

CANFOR PULP INCOME FUND
CANFOR PULP LIMITED PARTNERSHIP
Interim Consolidated Financial Statements

For the three and nine months ended September 30, 2007

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		9 months ended
	September 30, 2007	September 30, 2006	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		9 months ended
	September 30, 2007	September 30, 2006	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,		9 months ended September 30,	
	2007	2006	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,		9 months ended September 30,	
	2007	2006	2007	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

Paul Richards

Director

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:

(millions of dollars, unaudited)	3 months ended September 30		9 months ended September 30	
	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:

(millions of dollars, unaudited)	3 months ended September 30		9 months ended September 30	
	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 gigajoules 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		9 months ended September 30	
	2007	2006	2007	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	9 months ended
	September 30, 2007	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.