



## International Forest Products Limited Third Quarter Report

For the nine months ended September 30, 2003



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### *Report to Shareholders and Management Discussion and Analysis:*

#### **OPERATING RESULTS**

International Forest Products Limited (“Interfor” or the “Company”) recorded a net loss of \$1.4 million or \$0.04 per share in the 3rd Quarter of 2003 compared to a net loss of \$12.1 million or \$0.34 per share in the 2nd Quarter of 2003 and to net earnings of \$7.9 million or \$0.22 per share in the 3rd Quarter last year. For the nine months ended September 30, 2003, Interfor’s net loss amounted to \$16.3 million or \$0.45 per share, compared to net earnings of \$27.3 million in the same period in 2002. Included in Interfor’s results for the quarter was an increase in revenues of \$3.2 million from foreign exchange hedging activities which reduced the net loss after tax by \$2.0 million or \$0.05 per share. A similar gain was recorded in the 2nd Quarter.

The improvement in Interfor’s results in the 3rd Quarter reflects improved performance in the Company’s manufacturing operations which benefited from higher sales realizations, lower conversion costs and a reduction in the price of logs purchased in the open market. These gains were offset, in part, by a drop in results from the Company’s coastal woodlands operations attributable to the decline in log prices and the effects of operational curtailments related to weather and economic factors.

In addition, the Company’s results in the 3rd Quarter reflect volume reductions in certain high value inventory items that had the effect of increasing net earnings by \$3.3 million or \$0.09 per share.

The combination of U.S. duties, rising Canadian dollar and on-going weakness in Japan continues to put significant pressure on Interfor and other Coastal operators. In response, Interfor adjusted operating rates in the 3rd Quarter to bring production into line with market demand and to ensure the best possible financial results.

Lumber shipments totalled 144 million board feet in the 3rd Quarter compared to 181 million board feet in the same quarter last year. Log production totalled 336,000 m<sup>3</sup> in the 3rd Quarter compared to 700,000 m<sup>3</sup> in the same quarter last year.

Overall, sales revenue was \$141.5 million in the quarter compared to \$196.7 million in the 3rd Quarter of 2002. EBITDA (see note 9 to the Consolidated Financial Statements) was \$7.0 million compared to \$31.2 million last year.

During the 3rd Quarter Interfor paid \$7.3 million in duties on shipments of 39 million board feet to the U.S. bringing the total to \$25.1 million on shipments of 137 million board feet through the first nine months of the year. In the 3rd Quarter of 2002 Interfor paid \$10.4 million in duties on shipments of 49 million board feet to the U.S.

## **CASH FLOW AND BALANCE SHEET**

During the quarter, Interfor generated \$23.4 million in cash from operations after changes in working capital. Capital spending in the quarter was \$8.5 million, including \$3.0 million in roads, \$0.3 million in maintenance capital, \$2.7 million in high return discretionary projects and \$2.5 million in land development costs.

In August, the Company decreased its operating line of credit from \$100 million to \$75 million and increased its revolving term line of credit from \$50 million to \$75 million.

In early September Interfor completed the issuance of 12.9 million shares at a price of \$5.85 per share by way of a "bought deal" with a syndicate of Canadian underwriters. Net proceeds from the offering of \$72.2 million were used to pay down existing bank indebtedness.

As a result, Interfor's net debt declined to \$1.1 million, or less than 1% of invested capital, at the end of the quarter. The Company's strong balance sheet provides Interfor with significant protection against uncertainty, and with an excellent foundation to pursue strategic opportunities. At September 30, 2003 Interfor had unused lines of credit of more than \$140 million.

## **OUTLOOK**

Prospects for the balance of 2003 and for early 2004 centre around the U.S. softwood dispute, conditions in Japan and the direction of the Canadian dollar.

As of October 23, the U.S. Department of Commerce had not finalized its Policy Bulletin. The Bulletin was expected to outline the criteria against which Canadian provinces could apply for revocation of the countervail duty order following the introduction of market-based policy reforms or other measures designed to increase the transparency of timber pricing on Crown land. Without the Bulletin, the prospects for a negotiated settlement of the softwood dispute are reduced. In the meantime, Canadian producers and their governments continue to challenge the rulings of U.S. trade authorities at the WTO and NAFTA.

