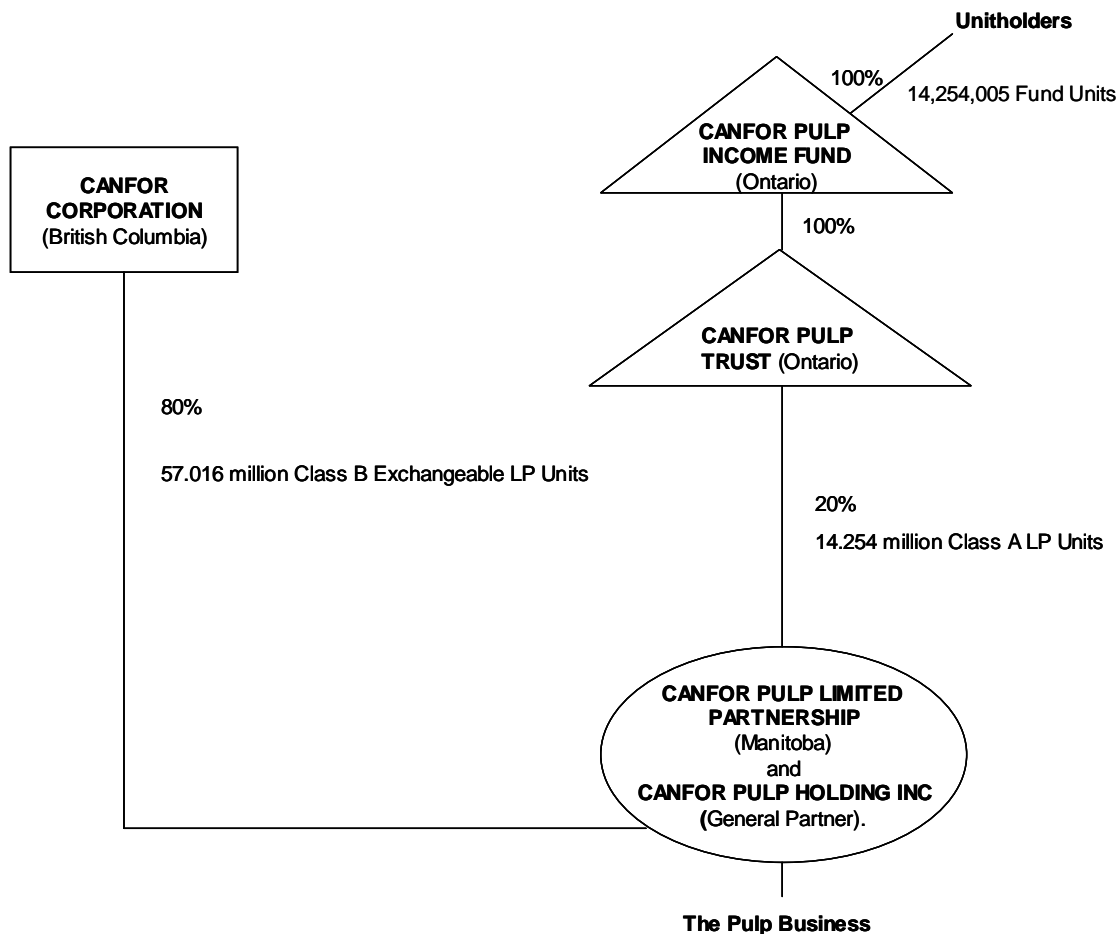
Canfor Pulp Limited Partnership

Creation of the Partnership and the Spinout Transaction

The Partnership was 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 million Class A Limited Partnership Units and 57.016 million Class B Exchangeable Limited Partnership Units (the Spinout). Canfor then exchanged its Class A Limited Partnership Units for an equal number of Units of Canfor Pulp Income Fund (the Fund). Upon the completion of the Spinout, Canfor shareholders were entitled to receive 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 Partnership and through it the Pulp Business. Through its interest in the Partnership, which is indirectly exchangeable for Fund Units, Canfor owns the remaining 80% interest in the Pulp Business. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the general partner. Below is a simplified schematic of the ownership structure.

