CANFOR PULP INCOME FUND

Third Quarter Report

For the three and nine months ended September 30, 2007

To the Unitholders:

The Partnership reported sales of $228.9 million and net income of $33.2 million, or $0.46 per unit, for the quarter ended September 30, 2007. Due to the impact of a stronger Canadian dollar, these results are down from prior quarter sales of $239.4 million and net income of $35.9 million, or $0.51 per unit. Total manufacturing costs improved slightly when compared to the second quarter as higher mill productivity combined with lower energy, maintenance and operating costs offset an increase in fibre costs. Fibre costs increased 4% as a result of higher whole log chip deliveries. The Partnership increased the volume of whole log chipping in the quarter in order to increase chip inventories to mitigate the potential impact of future sawmill curtailments. The third quarter 2007 results are lower than those in the same period a year ago, when sales were $213.6 million with net income of $41.9 million ($0.59 per unit), primarily due to the impact of the stronger Canadian dollar and fibre costs, which more than offset increases in NBSK pulp list prices.

During the quarter, the Partnership adopted newly issued guidance by the Canadian Institute of Chartered Accountants on the calculation of standardized distributable cash. The Partnership generated standardized distributable cash of $44.9 million, or $0.63 per unit, in the third quarter and $132.4 million, or $1.86 per unit, for the nine months ended September 30, 2007. After provision for changes in working capital and accrued capital expenditures, the adjusted distributable cash generated in the quarter was $35.6 million or $0.50 per unit and $125.9 million, or $1.77 per unit, for the nine month period.

Based on the Partnership's results, the Fund earned net income of $16.5 million, or $0.46 per Fund unit, in the third quarter of 2007, compared to net income of $8.4 million, or $0.59 per Fund unit, in the same quarter of 2006.

The Partnership's NBSK pulp production of 265,700 tonnes improved by 7,400 tonnes, when compared to the prior quarter. A combined daily operating rate record was achieved in the quarter as the mills ran extremely well. The pulp mills had scheduled maintenance downtime during the third quarter reducing production by approximately 4,000 tonnes, compared to the prior quarter's reduction of 8,600 tonnes. On a year-to-date basis NBSK pulp production increased by 31,200 tonnes over the previous year, attributable to the shorter scheduled maintenance downtime and a 2% improvement in mill productivity in 2007.

Commenting on the third quarter results, Paul Richards, President and CEO of the Partnership said: "It was another very solid operating quarter thanks to the efforts of our employees at all locations. Record operating rates and continued focus on costs have helped us partially mitigate the impacts of the stronger Canadian dollar."

Pulp prices in U.S. dollars have continued to increase during 2007 but not sufficiently to fully offset the impact of the stronger Canadian dollar against U.S. currency. List prices at the end of the quarter were at US$850 per tonne for delivery to the United States and US$830 to Northern Europe. The NBSK pulp market is currently balanced, with curtailments and closures in the printing and writing paper sector in both North America and Europe, combined with price sensitivity in Asia being balanced by the threat of further curtailments and closures of pulp production due to fibre shortages and the impact of the strong Canadian dollar.

The Fund also announced that its cash distribution for the month of October will be $0.14 per Fund unit, to be paid on November 15, 2007 to unitholders of record at the close of business on October 31, 2007. The reduction in distribution, from $0.18 per Fund unit, is due to the impact of the stronger Canadian dollar on the financial results of the Partnership.

The Partnership announced the appointment of Terry D. Hodgins, CA as Interim Chief Financial Officer and Secretary. Mr. Hodgins has 20 years of experience in executive financial management in the forest products industry, including his positions as Vice President, Treasurer and acting CFO of Canfor Corporation in 2005. He was actively involved in the spinout and creation of the Partnership and the Fund in 2006.

<< Charles Jago >>

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

<< Paul Richards >>

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

Canfor Pulp Income Fund and Canfor Pulp Limited Partnership
Third Quarter 2007
Management's Discussion and Analysis

Canfor Pulp Income Fund (the Fund) earns income from its 49.8% indirect interest in Canfor Pulp Limited Partnership (the Partnership). The Fund accounts for its investment in the Partnership on the equity basis and does not consolidate the operations of the Partnership. In order for the Fund's unitholders to understand the results of operations, the financial statements with accompanying notes are presented for both the Fund and the Partnership. 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 Canadian Forest Products Ltd., a subsidiary of Canfor Corporation (collectively Canfor), which the Partnership acquired on July 1, 2006. This Management's Discussion and Analysis (MD&A) provides a review of the significant developments that have impacted the Partnership's and the Fund's performance for the quarter ended September 30, 2007 relative to the same period in the prior year and relative to the previous quarter. This MD&A should be read in conjunction with the interim unaudited consolidated financial statements and accompanying notes as well as the annual MD&A and audited consolidated financial statements and notes which are included in the Fund's 2006 Annual Report. Additional information relating to the Fund and the Partnership, including the Fund's Annual Information Form (AIF), is available on SEDAR at www.sedar.com or at www.canforpulp.com.

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

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

In this MD&A, for all periods ending prior to July 1, 2006, and for all annual periods, the financial information presented for the Partnership represents its business on a carve out basis (continuity of interests) from Canfor, as if operated as a stand-alone partnership entity for the full periods. The financial information presented includes allocations of certain of Canfor's assets, liabilities and costs. The financial condition, results of operations and cash flows for these periods are not necessarily indicative of the financial condition, results of operations or cash flows that would have been incurred if the business was a separate legal entity.

The information in this report is as at October 22, 2007.

CANFOR PULP INCOME FUND

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

At October 22, 2007, there are a total of 35,493,542 Fund units issued and outstanding, and the Fund indirectly holds a total of 35,493,542 units of the Partnership, representing 49.8% of the Partnership and Canfor holds 35,776,483 Class B Exchangeable Limited Partnership Units, representing 50.2% of 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.

EQUITY INVESTMENT IN CANFOR PULP LIMITED PARTNERSHIP

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

(thousands of dollars, unaudited)	**9 months ended September 30, 2007**	6 months ended December 31, 2006
Balance, beginning of period	**289,490**	116,560
Accounting policy change – Partners' equity of the Partnership	**2,363**	-
Accounting policy change – Accumulated other comprehensive income of the Partnership	**(915)**	-
Issuance of Fund units for exchangeable Partnership units (November 30, 2006) – 21,239,537 Fund units	**-**	182,791
Equity in income of the Partnership	**58,644**	20,558
Equity interest in other comprehensive income of the Partnership	**1,202**	-
Distributions received and receivable	**(51,821)**	(30,419)
Balance, end of period	**298,963**	289,490

SELECTED QUARTERLY FUND FINANCIAL INFORMATION

(thousands of dollars, except per unit amounts, unaudited)	**Q3 2007**	Q2 2007	Q1 2007	Q4 2006	Q3 2006
Equity income in Canfor Pulp Limited Partnership	**16,541**	17,900	24,203	12,184	8,374
Net income (loss)[1]	**16,541**	(21,437)	24,203	12,184	8,374
Net income (loss) per unit	**$0.46**	($0.60)	$0.68	$0.56	$0.59
Distributions received and receivable from the Partnership	**19,167**	17,747	14,907	24,147	6,272
Distributions declared to unitholders	**19,167**	17,747	14,907	24,147	6,272
Distributions declared per unit	**$0.54**	$0.50	$0.42	$0.80	$0.44

Notes: [1] In the second quarter of 2007 the Fund recorded a non-cash future income tax charge to net income relating to the Fund's 49.8% ownership in the Partnership and based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

OPERATING RESULTS AND LIQUIDITY

For the quarter ended September 30, 2007, the Fund had net income of $16.5 million, or $0.46 per unit, representing its share of the Partnership's earnings for the period. Distributions declared by the Partnership and accruing to the Fund were $19.2 million of which $6.4 million was receivable at September 30, 2007. Cash distributions received from the Partnership are the only source of liquidity for the Fund. The Fund's requirements for administrative services are minimal and are funded and expensed by the Partnership.