In spite of record demand, lumber prices in the U.S. are under significant pressure, having given up most of the gains achieved in the 2nd Quarter. In Interfor's view, prices are likely to remain under pressure for the balance of the year unless production throughout North America is reduced.

As well, the market for cedar products continues to be negatively impacted by the U.S. duty and competition from non-wood substitutes.

In Japan, market conditions have improved since the early part of the year in response to government incentives to encourage housing construction and the effect of production curtailments which improved the balance between demand and available supply. Interfor is also encouraged by signs of improvement in the Japanese economy.

The growing strength of the Canadian dollar continues to impact Interfor's operations and financial results. All of Interfor's sales to the U.S. and the majority of the Company's other exports are denominated in or tied in some way to the U.S. dollar. Interfor estimates that each one cent movement in the Canadian dollar versus the U.S. dollar impacts pre-tax operating earnings by \$3 million on an annualized basis. Further appreciation of the Canadian dollar will simply add to the burden the Company has incurred so far this year and increase the challenges Interfor faces in returning the Company to acceptable levels of profitability.

Overall, Interfor is not looking for an improvement in the external market environment in the short term. In all likelihood, the Company's financial results will remain under significant pressure through the balance of the year and into the early part of 2004. In response, Interfor will continue to adjust its operating programs to ensure the best possible financial results and is actively looking at opportunities to restructure the Company's operations in order to further reduce costs.

## NEGOTIATION WITH THE IWA

The contract between Coastal employers, represented by Forest Industrial Relations (FIR) and the Industrial, Wood and Allied Workers (IWA) expired in mid-June. The IWA has proposed a multi-year agreement involving increases in wages and benefits and other improvements. FIR has modified its original proposal of a one-year extension of the recently expired agreement and has proposed a short-term agreement which would include measures to facilitate improvements in productivity and to reduce the industry's overall cost structure. A recent report by PricewaterhouseCoopers has indicated that labour costs in the coastal industry are significantly higher than in other jurisdictions. This discrepancy versus U.S. producers has widened during the course of 2003 as the Canadian dollar has appreciated against the U.S. dollar. As of this writing, the IWA has petitioned the Labour Relations Board to conduct a final vote of FIR members on the IWA's recent proposal. A hearing before the LRB on the legality of the IWA's request is scheduled for October 24th. In the meantime, FIR's Board of Directors has voted unanimously to recommend rejection of the IWA's proposal.

## FUTURE VISION FOR COASTAL INDUSTRY

In September, Interfor co-authored with TimberWest and Weyerhaeuser a paper outlining a vision of the Coastal forest industry in ten years if steps are taken to address the structural challenges that have affected the industry for the last fifteen years. The paper – Embracing a New Vision: Rebuilding B.C.'s Coastal Forest Industry – calls on the industry's key stakeholders – industry, labour, contractors and government – to come together to reposition the industry in the global marketplace and to create an environment conducive to raising the capital needed to rejuvenate the industry.

Interfor is determined to be a significant and successful player in a revitalized Coastal industry and the Company is optimistic the paper will act as a catalyst for future progress.

The paper can be viewed on Interfor's website at [www.interfor.com](http://www.interfor.com).

## FORWARD LOOKING STATEMENTS

This report contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign-currency exchange rates and other factors referenced herein and in the Company's annual statutory information.



William L. Sauder  
Chairman



Duncan K. Davies  
President and Chief Executive Officer



## CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended September 30, 2003 and 2002 (unaudited)

(thousands of dollars except earnings per share)