Partnership Structure



The Partnership and Canfor have entered into a long-term fibre supply agreement under which Canfor provides the Partnership with residual wood chips and hog fuel produced at certain of its sawmills at market prices. The Partnership also purchases, at cost, a number of administrative, accounting, legal and management services from Canfor under a Partnership Services Agreement which can be terminated, in whole or in part, on 12 months notice. The Partnership also provides ongoing marketing services to Canfor, acting as a selling representative on behalf of Howe Sound Pulp and Paper Limited Partnership and for Canfor's Taylor Pulp operations.

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts)	Q3 2006	Q2 2006	YTD 2006	Q3 2005	YTD 2005
Sales	214.3	194.9	605.4	193.1	575.2
EBITDA	62.5	26.8	122.2	9.2	34.9
Operating income (loss)	49.7	15.7	85.8	(3.1)	-
Net income (loss)	41.9	15.9	78.3	(3.1)	(0.1)
Per Partnership unit, basic and diluted					
Net income (loss)	0.59	0.22	1.10	(0.04)	-
EBITDA	0.88	0.38	1.72	0.13	0.49
Average Canadian/US exchange rate ¹	0.892	0.891	0.883	0.832	0.817

EBITDA increased by \$35.7 million over the previous quarter, and was \$53.3 million better than in the same quarter in 2005. A strong market for NBSK pulp, which resulted in our net realized prices in Canadian dollar terms increasing by 10% during the third quarter and by 20% when compared to same quarter a year ago, combined with increased productivity and lower maintenance spending were the main reasons for the improved profitability.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted)	Q3 2006	Q2 2006	YTD 2006	Q3 2005	YTD 2005
Sales	187.4	167.8	523.3	164.4	485.5
EBITDA	64.3	31.8	132.0	11.6	44.8
EBITDA margin	34%	19%	25%	7%	9%
Operating income (loss)	52.5	21.6	98.5	0.3	12.7
Average pulp price – US \$ ²	711	670	668	588	614
Average pulp price in Cdn \$	797	752	756	707	752
Production – pulp (000 mt)	257.5	227.8	751.7	246.0	727.8
Shipments – Partnership-produced pulp (000 mt)	251.4	244.6	751.7	257.9	721.4
<i>Marketed on behalf of HSLP & Canfor (000 mt)</i>	142.7	142.4	427.7	138.3	423.7

Operating income of the pulp segment improved by \$30.9 million from the previous quarter and \$52.2 million when compared to the same quarter last year. The increase from the prior quarter is mainly due to improved NBSK pricing

¹ Source – Bank of Canada (average noon rate for the period)

² Per tonne, delivered to Northern Europe

and higher production volumes as a result of the annual maintenance shutdowns at all facilities in the prior quarter. When compared to the third quarter of 2005, improved NBSK price, higher production and the beneficial impact of lower chip prices were partially offset by the negative effect of a stronger Canadian dollar.

Operations

NBSK production during the third quarter was higher by 29,700 tonnes over the prior quarter and 11,500 tonnes over the same quarter in 2005. In the current quarter operations at the Northwood and Prince George pulp mills were impacted by the direct and residual effects of several lightning strikes resulting in major power failures. This resulted in a loss of approximately 7,700 tonnes of production during the quarter. In prior periods, scheduled annual maintenance and other downtime reduced production by 37,700 tonnes in the second quarter of 2006 and in the third quarter of 2005 scheduled maintenance downtime and a slow-back of the Prince George pulp mill due to precipitator performance issues resulted in lost production of 16,000 tonnes.

The cogeneration facility at the Prince George pulp mill averaged 968 megawatt hours per day compared to 973 in the prior quarter and 880 in the same period last year. This represents 88% of the target rate and planned improvements with hog fuel feed and ash handling systems are expected to improve performance over the next several quarters.