FUND DISTRIBUTIONS

The Fund is entirely dependent on distributions from the Partnership to make its own distributions and declares distributions on a monthly basis with the record date on the last business day of each month and payable within the 15 days following. Distributions 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 of 2007, the Fund declared distributions of $0.54 per unit or a total of $19.2 million.

Monthly cash distributions from the Partnership are not directly equal to the Fund's pro-rata share of the Partnership's income under the equity method.

RISKS AND UNCERTAINTIES

The Fund is subject to certain risks and uncertainties related to the nature of its investment in the Partnership and the structure of the Fund, as well as all of the risks and uncertainties related to the business of the Partnership. A comprehensive discussion of these risks and uncertainties is contained in the Fund's Annual Information Form dated March 19, 2007, which is available on www.sedar.com.

RELATED PARTY TRANSACTIONS

All accounting, treasury, legal and administrative functions for the Fund are performed on its behalf by the Partnership pursuant to a support agreement.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. The determination of the future income tax liability requires management to estimate the future impacts of amortization of capital assets, capital cost allowance claims for tax purposes and changes to actuarial estimates of employee benefit plans. Changes in these estimates could have a material impact on the calculation of the liability.

CHANGE IN ACCOUNTING POLICY - FUTURE INCOME TAXES

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

In future periods, adjustments to this future tax liability will be required based on changes in the differences between the tax basis and financial statement basis of the Fund's and Partnership's assets and liabilities, and these adjustments could be material. Consistent with the initial recognition, any future adjustments will be non-cash in nature and will be either a charge or an addition to earnings of the period.

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

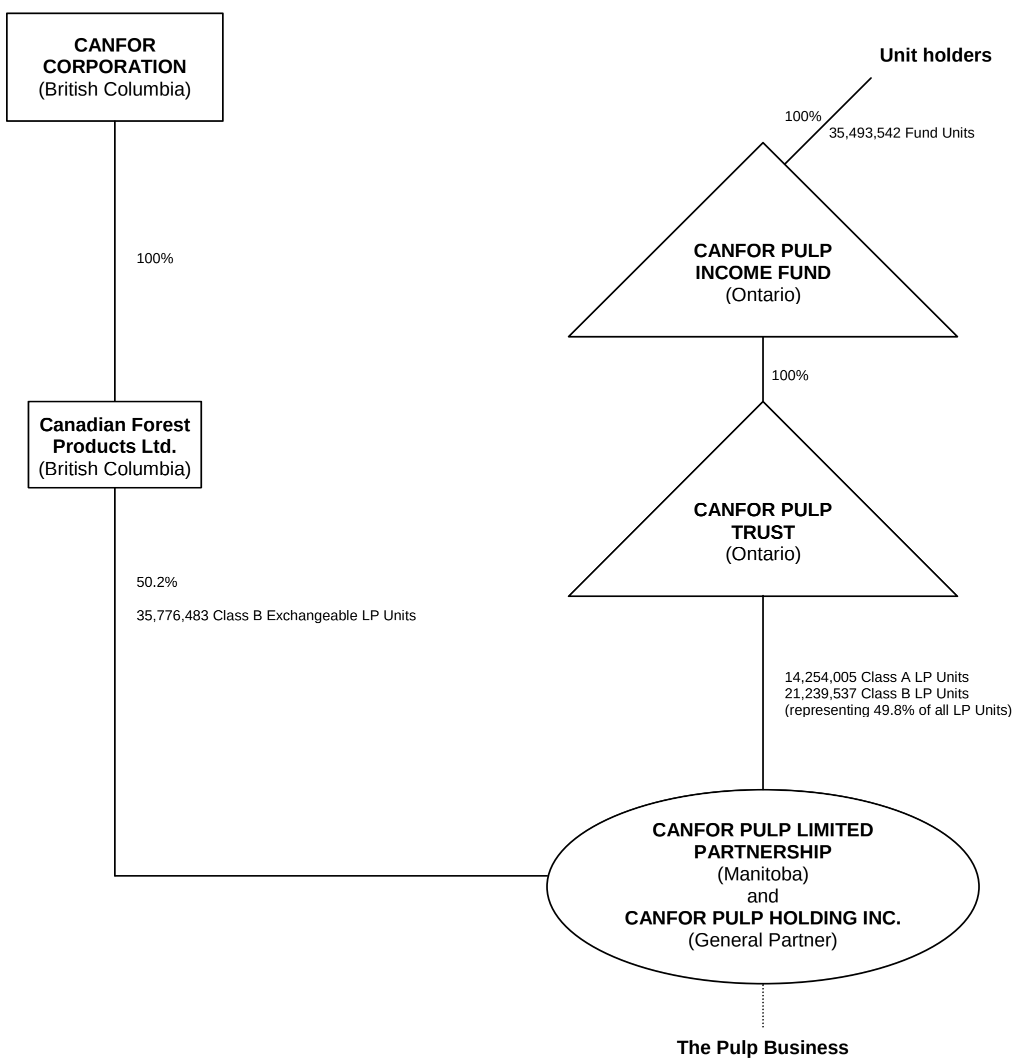
CANFOR PULP LIMITED PARTNERSHIP

Structure

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

At October 22, 2007, the Fund indirectly holds a total of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units, representing 49.8% of the Partnership and Canfor owns the remaining 50.2%. The Partnership is managed, on behalf of the limited partners, by Canfor Pulp Holding Inc., the General Partner. Below is a simplified schematic of the ownership structure.

<u>Partnership Structure</u>



Business

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

The Partnership owns and operates three mills with annual capacity to produce over one million tonnes of northern softwood market kraft pulp, 90% of which is bleached to become NBSK pulp for sale to the market, and approximately 135,000 tonnes of kraft paper.

SUMMARY OF SELECTED PARTNERSHIP RESULTS

(millions of dollars, except for per unit amounts, unaudited)	**Q3 2007**	Q2 2007	**YTD 2007**	Q3 2006	YTD 2006
Sales [1]	**228.9**	239.4	**706.5**	213.6	605.2
EBITDA [1, 2]	**48.8**	51.7	**160.6**	61.8	122.0
Operating income [1]	**35.4**	39.2	**122.6**	49.0	85.6
Net income	**33.2**	35.9	**117.7**	41.9	78.2
Per Partnership unit, basic and diluted					
Net income	**0.46**	0.51	**1.65**	0.59	1.10
EBITDA [1]	**0.68**	0.73	**2.25**	0.87	1.71
Average Canadian/US exchange rate [3]	**0.957**	0.911	**0.905**	0.892	0.883

Notes: [1] Comparative figures have been reclassified to conform to current year presentation.
[2] For calculation of EBITDA, see supplementary financial information on pg. 14.
[3] Source – Bank of Canada (average noon rate for the period).