	3 Months Sept. 30, 2003	3 Months Sept. 30, 2002	9 Months Sept. 30, 2003	9 Months Sept. 30, 2002
		(restated – note 1(a))		(restated – note 1(a))
<b>Sales</b>	\$ 141,459	\$ 196,717	\$ 475,270	\$ 568,470
<b>Costs and expenses:</b>				
Production (note 1(b))	131,245	163,393	467,245	483,212
Selling and administration	4,884	4,206	13,824	13,444
Amortization of plant and equipment	4,896	5,855	14,987	15,965
Depletion and amortization of timber, roads and other	3,698	9,265	11,384	21,043
Recovery of duties accrued in prior year	-	-	-	(10,333)
Restructuring costs (note 6)	-	2,500	1,700	2,500
	144,723	185,219	509,140	525,831
<b>Operating earnings (loss)</b>	(3,264)	11,498	(33,870)	42,639
Interest expense on long-term debt	(483)	(675)	(1,681)	(2,424)
Other interest (expense) income	(570)	(228)	(1,647)	(220)
Other income	26	1,017	3,452	1,125
B.C. Corporation capital tax	-	(127)	-	(391)
Equity in earnings of investee companies	1,692	1,160	5,578	2,804
	665	1,147	5,702	894
<b>Earnings (loss) before income taxes</b>	(2,599)	12,645	(28,168)	43,533
<b>Income taxes (recovery):</b>				
Current	(200)	840	700	1,467
Future	(1,000)	3,862	(12,600)	14,768
	(1,200)	4,702	(11,900)	16,235
<b>Net earnings (loss)</b>	\$ (1,399)	\$ 7,943	\$ (16,268)	\$ 27,298
<b>Net earnings (loss) per share, basic and diluted (note 7)</b>	\$ (0.04)	\$ 0.22	\$ (0.45)	\$ 0.76
<b>EBITDA (note 9)</b>	\$ 7,048	\$ 31,168	\$ 3,231	\$ 85,685

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30, 2003 and 2002 (unaudited)

(thousands of dollars)

	9 Months Sept. 30, 2003	9 Months Sept. 30, 2002
		(restated – note 1(a))
<b>Retained earnings, beginning of year as restated</b>	\$ 63,101	\$ 23,119
<b>Net earnings (loss)</b>	(16,268)	27,298
<b>Share issue expenses, net of future income taxes of \$1,117</b>	(2,179)	-
<b>Retained earnings, end of period</b>	\$ 44,654	\$ 50,417

See accompanying notes to consolidated financial statements



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2003 and 2002 (unaudited)

(thousands of dollars)

	3 Months Sept. 30, 2003	3 Months Sept. 30, 2002	9 Months Sept. 30, 2003	9 Months Sept. 30, 2002
<b>Cash provided by (used in):</b>		(restated – note 1(a))		(restated – note 1(a))
<b>Operating activities:</b>				
<b>Net earnings (loss)</b>	\$ (1,399)	\$ 7,943	\$ (16,268)	\$ 27,298
<b>Items not involving cash:</b>				
Amortization of plant and equipment	4,896	5,855	14,987	15,965
Depletion and amortization of timber, roads and other	3,698	9,265	11,384	21,043
Future income taxes	(1,000)	3,862	(12,600)	14,768
Reforestation liability	(598)	(562)	355	265
Other long-term liabilities	(81)	(677)	2,575	(1,436)
Equity in earnings of investee companies	(1,692)	(1,160)	(5,578)	(2,804)
Writedown of property, plant and equipment (recoveries)	-	250	-	(1,418)
Other	(26)	(1,017)	(2,031)	(1,125)
	3,798	23,759	(7,176)	72,556
<b>Cash generated from (used in) operating working capital:</b>				
Accounts receivable	4,307	(4,252)	665	(16,227)
Inventories	19,424	(10,748)	61,841	4,025
Prepaid expenses	133	37	52	(1,264)
Accounts payable and accrued liabilities	(3,884)	1,294	(51,243)	18,889
Income taxes	(385)	976	212	5,101
	23,393	11,066	4,351	83,080
<b>Investing activities:</b>				
Additions to property, plant and equipment	(5,494)	(4,061)	(18,612)	(12,115)
Additions to logging roads and timber	(3,047)	(8,101)	(12,143)	(16,235)
Proceeds on disposal of property, plant and equipment	24	1,144	3,036	2,943
Investments and other assets	(14)	18	434	(135)
	(8,531)	(11,000)	(27,285)	(25,542)
<b>Financing activities:</b>				
Repurchase of capital stock (note 5)	-	-	(923)	-
Issuance of capital stock, net of expenses (note 5)	72,207	47	72,549	94
Increase (decrease) in bank indebtedness	(37,069)	-	1,066	(1,588)
Reductions in long-term debt	(50,000)	(10,000)	(50,000)	(50,000)
	(14,862)	(9,953)	22,692	(51,494)
<b>Increase (decrease) in cash</b>	-	(9,887)	(242)	6,044
<b>Cash on deposit, beginning of period</b>	-	15,931	242	-
<b>Cash on deposit, end of period</b>	\$ -	\$ 6,044	\$ -	\$ 6,044