Markets

The chemical market pulp industry continued to experience strong demand during the third quarter of 2006. This was partly driven by modest demand growth in the printing and writing paper segment³ but mostly due to the large reduction in Canadian NBSK production capacity (approximately 1 million tonnes or 16% of Canadian capacity has shut in 2006)³. The capacity reduction is driven primarily by mill closures in Eastern Canada due to high fibre and energy costs and the strengthening Canadian dollar.

Historically, the industry experiences increases in inventories during the third quarter as demand is normally below the average and pulp mills run at full production rates during the summer months. However, inventory levels for NBSK pulp, the grade manufactured and sold by the Partnership, rose by just one day, to 26 days of supply³. An inventory level of 30 days of supply is considered as a balanced market.

These market dynamics have translated into a very positive pricing environment for NBSK pulp. The benchmark price into Northern Europe stood at US\$690 per tonne at the end of June 2006, rose to US\$710 during the quarter and going into the fourth quarter our list price into Northern Europe was US\$730 per tonne. Prices for delivery to the United States and Asia increased at a faster pace than those in Europe. Current list price for delivery to the United States is US\$770 per tonne (a US\$50 increase since June 30) and is US\$690-730 in Asia (a US\$60 increase since June 30).

Outlook – Pulp Markets

The outlook for the fourth quarter is generally positive, as NBSK pulp inventories are low and prices remain strong around the world with a price increase announced for European and Asian deliveries. The market is expected to carry its current momentum into next year.

³ Pulp and Paper Products Council

Paper

(millions of dollars unless otherwise noted)	Q3 2006	Q2 2006	YTD 2006	Q3 2005	YTD 2005
Sales	26.9	27.2	82.1	28.7	89.7
EBITDA	2.0	0.1	3.8	0.9	4.4
EBITDA margin	8%	-	5%	3%	5%
Operating income (loss)	1.0	(0.8)	1.0	(0.1)	1.5
Production – paper (000 mt)	32.0	30.1	95.2	31.6	95.9
Shipments – paper (000 mt)	32.9	31.3	95.3	31.1	96.6

Operating income of the paper segment improved by \$1.8 million from the previous quarter and \$1.1 million when compared to the same quarter last year. Net realized price in US dollars increased by 3% over the prior quarter and 6% over the same period a year ago. Price increases were partially offset by the strengthening Canadian dollar and higher costs for slush pulp, which is transferred at market price.

Operations

Paper production during the third quarter was higher by 1,948 tonnes over the prior quarter and 435 tonnes more than the same quarter in 2005. The increase over the prior quarter is primarily the result of maintenance downtime taken in the second quarter. Operations continue to focus on higher margin bleached paper production, which averaged 72% in the quarter compared to 71% in the prior quarter and 74% for the same period in 2005.

Markets

Demand remained steady in the quarter with sales matching production. A US\$25 price increase was announced and implemented in North America for all grades. However, European prices remain flat, which supports the continued focus of growing bleached sales in North America.

Outlook – Paper Markets

Prices are expected to remain at current levels, even though demand is expected to weaken due to the historical seasonal slowdown.

Non-Segmented Items

(millions of dollars)	Q3 2006	Q2 2006	YTD 2006	Q3 2005	YTD 2005
Unallocated costs	3.9	5.1	13.7	3.3	14.2
Business acquisition costs	5.9	-	5.9	-	-
Net interest expense	1.8	-	1.8	-	-
	11.6	5.1	21.4	3.3	14.2

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled \$3.9 million in the third quarter compared to \$5.1 million in the prior quarter and \$3.3 million in the same period last year. Actual costs were lower than costs in the comparative periods as a result of lower corporate costs. The corporate costs in comparative periods primarily represent allocations of Canfor's corporate administration, legal services, human resources, treasury services and incentive plan amounts. These were based on estimates of the pulp businesses share of Canfor's corporate costs. Unallocated costs in 2005 were reduced by a refund of provincial sales tax of \$1.1 million.

Business Acquisition Costs

The Partnership incurred cost related to its initial organization and the acquisition of the Pulp Business from Canfor, fully described in Note 1, principally comprised of legal, accounting, audit and consulting fees.