EBITDA for the third quarter of 2007 decreased by $2.9 million from the previous quarter and $13.0 million when compared to the third quarter of 2006. These results are down from the prior quarter due to the impact of the stronger Canadian dollar. The negative impact on operating income from the stronger Canadian dollar in the third quarter of 2007 was approximately $10 million. Total manufacturing costs improved slightly when compared to the second quarter as higher mill productivity combined with lower energy, maintenance and operating costs offset an increase in fibre costs. Fibre costs increased 4% as a result of higher whole log chip deliveries. The Partnership increased the volume of whole log chipping in the quarter in order to increase chip inventories to mitigate the potential impact of future sawmill curtailments. When compared to the prior year quarter the $13.0 million decrease in EBITDA was primarily due to the impact of the stronger Canadian dollar and fibre costs, which more than offset increases in NBSK pulp list prices. Realized prices in Canadian dollar terms decreased by 2% quarter over quarter but improved by 4% when compared to the same quarter a year ago.

OPERATING RESULTS BY BUSINESS SEGMENT

Pulp

(millions of dollars unless otherwise noted, unaudited)	**Q3 2007**	Q2 2007	**YTD 2007**	Q3 2006	YTD 2006
Sales [1]	**199.3**	205.0	**612.0**	186.8	522.8
EBITDA [1]	**51.6**	54.9	**170.3**	63.8	128.6
EBITDA margin [1]	**26%**	27%	**28%**	34%	25%
Operating income [1]	**39.2**	43.4	**135.5**	52.1	95.2
Average pulp list price – (US$ per tonne, delivered to U.S.A.)	**837**	810	**812**	757	705
Average pulp list price (Cdn$ per tonne, delivered to U.S.A.)	**875**	889	**897**	849	798
Production – pulp (000 mt)	**265.7**	258.3	**782.9**	257.5	751.7
Shipments – Partnership-produced pulp (000 mt)	**257.1**	259.8	**770.0**	251.4	751.7
Marketed on behalf of HSLP & Canfor (000 mt)	**139.2**	152.1	**423.9**	149.4	442.4

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

Third quarter 2007 operating income of the pulp segment decreased by $4.2 million from the previous quarter and by $12.9 million when compared to the same quarter in the prior year. When compared to the prior quarter, the negative impact of the stronger Canadian dollar was only partially offset by a reduction in total costs and improved NBSK prices. Total manufacturing costs improved slightly when compared to the second quarter as higher productivity combined with lower energy, maintenance and operating costs offset an increase in fibre costs. Fibre costs increased 4% as a result of higher whole log chip deliveries. The Partnership expanded the whole log chipping initiative in the quarter in order to increase chip inventories to mitigate the potential impact of future sawmill curtailments. The third quarter 2007 results are lower than those in the same period a year ago, due to the impact of the stronger Canadian dollar and fibre costs, which more than offset increases in NBSK pulp list prices. When compared to the prior year, the benefit of a 4% increase in Canadian dollar realized price and higher sales and production volumes were offset by higher fibre costs. Fibre costs increased by 48% over the prior year due to tight residual chip supply in British Columbia.

Operations

NBSK production during the third quarter was 7,400 tonnes better than the second quarter and 8,200 tonnes better than the third quarter of 2006. The only scheduled maintenance downtime taken during the quarter was at the Prince George pulp and paper mill. Production tonnes lost in the quarter as a result of the downtime were approximately 4,500 tonnes less than the prior quarter. The increase in production over the prior year quarter was attributable to a 4% improvement in mill operating rates.

Markets

Market conditions continued to be generally favourable to producers during the third quarter of 2007. According to the Pulp and Paper Products Council (PPPC), producers' softwood kraft market pulp inventories ended August at 27 days of supply, slightly above the 24 days of supply at the end of the second quarter. The slower demand period normally experienced during the summer months caused a slight increase in producers' inventories. Generally a supply of 30 days is considered a level indicative of a well balanced market.

The printing and writing paper sector, which is the largest customer sector for Canfor Pulp, has seen flat to slightly lower demand this year through August, versus the same period of 2006. PPPC statistics covering the majority of our markets indicate that demand was down 1.0% through August. However by grade, coated mechanical paper demand, a large consumer of Partnership's products, was up by 1.8%. Most of the demand drop was in coated and uncoated wood free papers, not a target sector for the Partnership.

There are several factors that affect short and long term supply that are helping to keep the pulp market buoyant. Among these are escalating fibre costs, particularly in Canada and in Scandinavian countries, which are straining the viability of high cost pulp mills, the weakening U.S. dollar against both the Euro and the Canadian dollar which has the effect of reducing producer revenues and the coastal woodworkers strike in British Columbia.

NBSK pulp prices for delivery to the U.S.A. are currently at US$850 per tonne, and to Northern Europe are at US$830 per tonne. At the end of the second quarter, these prices were US$830 and US$800 per tonne respectively. The third quarter of 2006 started with prices at US$750 in the U.S.A. and US$710 in Northern Europe, and ended at US$770 and US$730 respectively.

Outlook – Pulp Markets

We expect pulp prices to remain within a narrow range over the balance of 2007 and 2008. The escalating value of the Canadian dollar and the Euro, versus the US dollar, will motivate pulp producers in these countries to try to push prices higher. However, paper demand growth has weakened, and papermakers are struggling to remain profitable. Further, there is new hardwood pulp capacity entering the market from the southern hemisphere. This could cause some price slippage in hardwood pulp markets which could also put pressure on substitution of hardwood pulp for softwood pulp.

Paper

(millions of dollars unless otherwise noted, unaudited)	**Q3 2007**	Q2 2007	**YTD 2007**	Q3 2006	YTD 2006
Sales [1]	**29.6**	34.4	**94.5**	26.8	82.4
EBITDA [1]	**0.9**	0.9	**2.9**	0.8	3.9
EBITDA margin [1]	**3%**	3%	**3%**	3%	5%
Operating (loss) income [1]	**(0.1)**	(0.1)	**(0.2)**	(0.2)	1.0
Production – paper (000 mt)	**33.0**	33.9	**98.5**	32.0	95.2
Shipments – paper (000 mt)	**30.8**	35.9	**97.1**	29.5	91.8

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

The operating loss of the paper segment for the third quarter of 2007 was $0.1 million, the same as the prior quarter and was a $0.1 million improvement when compared to the same quarter last year. Overall realized prices in Canadian dollar terms remained relatively flat with the stronger Canadian dollar offsetting the impact of higher kraft paper prices. The impact of lower sales volumes in the quarter was offset by lower raw material costs for slush pulp reflecting the lower Canadian dollar market price for pulp. When compared to the same period last year, an increase in Canadian dollar realized prices of 6% and higher sales and production volumes were offset by the higher cost for slush pulp, which is transferred at market price.

Operations

Paper production during the third quarter was down by 900 tonnes over the prior quarter and up 1,000 tonnes when compared to the same period in 2006. Scheduled maintenance downtime commenced at the end of the quarter representing approximately 1,900 tonnes of lost production with no maintenance downtime taken during the second quarter of 2007 and approximately 500 tonnes during the same period in the prior year. Offsetting the impact of scheduled maintenance downtime in the quarter were continued performance improvements of the paper machine representing 3% over the prior quarter and 8% when compared to the same period in 2006.

Markets

Kraft paper markets were relatively flat in the third quarter as the impact of the slow down in North American housing starts is offset by strong global demand. On the supply side approximately 170,000 tonnes of global kraft paper capacity has been shut primarily due to high fibre costs.

Outlook – Kraft Paper Markets

The market is expected to remain healthy through the balance of 2007 and well into 2008 with supply remaining tight. Prices are expected to continue to improve due to strong global demand and supply restrictions. High fibre costs and the strong Canadian dollar will put pressure on supply both globally and in Canada.