See accompanying notes to consolidated financial statements



**CONSOLIDATED BALANCE SHEETS**

**September 30, 2003 and 2002 (unaudited) and December 31, 2002 (audited)**

(thousands of dollars)	Sept. 30, 2003	Dec. 31, 2002	Sept. 30, 2002
			(restated – note 1(a))
<b>Assets</b>			
<b>Current assets:</b>			
Cash on deposit	\$ -	\$ 242	\$ 6,044
Accounts receivable	39,494	40,257	40,616
Inventories	80,422	142,263	117,692
Prepaid expenses	6,246	6,298	6,857
Future income taxes	6,295	12,166	10,328
	<u>132,457</u>	<u>201,226</u>	<u>181,537</u>
<b>Investments and other assets:</b>			
Investments and advances	39,144	33,796	36,110
Deferred financing fee, net of accumulated amortization	118	-	-
	<u>39,262</u>	<u>33,796</u>	<u>36,110</u>
<b>Property, plant and equipment:</b>	435,998	426,073	418,436
Less accumulated amortization	<u>237,702</u>	<u>229,918</u>	<u>221,401</u>
	198,296	196,155	197,035
<b>Timber and logging roads, net of accumulated depletion and amortization</b>	87,286	86,449	92,193
<b>Goodwill, net of accumulated amortization</b>	<u>19,647</u>	<u>19,647</u>	<u>19,647</u>
	<u>\$ 476,948</u>	<u>\$ 537,273</u>	<u>\$ 526,522</u>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Bank indebtedness (note 4(a))	\$ 1,066	\$ -	\$ -
Accounts payable and accrued liabilities	74,981	126,226	132,664
Income taxes payable	402	190	638
	<u>76,449</u>	<u>126,416</u>	<u>133,302</u>
<b>Reforestation liability, net of current portion</b>	22,118	21,763	20,732
<b>Long-term debt (note 4(b))</b>	-	50,000	50,000
<b>Other long-term liabilities</b>	11,981	9,406	11,518
<b>Future income taxes</b>	16,003	35,767	27,759
<b>Shareholders' equity:</b>			
Share capital (note 5)			
Class A subordinate voting shares	293,462	218,455	220,671
Class B common shares	4,080	4,080	4,080
Contributed surplus	8,201	8,285	8,043
Retained earnings	<u>44,654</u>	<u>63,101</u>	<u>50,417</u>
	350,397	293,921	283,211
	<u>\$ 476,948</u>	<u>\$ 537,273</u>	<u>\$ 526,522</u>

See accompanying notes to consolidated financial statements

On behalf of the Board:

W. L. Sauder  
Director

J. A. Milroy  
Director

# INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

Three and nine months ended September 30, 2003 and 2002

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## 1. Significant accounting policies:

These unaudited interim consolidated financial statements include the accounts of International Forest Products Limited and its subsidiaries (collectively referred to as "Interfor" or the "Company"). These interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with Interfor's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2002.

### (a) Accounting policy changes:

As described in the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2002, the Company changed its accounting policy for the valuation of log inventories. In accordance with Canadian generally accepted accounting principles, this change in policy has been applied retroactively and prior years' results have been restated to reflect the new policy.

In the first quarter of 2003, the Company changed its accounting policy for expensing fixed woodlands production costs in its interim quarterly financial statements from a units of production basis to an incurred cost basis. This change does not impact the Company's annual consolidated financial statements. Prior period quarterly results have been restated to reflect the new accounting policy.