Interest Expense

Net interest expense of \$1.8 million during the third quarter represents interest at prime rate plus 0.5% to Canfor for borrowing under the \$125 million promissory note net of interest earned on cash and temporary investments. No interest expense is shown for prior periods since the Pulp Business was an integral part of Canfor and interest was not allocated to it.

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)	Q3 2006	YTD 2006	Q3 2005	YTD 2005
Ratio of current assets to current liabilities	1.07	1.07	2.20	2.20
Ratio of net debt to common partners' equity	0.18	0.18	-	-
Increase (decrease) in cash and cash equivalents	13.3	15.8	(0.8)	(1.0)
– comprised of cash flow from (used in):				
Operating activities	36.4	104.7	32.0	27.3
Financing activities	-	(57.3)	(27.2)	21.5
Investing activities	(23.1)	(31.6)	(5.6)	(49.8)

Changes in Financial Position

Operating activities generated \$36.4 million in cash in the third quarter, which was a \$4.4 million improvement over same period last year.

Cash flows from financing activities represent net cash transactions with Canfor prior to the spinout. Prior to the acquisition the pulp business operating transactions such as sales of products, and purchases of products and services, were settled in the divisional equity account as they occurred. The excess cash flows of the pulp business were transferred to the central cash management system of Canfor.

The \$23.1 million of cash used in investing activities in the quarter represents \$17.1 million of distributions paid to Canfor and fund unit holders, with the balance relating to capital expenditures.

Liquidity and Financial Requirements

At September 30, 2006, the Partnership had two credit facilities provided by Canfor, a revolving operating line of \$50 million and a fully drawn \$125 million non-revolving advance evidenced by a promissory note. Of the operating line, \$33.9 million was used to provide a letter of credit to BC Hydro related to the cogeneration project. Interest rates and fees charged by Canfor are equivalent to commercial rates. The Partnership is currently negotiating with commercial and private lenders to replace both credit facilities, with closing expected during the fourth quarter.

TRANSACTIONS WITH RELATED PARTIES

The Partnership is controlled by, and has a commercial relationship with, Canfor. The nature and extent of the transactions with Canfor are fully described in note 9 of the unaudited interim financial statements of the Partnership. The most important contractual arrangement is the long term fibre agreement, under which Canfor supplies approximately 70% of the wood chip volume consumed by Partnership's pulp mills.

OUTSTANDING UNITS

At October 24, 2006, and during the third quarter, there were a total of 71,270,025 limited partnership units outstanding, consisting of 14,254,005 Class A units owned by the Fund through Canfor Pulp Trust and 57,016,020 Class B exchangeable units owned indirectly by Canfor.

RISKS AND UNCERTAINTIES

A comprehensive discussion of Risks and Uncertainties was included in the April 28, 2006 Information Circular issued by Canfor and available at www.canforpulp.com or www.sedar.com. In addition a potential risk is the reduction in chip supply as sawmills take down time to cope with extremely low lumber prices.

The sensitivity of Partnership's results to currency swings and price changes for its principal products and input costs, when operating at full capacity, is estimated to be as follows:

(millions of dollars)	Impact on annual Net income
Canadian dollar – US \$0.01 change per Canadian dollar	\$ 5
NBSK pulp – US \$10 change per tonne	8
Natural gas cost - \$1 change per gigajoule	4
Chip cost - \$10 change per tonne	24

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2006	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004
Sales and Income (millions of dollars)								
Sales	214.3	194.9	196.1	195.9	193.1	198.9	183.3	200.9
Operating income (loss)	49.7	15.7	20.5	16.7	(3.1)	(5.2)	8.3	(11.9)
EBITDA	62.5	26.8	32.9	29.0	9.2	5.9	19.9	0.3
Net income (loss)	41.9	15.9	20.4	16.6	(3.1)	(5.2)	8.2	(11.8)
Per Partnership unit (dollars)								
Net income (loss), basic	0.59	0.22	0.29	0.23	(0.04)	(0.07)	0.12	(0.17)
Statistics								
Pulp shipments (000 mt)	251.4	244.6	255.7	260.7	257.9	246.8	216.7	268.6
Paper shipments (000 mt)	32.5	31.3	31.1	30.6	31.1	33.0	32.5	31.0
Average exchange rate (Cdn\$/US\$)	0.896	0.890	0.870	0.856	0.826	0.809	0.814	0.817
Average NBSK final pulp price delivered to Northern Europe (US \$)	711	670	622	600	588	613	642	609