Non-Segmented Costs

(millions of dollars, unaudited)	**Q3 2007**	Q2 2007	**YTD 2007**	Q3 2006	YTD 2006
Unallocated costs	**3.7**	4.1	**12.7**	2.9	10.6
Business acquisition costs	**-**	-	**-**	5.9	5.9
Interest expense, net	**1.6**	1.6	**5.0**	1.8	1.8
Unrealized loss on derivative instruments	**3.1**	4.2	**5.1**	-	-
Unrealized foreign exchange (gain) on long-term debt	**(7.4)**	(9.8)	**(18.6)**	-	-
Foreign exchange (gain) loss on working capital[1]	**4.9**	7.2	**13.2**	(0.7)	(0.2)
Other expense (income)	**-**	0.1	**0.2**	0.1	(0.1)
	5.9	7.4	**17.6**	10.0	18.0

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

Unallocated Costs

Unallocated costs, comprised principally of general and administrative expenses, totalled $3.7 million in the third quarter of 2007 compared to $4.1 million in the prior quarter and $2.9 million in the same period last year. Unallocated costs were down slightly when compared to the prior quarter due to lower spending on consulting and services. When compared to the same period in the prior year the difference relates to higher accruals for performance based incentive plans.

Interest Expense

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

Other Non-segmented Items

The unrealized gains and losses on derivative instruments result from the adoption of the Canadian Institute of Chartered Accountants (CICA) new Handbook Section 3855 “Financial Instruments” at January 1, 2007. The net unrealized loss of $3.1 million recorded in the period relates to a revaluation to market of outstanding natural gas swaps at the end of the quarter. The natural gas swaps are used to fix the price on a portion of the Partnership’s ongoing natural gas requirements.

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

SUMMARY OF FINANCIAL POSITION

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

(millions of dollars, except for ratios, unaudited)	**Q3 2007**	**YTD 2007**	Q3 2006	YTD 2006
Ratio of current assets to current liabilities	**1.83**	**1.83**	1.88	1.88
Ratio of net debt to partners' equity [1]	**0.12**	**0.12**	0.18	0.18
Increase in cash and cash equivalents	**6.4**	**12.1**	14.2	16.8
Comprised of cash flow from (used in):				
Operating activities	**49.2**	**144.7**	37.3	105.6
Financing activities	**(38.5)**	**(116.9)**	(17.1)	(74.3)
Investing activities	**(4.3)**	**(15.7)**	(6.0)	(14.5)

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

Changes in Financial Position

Operating activities generated $49.2 million in cash in the third quarter of 2007 compared to $46.0 million in the prior quarter and $37.3 million when compared to the same period last year. The increase compared to the prior quarter, was due to higher cash generated from a reduction in working capital, primarily as a result of lower accounts receivable, offset by higher inventories and lower earnings in the current quarter. The increase in inventories is due to increases in both volume and unit costs of finished pulp and chips.

The cash used in financing activities in the quarter represents $38.5 million of distributions paid to the limited partners, Canfor and the Fund. Cash flows from financing activities in the prior year also include net cash transactions with Canfor prior to the spinout.

The cash used in investing activities is comprised of $4.3 million relating to capital expenditures net of accruals and non-cash increases in asset retirement obligations.

LIQUIDITY AND FINANCIAL REQUIREMENTS

At the end of the current quarter, the Partnership had cash and cash equivalents totaling $40.5 million. Cash and cash equivalents includes cash on hand and highly liquid investments with an original maturity date of 90 days or less with no holdings in asset backed commercial paper. The Partnership had bank operating lines of credit of $75.0 million, of which $30.6 million was reserved for a standby letter of credit issued to BC Hydro. Effective October 5, 2007 the standby letter of credit issued to BC Hydro was reduced to $27.3 million.

OUTSTANDING UNITS

At October 22, 2007, there were 71,270,025 Limited Partnership Units outstanding, of which 35,493,542 units (consisting of 14,254,005 Class A Limited Partnership Units and 21,239,537 Class B Limited Partnership Units) are owned by the Fund through Canfor Pulp Trust and 35,776,483 Class B Exchangeable Limited Partnership Units are owned indirectly by Canfor.

RELATED PARTY TRANSACTIONS

The Partnership's transactions with related parties are consistent with the transactions described in the December 31, 2006 audited consolidated financial statements and are based on agreed upon amounts, and are summarized in note 11 of the unaudited interim consolidated financial statements.

RISKS AND UNCERTAINTIES

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

SELECTED QUARTERLY PARTNERSHIP FINANCIAL INFORMATION

(unaudited)	**Q3 2007**	Q2 2007	Q1 2007	Q4 2006	Q3 2006	Q2 2006	Q1 2006	Q4 2005
Sales and Income (millions of dollars)								
Sales [1]	**228.9**	239.4	238.2	225.2	213.6	196.1	195.5	195.9
Operating income [1]	**35.4**	39.2	48.0	45.5	49.0	16.9	19.7	16.7
EBITDA [1]	**48.8**	51.7	60.1	58.1	61.8	28.0	32.2	29.0
Net income	**33.2**	35.9	48.6	44.8	41.9	15.9	20.4	16.6
Per Partnership unit (dollars) [2]								
Net income basic and diluted	**0.46**	0.51	0.68	0.63	0.59	0.22	0.29	0.23
Statistics								
Pulp shipments (000 mt)	**257.1**	259.8	253.1	249.8	251.4	244.6	255.7	260.7
Paper shipments (000 mt)	**30.8**	35.9	30.4	32.8	29.5	31.3	31.1	30.6
Average exchange rate (Cdn$/US$) [3]	**0.957**	0.911	0.854	0.878	0.892	0.891	0.866	0.852
Average pulp list price – (US$ per tonne, delivered to U.S.A.)	**837**	810	790	770	757	705	653	638

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

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

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. Management regularly reviews these estimates and assumptions based on currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Partnership's financial condition.

CHANGES IN ACCOUNTING POLICIES

Employee Future Benefits

During the quarter ended March 31, 2007, the Partnership determined that with respect to its participation in the Canfor salaried pension plans it was able to determine the benefit obligations and the attributable assets related to its employees. The Partnership has ceased to account for these pension costs on the basis of a multi-employer plan and has adopted the pronouncements applicable to accounting for defined benefit pension plans. This change is presented on a retroactive basis, without restatement, as the relevant information is not available for prior periods. The Partnership's accounting policy is detailed in notes 3 and 7 of the Partnership's unaudited interim consolidated financial statements.

Financial Instruments

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

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

As a result of adopting these new standards, the Partnership has classified its cash and cash equivalents as held-for-trading. Accounts receivable are classified as loans and receivables. Bank indebtedness, accounts payable and accrued charges, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

As a result of consideration of the new guidance provided in Section 3865 – “Hedges”, on a prospective basis, the Partnership has determined not to utilize hedge accounting on its existing derivative instruments. As a result, these instruments, which were previously recorded using hedge accounting, were measured at fair value on January 1, 2007 with a corresponding adjustment through accumulated other comprehensive income (see note 16 of the Partnership’s unaudited interim consolidated financial statements).

Section 1530 introduces new requirements for situations when certain gains and losses (“other comprehensive income”) must be temporarily presented outside of net income in a new Statement of Comprehensive Income. Comprehensive income is the change in the Partnership’s equity that results from transactions, events and circumstances from sources other than the Partners. For the quarter ended March 31, 2007, the Partnership recorded the reversal of unrealized losses on derivative instruments outstanding at December 31, 2006 in other comprehensive income. These derivative instruments had previously been accounted for as cash flow hedges and recorded in accordance with hedge accounting.