### (b) Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. During the first quarter of 2003, the Company settled various forestry liabilities relating to prior period activities and realized after tax recoveries on these settlements totalling \$2.6 million.

## 2. Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

## 3. Seasonality of operating results:

The Company operates in the solid wood business which includes logging and sawmill operations. Logging operations are seasonal due to a number of factors including weather, ground and fire season conditions. Generally, the Company operates its logging divisions in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall.

## 4. Bank indebtedness and long-term debt:

### (a) Bank indebtedness:

The Company decreased its operating line of credit from \$100,000,000 to \$75,000,000 on August 29, 2003. At September 30, 2003, \$5,829,000 was drawn (2002 - \$2,668,000). The utilization includes the total of outstanding letters of credit. The loan bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line of credit is secured and is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. The line matures on April 27, 2004.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

Three and nine months ended September 30, 2003 and 2002

### 4. Bank indebtedness and long-term debt (continued):

#### (b) Long-term debt:

The Company has available a revolving term line of credit (the "Revolving Line") which it increased on August 29, 2003 from \$50,000,000 to \$75,000,000. This line was not utilized at September 30, 2003 (2002 - \$nil). The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line matures on April 28, 2005.

In 2001, the Company established a term line of credit (the "Acquisition Line") totalling \$100,000,000, which was used to facilitate the acquisition of Primex Forest Products Ltd. During the nine months ended September 30, 2003, the Company repaid \$50,000,000 (2002 - \$50,000,000) with the Acquisition Line permanently reduced by the repayment. As at September 30, 2003, the Acquisition Line had been fully repaid (2002 - \$50,000,000) and the credit facility was cancelled.

### 5. Share capital:

On September 11, 2003 the Company issued 12,900,000 Class A subordinate voting shares without par value at a price of \$5.85 per share for gross proceeds of \$75,465,000. The net proceeds of \$72,170,000 after share issue costs were used to pay down existing bank indebtedness.

Share transactions for the nine months ended September 30, 2003 were as follows:

	Number			Amount (thousands)
	Class A	Class B	Total	
Balance, December 31, 2002	34,523,716	1,015,779	35,539,495	\$ 222,535
Share issuances	12,983,680	-	12,983,680	75,846
Share repurchases	(132,500)	-	(132,500)	(839)
Balance, September 30, 2003	47,374,896	1,015,779	48,390,675	\$ 297,542

The weighted average shares outstanding for the three and nine month periods are shown below in note 7.

### 6. Restructuring costs

In light of poor lumber markets, the 20% reduction of the Company's timber tenures discussed below (Note 10(b)), the rapid strengthening of the Canadian dollar against the U.S. dollar and the continuing U.S. softwood lumber dispute, the Company reduced staff levels and recorded severance costs of \$1,700,000 pre tax (\$1,100,000 after tax) during the second quarter of 2003.

### 7. Net earnings (loss) per share

	3 months	3 months	9 months	9 months
	Sept. 30, 2003	Sept. 30, 2002	Sept. 30, 2003	Sept. 30, 2002
Net earnings (loss) reported (thousands)	\$ (1,399)	\$ 7,943	\$ (16,268)	\$ 27,298
Weighted average common shares outstanding (thousands)	38,291	35,886	36,445	35,875
Earnings (loss) per share, basic and diluted	\$ (0.04)	\$ 0.22	\$ (0.45)	\$ 0.76

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

Three and nine months ended September 30, 2003 and 2002

### 8. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests logs which are sorted by species, size and quality and then manufactured into lumber products at the Company's sawmills, or sold. Substantially all of the Company's operations are located in British Columbia, Canada.