Sales are primarily influenced by changes in market pulp prices and fluctuations in Canadian/US dollar exchange rates. Operating income, net income and EBITDA are primarily impacted by sales and price fluctuations in raw material inputs, energy prices and maintenance costs.

DISCLOSURE CONTROLS

The Partnership has established disclosure controls and procedures to ensure that information disclosed in this MD&A and the related financial statements was properly recorded, processed, summarized and reported to the Board and the Audit Committee of the general partner and the Audit Committee and Trustees of the Fund.

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	3 months ended September 30,		9 months ended September 30,	
	2006	2005	2006	2005
RECONCILIATION OF NET INCOME (LOSS) TO EBITDA				
Net Income (loss)	\$ 41.9	(3.1)	\$ 78.3	(0.1)
Add:				
Amortization	12.8	12.2	36.4	34.9
Interest	1.8	-	1.8	-
Business acquisition costs and Other	6.0	0.1	5.7	0.1
EBITDA (operating income before interest and amortization)	\$ 62.5	9.2	\$ 122.2	34.9
CALCULATION OF DISTRIBUTABLE CASH				
Cash flow from operating activities	\$ 36.4	32.0	\$ 104.7	27.3
Change in working capital	19.8	(22.1)	15.7	9.8
Deduct:				
Capital expenditures	(6.1)	(5.6)	(14.5)	(49.7)
Distributable cash	\$ 50.1	4.3	\$ 105.9	(12.6)
Distributable cash – per partnership unit (in dollars)	\$ 0.70	n/a	\$ 1.44	n/a
Cash distributions declared (paid and payable)	31.4			
Cash distributions declared – per partnership unit (in dollars)	\$ 0.44	n/a	\$ n/a	n/a

DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

The Board of Directors 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, a reserve for future major capital replacements (estimated at \$4 million per year) and a contingency reserve. During the year distributions are based on estimates of full year cash flow and capital spending and thus distributions may be adjusted as these estimates change. Capital expenditures during 2006, including the second half of the year, will be well below the level normally expected for the business and as a result the reserve for capital expenditures for the balance of the year will be increased to provide a reserve for spending in future periods. It is expected that normal seasonal fluctuations in working capital will be funded from a revolving short-term credit facility and thus will not significantly affect the level of distributions.

Distributions are declared on a monthly basis with record date on the last day of the month and payable within 15 days following. The Partnership began active operation in July 2006, including monthly distributions, and thus there were no distributions in prior periods and no distributions will be paid for earnings from prior periods. The calculation of distributable cash in the table above for any periods prior to July 1, 2006 is provided for information purposes only.

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.

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
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Financing activities	
Distributions paid to Unitholders	(3,421)
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(3,421)	
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Investing activities	
Distributions received from Canfor Pulp Limited Partnership	3,421
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3,421	
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Change in cash and cash equivalents	-
Cash and cash equivalents at the beginning and end of period	\$ -

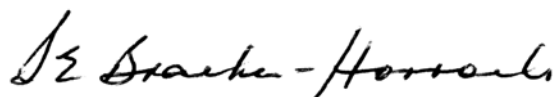
The accompanying notes are an integral part of these interim financial statements.

**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.

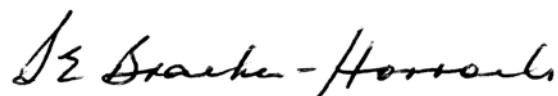
**Canfor Pulp Limited Partnership
Consolidated Balance Sheets**

(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.