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

Asset Retirement Obligations

The Partnership maintains several ash ponds and landfills to dispose of fly ash from the power boilers. During the quarter ended September 30, 2007, the Partnership recognized asset retirement obligations in respect of landfill closure and post-closure monitoring costs. The change reflects new information on all sites concerning the estimated timing of closure and closure alternatives. As a result, the Partnership has recorded an obligation based on the fair value of the landfill closure costs of $8.9 million with a corresponding capital addition to the related assets. This estimate is based on expected closure of the respective mill landfills occurring in periods ranging from 10 to 25 years.

During the second quarter of 2007 an environmental containment liability was identified at the Intercon mill site arising from the normal operation of the ash pond. As a result, the Partnership has recorded an obligation based on the fair value of the containment estimate of $2.4 million, with a corresponding capital addition to the related asset, which will be amortized over the following 12 months.

The Partnership has certain assets that have indeterminate useful lives and, therefore, there is an indeterminate settlement date for the related asset retirement obligation. As a result, no asset retirement obligations are recorded for these assets. These assets include, for example, wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals and other related materials will be required once the related operating facility is closed. Once the useful life of these assets becomes determinable and an estimate of fair value can be made, an asset retirement obligation will be recorded.

CANFOR PULP LIMITED PARTNERSHIP

SUPPLEMENTARY FINANCIAL INFORMATION

(millions of dollars, unaudited)	3 months ended September 30, 2007	3 months ended September 30, 2006	9 months ended September 30, 2007
RECONCILIATION OF NET INCOME TO EBITDA			
Net Income	$ **33.2**	$ 41.9	$ **117.7**
Add (deduct):			
Amortization	**13.4**	12.8	**38.0**
Net interest expense	**1.6**	1.8	**5.0**
Unrealized foreign exchange gain on long-term debt	**(7.4)**	-	**(18.6)**
Unrealized loss on derivative instruments	**3.1**	-	**5.1**
Foreign exchange loss (gain) on working capital	**4.9**	(0.7)	**13.2**
Business acquisition costs	**-**	5.9	**-**
Other expense	**-**	0.1	**0.2**
EBITDA (operating income before amortization)	**$ 48.8**	$ 61.8	$ **160.6**
CALCULATION OF STANDARDIZED AND ADJUSTED DISTRIBUTABLE CASH			
Cash flow from operating activities	$ **49.2**	$ 37.3	$ **144.7**
Deduct: Capital expenditures – cash	**(4.3)**	(6.0)	**(12.3)**
Standardized distributable cash	$ **44.9**	$ 31.3	$ **132.4**
Adjustments to standardized distributable cash:			
Add (deduct):			
Increase (decrease) in non-cash working capital	**(6.8)**	21.8	**1.7**
Capital expenditures – accruals	**(2.5)**	-	**(4.8)**
Salary pension plan contribution	**-**	-	**(3.4)**
Adjusted distributable cash	$ **35.6**	$ 53.1	$ **125.9**
Standardized distributable cash – per unit (in dollars)	$ **0.63**	$ 0.44	$ **1.86**
Adjusted distributable cash – per unit (in dollars)	$ **0.50**	$ 0.75	$ **1.77**
Cash distributions declared (paid and payable)	**38.5**	31.4	**104.0**
Cash distributions declared – per unit (in dollars)	$ **0.54**	$ 0.44	$ **1.46**

STANDARDIZED DISTRIBUTABLE CASH AND CASH DISTRIBUTIONS

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

Management determines the level of cash distributions based on the level of cash flow from operations before working capital changes less actual and planned capital expenditures, 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; thus distributions may be adjusted as these estimates change. It is expected that normal seasonal fluctuations in working capital will be funded from cash resources or the revolving short-term credit facility, and thus will not significantly affect the level of distributions.

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

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

(thousands of dollars, except unit and per unit amounts, unaudited)	3 months ended **September 30, 2007**	 September 30, 2006	9 months ended September 30, 2007
Income			
Equity income in Canfor Pulp Limited Partnership	**$ 16,541**	$ 8,374	$ **58,644**
Net income before future income taxes	**16,541**	8,374	**58,644**
Future income taxes (notes 2, 7)	**-**	-	**39,337**
Net income	**16,541**	8,374	**19,307**
Distributions declared (note 4)	**(19,167)**	(6,272)	**(51,821)**
Earnings in excess of distributions - surplus (deficit)	**(2,626)**	2,102	**(32,514)**
Weighted average number of units	**35,493,542**	14,254,005	**35,493,542**
Net income per unit, basic and diluted (in dollars)	**$ 0.46**	$ 0.59	$ **0.54**
Net income for the period	**$ 16,541**	$ 8,374	$ **19,307**
Other comprehensive income			
Equity interest in other comprehensive income of Canfor Pulp Limited Partnership	**123**	-	**1,202**
Comprehensive income	**$ 16,664**	$ 8,374	$ **20,509**
Accumulated Earnings and Distributions			
Balance, beginning of period – Accumulated earnings in excess of distributions - surplus (deficit)	**$ (37,386)**	$ -	$ **(9,861)**
Accounting policy change (note 2)	**-**	-	**2,363**
Balance, beginning of period – Accumulated earnings in excess of distributions - surplus (deficit), as restated	**(37,386)**	-	**(7,498)**
Earnings in excess of distributions - surplus (deficit) - current period	**(2,626)**	2,102	**(32,514)**
Balance, end of period – Accumulated earnings in excess of distributions - surplus (deficit)	**$ (40,012)**	$ 2,102	$ **(40,012)**

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

Canfor Pulp Income Fund
Consolidated Statements of Cash Flows

(thousands of dollars, unaudited)	3 months ended September 30, 2007	3 months ended September 30, 2006	9 months ended September 30, 2007
Cash generated from (used in)			
Operating activities			
Net income	**$ 16,541**	$ 8,374	**$ 19,307**
Distributions received from Canfor Pulp Limited Partnership	**19,167**	3,421	**58,209**
Items not affecting cash:			
Equity income in Canfor Pulp Limited Partnership	**(16,541)**	(8,374)	**(58,644)**
Future income taxes (notes 2, 7)	**-**	-	**39,337**
	19,167	3,421	**58,209**
Financing activities			
Distributions paid to Unitholders (note 4)	**$ (19,167)**	$ (3,421)	**$ (58,209)**
Beginning, change and ending balance in cash and cash equivalents	**$ -**	$ -	**$ -**

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

Canfor Pulp Income Fund
Consolidated Balance Sheets

(thousands of dollars, unaudited)		**As at September 30, 2007**		As at December 31, 2006
ASSETS				
Current Assets				
Distributions receivable from Canfor Pulp Limited Partnership	**$**	**6,389**	**$**	12,778
Total current assets		**6,389**		12,778
Equity investment in Canfor Pulp Limited Partnership (note 3)		**298,963**		289,490
	$	**305,352**	**$**	302,268
LIABILITIES				
Current liabilities				
Distribution payable (note 4)		**6,389**		12,778
Total current liabilities		**6,389**		12,778
Future income taxes (notes 2, 7)		**39,337**		-
		45,726		12,778
UNITHOLDERS' EQUITY				
Unitholders' equity - 35,493,542 Fund units outstanding		**299,351**		299,351
Accumulated earnings and distributions		**(40,012)**		(9,861)
Accumulated other comprehensive income (note 6)		**287**		-
Total Unitholders' Equity		**259,626**		289,490
	$	**305,352**	**$**	302,268

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

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

Approved by the Trustees

<< *Stan Bracken-Horrocks* >>   << *Charles Jago* >>

Stan Bracken-Horrocks   Charles Jago

Canfor Pulp Income Fund

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

1. Description of the Fund and Basis of Presentation of Financial Statements

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

These unaudited interim consolidated financial statements include the accounts of the Fund and the Trust. From the date of its establishment on April 21, 2006 to June 30, 2006 the Fund was inactive. As a result there are no comparative figures in the unaudited interim consolidated financial statements for the 9 months ended September 30, 2006.