The Company sells to both foreign and domestic markets as follows:

	3 months Sept. 30, 2003	3 months Sept. 30, 2002	9 months Sept. 30, 2003	9 months Sept. 30, 2002
	(thousands)			
Canada	\$ 55,865	\$ 97,144	\$ 188,352	\$ 241,904
United States	33,419	42,804	107,220	146,831
Japan	34,870	39,029	116,154	127,800
Other export	17,305	17,740	63,544	51,935
	\$ 141,459	\$ 196,717	\$ 475,270	\$ 568,470

Sales by product line are as follows:

	3 months Sept. 30, 2003	3 months Sept. 30, 2002	9 months Sept. 30, 2003	9 months Sept. 30, 2002
	(thousands)			
Lumber	\$ 103,800	\$ 131,629	\$ 354,769	\$ 423,519
Logs	19,274	44,821	72,426	104,444
Wood chips and other by products	6,992	8,343	22,613	22,821
Other	11,393	11,924	25,462	17,686
	\$ 141,459	\$ 196,717	\$ 475,270	\$ 568,470

### 9. EBITDA:

EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs. The Company discloses EBITDA as it is a measure used by analysts to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings (loss), readers should consider net earnings (loss) in evaluating the Company's performance.

EBITDA can be calculated from the statement of operations as follows:

	3 months Sept. 30, 2003	3 months Sept. 30, 2002	9 months Sept. 30, 2003	9 months Sept. 30, 2002
	(thousands)			
Net earnings (loss)	\$ (1,399)	\$ 7,943	\$ (16,268)	\$ 27,298
Add:				
Income taxes (recovery)	(1,200)	4,702	(11,900)	16,235
Interest expense on long-term debt	483	675	1,681	2,424
Other interest expense	570	228	1,647	220
Amortization of plant and equipment	4,896	5,855	14,987	15,965
Depletion and amortization of timber, roads and other	3,698	9,265	11,384	21,043
Restructuring costs	-	2,500	1,700	2,500
EBITDA	\$ 7,048	\$ 31,168	\$ 3,231	\$ 85,685

## **INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Unaudited Interim Consolidated Financial Statements

Three and nine months ended September 30, 2003 and 2002

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### **10. Contingencies**

(a) U.S. Softwood Lumber dispute:

The Company has recorded \$7,296,000 (2002 - \$10,399,000) for the quarter and \$25,086,000 (2002 - \$14,111,000) for the nine months ended September 30, 2003 as a reduction of sales revenue in respect of the countervailing and antidumping duties assessed on Canadian softwood lumber exports to the United States. Cumulative duties for the period from May 22, 2002 to September 30, 2003 total \$49,555,000 (US\$33,275,000).

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") continue to categorically deny the U.S. allegations that sales of Canadian softwood lumber into the U.S. threatens material injury to the U.S. industry. Canadian interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, NAFTA panels and the WTO.

(b) B.C. Forest Revitalization Plan:

In March 2003, the Government of B.C. ("Crown") introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related costs such as roads and bridges.

The effect of the 20% timber take-back is expected to result in a reduction of approximately 580,000 m<sup>3</sup> of the Company's existing allowable annual cut on their replaceable tenures. The effect of the Plan on the Company's financial position and results of operations cannot be determined at this time. The Company will record the effects of the Plan at the time the amounts to be recorded are estimable.

### **11. Derivative financial instruments**

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at September 30, 2003, the Company has outstanding obligations to sell a maximum of US\$13,500,000 at an average rate of CDN\$1.61 and Japanese ¥335,000,000 at an average rate of ¥83.00 to the CDN\$ during 2003. Based on the exchange rates at September 30, 2003, the Company had unrealized gains of \$1,554,000 with respect to these hedging arrangements. In addition, the Company has deferred \$1,685,000 of foreign exchange gain resulting from the cancellation of existing contracts during 2003. This gain will be recognized later in 2003.

There were no interest rate swaps outstanding as at September 30, 2003.

