

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
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