Each unitholder participates pro-rata in any distributions from the Fund.

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

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the disclosures required by Canadian generally accepted accounting principles for annual financial statements and, accordingly, should be read in conjunction with the audited consolidated financial statements and notes included in the Fund's 2006 Annual Report. These unaudited interim consolidated financial statements follow the same accounting policies and methods of computation as used in the 2006 consolidated financial statements, except as noted below.

Financial Instruments

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

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

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

Section 1530 introduces new requirements for situations when certain gains and losses ("other comprehensive income") must be temporarily presented outside of net income in a new Statement of Comprehensive Income. Comprehensive income is the change in the Fund's Unitholder's equity that result from transactions, events and circumstances from sources other than the Unitholders. For the period ended September 30, 2007, the Fund's other comprehensive income resulted from its equity interest in the Partnership (see notes to the Partnership's unaudited interim consolidated financial statements).

Future Income Taxes

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

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

3. Equity Investment in Canfor Pulp Limited Partnership

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

(thousands of dollars, unaudited)	**9 months ended September 30, 2007**	6 months ended December 31, 2006
Balance, beginning of period	**289,490**	116,560
Accounting policy change – Partners' equity of the Partnership	**2,363**	-
Accounting policy change – Accumulated other comprehensive income of the Partnership	**(915)**	-
Issuance of Fund units for exchangeable Partnership units (November 30, 2006) – 21,239,537 Fund units	**-**	182,791
Equity in income of the Partnership	**58,644**	20,558
Equity interest in other comprehensive income of the Partnership	**1,202**	-
Distributions earned	**(51,821)**	(30,419)
Balance, end of period	**298,963**	289,490

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

4. Distributions

The Fund declared distributions during the first 9 months of 2007 as follows:

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

Record Date	**Payable Date**	**Amount per Fund Unit** $	**Amount** $
January 31, 2007	February 15, 2007	0.14	4,969
February 28, 2007	March 15, 2007	0.14	4,969
March 30, 2007	April 13, 2007	0.14	4,969
April 30, 2007	May 15, 2007	0.14	4,969
May 31, 2007	June 15, 2007	0.18	6,389
June 29, 2007	July 13, 2007	0.18	6,389
July 31, 2007	August 15, 2007	0.18	6,389
August 31, 2007	September 14, 2007	0.18	6,389
September 28, 2007	October 15, 2007	0.18	6,389
		1.46	51,821

The Fund's monthly distributions are based on the Partnership's monthly distributions.

Monthly cash distributions from the Partnership are based on the Partnership's cash flow and are not directly equal to the Fund's pro-rata share of the Partnership's income under the equity method.

5. Related Party Transactions

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

6. Accumulated Other Comprehensive Income

(thousands of dollars, unaudited)	**9 months ended September 30, 2007**
Balance, beginning of period – January 1, 2007	**-**
Accounting policy change - Accumulated other comprehensive loss of the Partnership	**(915)**
Balance, beginning of period – January 1, 2007 as restated	**(915)**
Other comprehensive income	**1,202**
Balance, end of period	**287**

7. Future Income Taxes

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

(thousands of dollars, unaudited)	**9 months ended September 30, 2007**	6 months ended December 31, 2006
Expected income tax expense at statutory tax rate of nil (2006 – nil)	**-**	-
Future income taxes on temporary differences	**39,337**	-
	39,337	-

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

(thousands of dollars, unaudited)	**September 30, 2007**
Future income tax liability:	
Equity investment in the Partnership	**49,916**
Expected reversal of temporary differences prior to 2011	**(10,579)**
	39,337

Based on a current estimate of the income tax liability at the beginning of 2011, the Fund has recognized a future income tax liability and corresponding non-cash future tax charge to net income in the second quarter of 2007. This non-cash charge relates to the Fund's 49.8% ownership in the Partnership and is based on temporary differences between the accounting and tax basis of the Partnership's assets and liabilities expected to reverse after January 1, 2011.

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

(millions of dollars, unaudited)	3 months ended September 30, 2007	2006	9 months ended September 30, 2007	2006
Sales	**$ 228.9**	$ 213.6	**$ 706.5**	$ 605.2
Costs and expenses				
Manufacturing and product costs	**147.1**	118.4	**442.2**	380.2
Freight and other distribution costs	**27.1**	27.9	**84.7**	85.8
Amortization	**13.4**	12.8	**38.0**	36.4
Selling and administration costs	**5.9**	5.5	**19.0**	17.2
	193.5	164.6	**583.9**	519.6
Operating income	**35.4**	49.0	**122.6**	85.6
Interest expense, net	**(1.6)**	(1.8)	**(5.0)**	(1.8)
Unrealized foreign exchange gain on long-term debt	**7.4**	-	**18.6**	-
Unrealized loss on derivative instruments (note 13)	**(3.1)**	-	**(5.1)**	-
Foreign exchange (loss) gain on working capital	**(4.9)**	0.7	**(13.2)**	0.2
Business acquisition costs	**-**	(5.9)	**-**	(5.9)
Other income (expense)	**-**	(0.1)	**(0.2)**	0.1
	(2.2)	(7.1)	**(4.9)**	(7.4)
Net Income	**33.2**	41.9	**117.7**	78.2
Other comprehensive income				
Adjustment for realized derivatives (note 16)	**0.2**	-	**2.4**	-
Comprehensive Income	**$ 33.4**	$ 41.9	**$ 120.1**	$ 78.2
Net income per Partnership unit (in dollars) (note 12)				
Basic and diluted	**$ 0.46**	$ 0.59	**$ 1.65**	$ 1.10
Weighted average Partnership units outstanding	**71,270,025**	71,270,025	**71,270,025**	71,270,025
Partners' Equity				
Balance, beginning of period	**$ 605.1**	$ 582.8	**$ 581.0**	$ 728.7
Accounting policy change (note 3)	**-**	-	**2.9**	-
Balance, beginning of period as restated	**605.1**	582.8	**583.9**	728.7
Net transactions with Canfor	**-**	-	**-**	(57.2)
Issuance of promissory Note on acquisition	**-**	-	**-**	(125.0)
Net Income	**33.2**	41.9	**117.7**	78.2
Distributions to partners (note 15)	**(38.5)**	(31.4)	**(104.0)**	(31.4)
Other comprehensive income (note 16)	**0.2**	-	**2.4**	-
Balance, end of period	**$ 600.0**	$ 593.3	**$ 600.0**	$ 593.3

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, 2007	3 months ended September 30, 2006	9 months ended September 30, 2007	9 months ended September 30, 2006
Cash and cash equivalents generated from (used in)				
Operating activities				
Net income	**$ 33.2**	$ 41.9	**$ 117.7**	$ 78.2
Items not affecting cash:				
Amortization	**13.4**	12.8	**38.0**	36.4
Unrealized foreign exchange gain on long-term debt	**(7.4)**	-	**(18.6)**	-
Unrealized loss on derivative instruments	**3.1**	-	**5.1**	-
Employee future benefits	**1.7**	1.5	**4.9**	6.0
Other	**(1.6)**	2.9	**(0.7)**	(5.5)
Cash flow from operations before working capital changes	**42.4**	59.1	**146.4**	115.1
Decrease (increase) in non-cash working capital (note 14)	**6.8**	(21.8)	**(1.7)**	(9.5)
Cash flow from operating activities	**49.2**	37.3	**144.7**	105.6
Financing activities				
Distributions paid to partners	**(38.5)**	(17.1)	**(116.9)**	(17.1)
Net transactions with Canfor	**-**	-	**-**	(57.2)
	(38.5)	(17.1)	**(116.9)**	(74.3)
Investing activities				
Property, plant and equipment, net (note 14)	**(4.3)**	(6.0)	**(12.3)**	(14.5)
Salary pension plan contribution	**-**	-	**(3.4)**	-
	(4.3)	(6.0)	**(15.7)**	(14.5)
Increase in cash and cash equivalents	**6.4**	14.2	**12.1**	16.8
Cash and cash equivalents, beginning of period	**34.1**	3.2	**28.4**	0.6
Cash and cash equivalents, end of period	**$ 40.5**	$ 17.4	**$ 40.5**	$ 17.4