**QUARTERLY COMPARISONS**

	2003	2002	2001	2000	1999
<b>Sales (\$ millions)</b>					
1st Quarter	176.3	177.4	160.4	188.3	140.4
2nd Quarter	157.6	194.4	182.5	206.1	155.3
3rd Quarter	141.4	196.7	189.5	174.3	178.0
4th Quarter		215.6	171.7	176.9	187.4
Year		784.1	704.1	745.6	661.1

<b>EBITDA * (\$ millions)</b>					
1st Quarter	4.4	13.6	8.8	26.5	10.0
2nd Quarter	(8.2)	40.9	14.7	37.4	30.3
3rd Quarter	7.0	31.2	12.6	23.2	34.8
4th Quarter		35.4	9.3	20.6	25.1
Year		121.1	45.4	107.7	100.2

<b>Net Earnings (Loss) * (\$ millions)</b>					
1st Quarter	(2.8)	3.1	(19.4)	9.9	(0.3)
2nd Quarter	(12.1)	16.2	(0.5)	10.5	(42.5)
3rd Quarter	(1.4)	8.0	(2.0)	5.7	8.1
4th Quarter		12.7	(4.0)	4.6	3.9
Year		40.0	(25.9)	30.7	(30.8)

**Net Earnings (Loss) per Share Before Restructuring Costs,**

<b>Capital Asset Write-Downs and Recoveries * (\$)</b>					
1st Quarter	(0.08)	0.09	(0.01)	0.24	(0.01)
2nd Quarter	(0.31)	0.27	(0.01)	0.30	0.16
3rd Quarter	(0.04)	0.27	(0.06)	0.16	0.23
4th Quarter		0.35	(0.11)	0.14	0.11
Year		0.98	(0.20)	0.84	0.49

<b>Net Earnings (Loss) per Share * (\$)</b>					
1st Quarter	(0.08)	0.09	(0.60)	0.28	(0.01)
2nd Quarter	(0.34)	0.45	(0.01)	0.30	(1.21)
3rd Quarter	(0.04)	0.22	(0.06)	0.17	0.23
4th Quarter		0.35	(0.11)	0.14	0.11
Year		1.12	(0.75)	0.90	(0.87)

\* Restated – see note 1(a)

**OPERATING STATISTICS**

	Log	Lumber	Average Selling Price	
	Production	Sales	Lumber	Pulp Chips
	Mm <sup>3</sup>	MMBM	\$/MBM	

<b>1999</b>				
1st Quarter	415	135	756	39
2nd Quarter	1,065	137	778	38
3rd Quarter	1,152	139	791	33
4th Quarter	817	140	780	45
Year	3,449	551	776	39

<b>2000</b>				
1st Quarter	583	160	809	46
2nd Quarter	1,117	170	819	53
3rd Quarter	867	139	759	61
4th Quarter	840	152	788	66
Year	3,407	621	795	56

<b>2001</b>				
1st Quarter	567	152	774	52
2nd Quarter	805	169	718	39
3rd Quarter	832	169	750	37
4th Quarter	556	184	693	37
Year	2,760	674	732	41

<b>2002</b>				
1st Quarter	314	186	759	32
2nd Quarter	981	185	738**	33
3rd Quarter	700	181	702**	34
4th Quarter	916	208	731**	33
Year	2,911	760	733**	33

<b>2003</b>				
1st Quarter	514	184	690**	34
2nd Quarter	479	167	648**	38
3rd Quarter	336	144	670**	45
4th Quarter				
Year				

\*\* net of countervailing & antidumping duty provision

**RATIO AND INVESTMENT INFORMATION**

	Three Months	Nine Months	Year ended December 31,			
	Ended Sept. 30,	Ended Sept. 30,	2002	2001	2000	1999
	2003	2003				
Current ratio		1.7	1.6	1.5	1.4	1.7
Total debt as a percentage of invested capital		0.3%	14.5%	28.4%	1.4%	26.0%
Pre-tax return on total assets (before restructuring costs, capital asset write-downs and recoveries)	(2.2)%*	(7.4)%*	10.0%	(1.7)%	12.1%	6.4%
Return on average shareholders' equity	(1.8)%*	(6.6)%*	14.5%	(9.9)%	12.0%	(11.7)%
Return on average invested capital	(0.8)%*	(5.3)%*	12.1%	(7.1)%	10.7%	(6.7)%
Equity per share		\$7.24	\$8.27	\$7.13	\$8.29	\$7.03
Weighted average shares outstanding (millions)	38.3	36.4	35.9	34.6	34.0	35.2

\* Annualized (except restructuring costs, write-downs of property, plant & equipment and recoveries)



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