Supplementary cash flow information (note 14)

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, 2007**		As at December 31, 2006
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**40.5**	$	28.4
Accounts receivable (note 11)				
Trade		**145.9**		130.9
Other		**6.6**		6.7
Inventories (note 4)		**131.8**		111.0
Prepaid expenses		**22.5**		13.1
Total current assets		**347.3**		290.1
Property, plant and equipment (note 5)		**586.7**		598.6
Deferred charges and other assets (note 6)		**13.7**		4.7
	$	**947.7**	$	893.4
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (note 11)	**$**	**176.7**	$	125.5
Distributions payable (note 15)		**12.8**		25.8
Total current liabilities		**189.5**		151.3
Long-term debt (note 9)		**109.6**		128.2
Long-term liabilities (note 10)		**48.6**		32.9
	$	**347.7**	$	312.4
PARTNERS' EQUITY – 14,254,005 Class A Limited Partnership Units and 57,016,020 Class B Limited Partnership Units (note 1)		**600.0**		581.0
	$	**947.7**	$	893.4

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

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

<< Stan Bracken-Horrocks>> *<< Paul Richards >>*

Stan Bracken-Horrocks
Director

Paul Richards
Director

Canfor Pulp Limited Partnership

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

1. Business Description and Basis of Presentation

Canfor Pulp Limited Partnership (the Partnership) is a limited partnership formed on April 21, 2006, under the laws of Manitoba, to acquire and carry on the NBSK pulp and paper business of Canadian Forest Products Ltd. a subsidiary of Canfor Corporation (collectively Canfor). The business consists of two NBSK pulp mills and one NBSK pulp and paper mill located in Prince George, British Columbia and a marketing group based in Vancouver, British Columbia (the Pulp Business).

At September 30, 2007, Canfor owns 50.2% and Canfor Pulp Income Fund (the Fund) indirectly owns 49.8% of the issued and outstanding units of the Partnership.

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

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

These unaudited interim consolidated financial statements are those of the Partnership and do not include the assets, liabilities, revenues and expenses of its partners. The Partnership, other than its incorporated subsidiaries, is not subject to income taxes as its income is allocated for tax purposes to its partners. Accordingly, no recognition has been made for income taxes related to Partnership income in these financial statements. The tax attributes of the Partnership's net assets flow directly to the partners.

Certain comparative figures have been reclassified to conform to current year presentation.

Economic Dependence

The Partnership depends on Canfor to provide approximately 64% of its fibre supply as well as to provide certain key business and administrative services as described in the Fund's 2006 Annual Report. As a result of these relationships the Partnership considers its operations to be dependent on its ongoing relationship with Canfor.

2. Significant Accounting Policies

These unaudited interim consolidated financial statements do not include all of the note disclosures required by Canadian generally accepted accounting principles for annual financial statements. Except as described in note 3, the Partnership's accounting policies are as disclosed in the annual audited consolidated financial statements included in the Fund's 2006 Annual Report available at www.canforpulp.com or www.sedar.com.

3. Changes in Accounting Policies

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

(millions of dollars, unaudited)

Defined benefit pension plans	6.3
Deferred financing costs	(1.6)
Accumulated other comprehensive income	(1.8)
	2.9

The aggregate adjustment resulting from the change in accounting policy and the adoption of new accounting pronouncements was an increase of $2.9 million to opening Partners' equity.

Employee Future Benefits

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

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

Financial Instruments

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

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

As a result of adopting these new standards, the Partnership has classified its accounts receivable as loans and receivables. Bank indebtedness, accounts payable and accrued liabilities, and long-term debt, including interest payable, are classified as other liabilities, all of which are measured at amortized cost. Derivative instruments are recorded in the balance sheet at fair value, including those derivatives that are embedded in financial or non-financial contracts that are not closely related to the host contract.

As a result of consideration of the new guidance provided in Section 3865 – "Hedges", on a prospective basis, the Partnership has determined not to utilize hedge accounting on its existing derivative instruments. As a result, these instruments, which were previously recorded using hedge accounting, were measured at fair value on January 1, 2007 with a corresponding adjustment through accumulated other comprehensive income (see note 16).

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

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

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

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

Asset Retirement Obligations

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

4. Inventories

(millions of dollars, unaudited)	**September 30, 2007**	December 31, 2006
Pulp	**59.2**	48.9
Paper	**13.1**	11.6
Wood chips	**11.6**	5.4
Processing materials and supplies	**47.9**	45.1
	131.8	111.0

5. Property Plant and Equipment

(millions of dollars, unaudited)	**September 30, 2007** Cost	Accumulated amortization	Net
Land and improvements	**14.4**	**-**	**14.4**
Buildings, machinery and equipment	**1,280.9**	**721.3**	**559.6**
Construction in progress	**12.7**	**-**	**12.7**
	1,308.0	**721.3**	**586.7**

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

6. Deferred Charges and Other Assets

(millions of dollars, unaudited)	**September 30, 2007**	December 31, 2006
Salaried pension plan	**11.3**	-
Maintenance shutdown costs	**2.4**	3.0
Other	**-**	1.7
	13.7	4.7

7. Employee Future Benefits

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

Total employee future benefit expenses were as follows:

	3 months ended September 30		**9 months ended September 30**	
(millions of dollars, unaudited)	**2007**	2006	**2007**	2006
Pension plans	**1.2**	1.0	**3.6**	3.4
Other employee future benefit plans	**1.5**	1.5	**4.6**	4.9
Contributions to forest industry union plans	**1.7**	1.6	**5.0**	5.0
	4.4	4.1	**13.2**	13.3

8. Asset Retirement Obligations

(millions of dollars, unaudited)	**September 30, 2007**
Balance as of June 30,2007	2.4
Accrued obligations - Landfills	8.9
	11.3

During the quarter ended September 30, 2007, the Partnership recognized asset retirement obligations in respect of landfill closure costs. This reflects new information on all sites concerning the estimated timing of closure and closure alternatives. The obligations represent estimated future payments of $20.1 million which have been discounted at 6.0%. Payments relating to landfill closure costs are expected to occur at periods ranging from 10 to 25 years with a current estimated fair value of $8.9 million and the amount is included in long-term liabilities.

During the quarter ended June 30, 2007, the Partnership recognized an asset retirement obligation in respect of an ash pond at the Intercon mill site. It is estimated that the containment work will be completed and obligation settled during the second quarter of 2008 for an undiscounted value of $2.5 million. An environmental containment liability has been identified in respect of the normal operations of the ash pond with a fair value of $2.4 million assuming a 6.2% credit adjusted risk free discount rate. This liability is included in accrued liabilities.

The Partnership has certain assets that have indeterminate useful lives and, therefore, there is an indeterminate settlement date for the related asset retirement obligation. As a result, no asset retirement obligations are recorded for these assets. These assets include, for example, wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals and other related materials will be required once the related operating facility is closed. Once the useful life of these assets becomes determinable and an estimate of fair value can be made, an asset retirement obligation will be recorded.

9. Long-term Debt

At September 30, 2007 the Partnership has outstanding long-term debt of $109.6 million (US$110.0 million) in the form of unsecured U.S. dollar private placement notes (the Notes). The Notes bear interest at 6.41% and are repayable in full on their maturity date of November 30, 2013.

The fair value of long-term debt at September 30, 2007 was $ 113.3 million (US$113.7 million).

10. Long-term Liabilities

(millions of dollars, unaudited)	**September 30, 2007**	December 31, 2006
Accrued pension obligations	**3.7**	2.7
Post employment benefits (note 7)	**34.3**	30.2
Derivative financial instruments	**1.7**	-
Asset retirement obligations (note 8)	**8.9**	-
	48.6	32.9

11. Related Party Transactions

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

	3 months ended September 30		9 months ended September 30	
(millions of dollars, unaudited)	**2007**	2006	**2007**	2006
Transactions				
Canfor	**39.9**	23.7	**109.1**	70.0
Howe Sound LP - commission	**0.7**	1.3	**2.3**	4.0
Lakeland Mills Ltd. and Winton Global Lumber Ltd. – purchase of wood chips	**2.6**	2.2	**9.6**	6.0

	September 30	
	2007	2006
Balance Sheet		
Included in accounts payable and accrued liabilities:		
Canfor	**29.7**	26.8
Howe Sound LP	**52.4**	45.9
Lakeland Mills Ltd. and Winton Global Lumber Ltd.	**0.8**	0.7
Included in trade accounts receivable:		
Product marketed for Canfor	**13.1**	13.5
Product marketed for Howe Sound LP	**41.4**	45.0

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

12. Income per Partnership Unit

Basic income per Partnership unit is based on the weighted average number of Limited Partnership units outstanding during the period. All outstanding Partnership units were issued on July 1, 2006, and there was no change in the number of outstanding Partnership units during the quarter. For purposes of comparative amounts for periods prior to July 1, 2006, it was assumed that the same number of units was outstanding throughout the comparative periods. There were no other securities with rights to conversion into Partnership units outstanding.

13. Financial Instruments

The Partnership uses a variety of derivative instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, pulp prices and natural gas.

The net unrealized loss recorded in the quarter ended September 30, 2007 relating to derivative instruments totaled $3.1 million. This relates to outstanding commodity swaps hedging future natural gas purchases of 5.3 million giga-joules extending to October 2010. This compares to a loss of $4.2 million recorded in the prior quarter.

14. Supplementary Cash Flow Information

(millions of dollars, unaudited)	3 months ended September 30 2007	3 months ended September 30 2006	9 months ended September 30 2007	9 months ended September 30 2006
Changes in non-cash working capital				
Accounts receivable	**26.5**	(30.2)	**(15.1)**	(23.6)
Inventories	**(12.9)**	(2.5)	**(20.8)**	7.2
Prepaid expenses	**(4.9)**	3.0	**(9.4)**	(12.4)
Accounts payable and accrued liabilities	**(1.9)**	7.9	**43.6**	19.3
	6.8	(21.8)	**(1.7)**	(9.5)
Capital expenditures				
Capital expenditures - cash	**4.3**	6.0	**12.3**	14.5
Capital expenditures – accruals	**2.5**	-	**4.8**	-
Asset retirement obligations – long term	**8.9**	-	**8.9**	-
	15.7	6.0	**26.0**	14.5
Net interest received (paid)	**0.3**	0.2	**(3.8)**	0.2

15. Distributions

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

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

Record Date	Payable Date	Amount per Partnership Unit $	Amount $
January 31, 2007	February 15, 2007	0.14	**10.0**
February 28, 2007	March 15, 2007	0.14	**9.9**
March 30, 2007	April 13, 2007	0.14	**10.0**
April 30, 2007	May 15, 2007	0.14	**10.0**
May 31, 2007	June 15, 2007	0.18	**12.8**
June 29, 2007	July 13, 2007	0.18	**12.8**
July 31, 2007	August 15, 2007	0.18	**12.8**
August 31, 2007	September 14, 2007	0.18	**12.9**
September 28, 2007	October 15, 2007	0.18	**12.8**
		1.46	**104.0**

16. Accumulated Other Comprehensive Income

(millions of dollars, unaudited)	3 months ended September 30, 2007	9 months ended September 30, 2007
Balance, beginning of period	**0.4**	-
Accounting policy change for derivative instruments:		
Unrealized loss on natural gas swaps	**-**	**(0.8)**
Unrealized loss on pulp swaps	**-**	**(1.0)**
Balance, beginning of period, as restated	**0.4**	**(1.8)**
Adjustment for derivatives recorded in other comprehensive income	**0.2**	**2.4**
Balance, end of period	**0.6**	**0.6**

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

(millions of dollars, unaudited)	September 30, 2007
Partners' capital – at July 1, 2006, as restated	**587.5**
Cumulative net income	**204.4**
Cumulative distributions	**(192.5)**
Accumulated other comprehensive income	**0.6**
Partner's equity, end of period	**600.0**

17. Segmented Information [a]

(millions of dollars, unaudited)	Pulp	Paper	Unallocated Costs [d]	Total
3 months ended September 30, 2007				
Sales to external customers [b]	**199.3**	**29.6**	**-**	**228.9**
Sales of pulp to paper segment [c]	**19.8**	**(19.8)**	**-**	**-**
Operating income (loss)	**39.2**	**(0.1)**	**(3.7)**	**35.4**
Amortization	**12.4**	**1.0**	**-**	**13.4**
Capital expenditures, net	**15.3**	**0.4**	**-**	**15.7**
3 months ended September 30, 2006				
Sales to external customers [b]	186.8	26.8	-	213.6
Sales of pulp to paper segment [c]	18.7	(18.7)	-	-
Operating income (loss)	52.1	(0.2)	(2.9)	49.0
Amortization	11.7	1.0	0.1	12.8
Capital expenditures, net	5.7	0.3	-	6.0
9 months ended September 30, 2007				
Sales to external customers [b]	**612.0**	**94.5**	**-**	**706.5**
Sales of pulp to paper segment [c]	**61.0**	**(61.0)**	**-**	**-**
Operating income (loss)	**135.5**	**(0.2)**	**(12.7)**	**122.6**
Amortization	**34.8**	**3.1**	**0.1**	**38.0**
Capital expenditures, net	**24.5**	**1.4**	**0.1**	**26.0**
Identifiable assets	**815.5**	**71.7**	**60.5**	**947.7**
9 months ended September 30, 2006				
Sales to external customers [b]	522.8	82.4	-	605.2
Sales of pulp to paper segment [c]	51.3	(51.3)	-	-
Operating income (loss)	95.2	1.0	(10.6)	85.6
Amortization	33.5	2.8	0.1	36.4
Capital expenditures, net	12.5	0.2	1.8	14.5
Identifiable assets	808.3	69.7	29.5	907.5

(a) Operations are presented by product lines. Operations are considered to be in one geographic area since all production facilities are in Canada. Substantially all sales are exported outside Canada, with sales to the United States representing 41% (2006 – 44%).

(b) Sales to the two largest customers represented approximately 35% of pulp segment sales (2006 – 36%).

(c) Sales of slush pulp to the paper segment are accounted for at approximate market value. The sales are transacted as a cost transfer and are not reflected in Pulp sales.

(d) Unallocated costs represent actual head office administrative costs in the first nine months of 2007. For the first six months of 2006, head office administrative costs were based on allocated Canfor corporate expenses as described in Note 1.