



International Forest Products Limited

Second Quarter Report

For the six months ended June 30, 2004



Report to Shareholders and Management Discussion and Analysis:

Dated as of July 27, 2004

OPERATING RESULTS

International Forest Products Limited (“Interfor” or the “Company”) recorded net earnings of \$11.6 million or \$0.24 per share in the 2nd Quarter of 2004 compared to net earnings of \$0.9 million or \$0.02 per share in the immediately preceding quarter, and a net loss of \$12.0 million or \$0.34 per share in the 2nd Quarter of 2003.

These results reflect continued strong performance from the Adams Lake operation in the Interior of B.C. as well as significant improvements in the Coastal business. In particular, improved sales returns, increased volumes and the introduction of market-based timber pricing on the Coast had material impacts on the current quarter’s results.

Strong results from Interfor’s investment in Seaboard Shipping Company Limited (“Seaboard”) and a gain of \$1.5 million, or \$1.2 million after tax, on the sale of surplus properties also contributed to the results in the quarter.

Lumber shipments increased to 194.9 million board feet in the 2nd Quarter compared to 188.8 million board feet in the 1st Quarter and 166.6 million board feet in the 2nd Quarter of 2003, while log production increased to 924,000 m³ compared to 576,000 m³ in the immediately preceding quarter and 479,000 m³ in the 2nd Quarter of 2003.

Sales values, net of U.S. duties, were 13% higher than in the 1st Quarter, reflecting the strength of the U.S. market for structural products, and the weaker Canadian dollar, which averaged 1.36 in the quarter compared to 1.32 in the 1st Quarter of 2004. As of the report date, the currency exchange rate was 1.33.

Overall, sales revenue increased to \$211.6 million in the quarter compared to \$170.2 million in the 1st Quarter of 2004, and \$166.6 million in the 2nd Quarter of 2003. EBITDA more than doubled to \$31.7 million compared to \$12.9 million in the 1st Quarter and (\$8.2) million in the same period last year.

During the 2nd Quarter Interfor paid \$10.2 million (\$6.5 million after tax or \$0.13 per share) in deposits for countervailing and antidumping duties on shipments of 58.5 million board feet to the U.S. In the 1st Quarter, Interfor paid \$8.6 million (\$5.4 million after tax or \$0.11 per share) in duty deposits, while in the 2nd Quarter of 2003 duties totaled \$9.1 million (\$5.7 million after tax or \$0.16 per share). At the end of the 2nd Quarter of 2004, Interfor had paid total deposits of US\$51.6 million (CAD\$68.3 million utilizing June 30, 2004 foreign exchange rates) since the deposit requirement came into effect in May 2002.

Selected Quarterly Financial Information	2004	2004	2003
	<u>Qtr 2</u>	<u>Qtr 1</u>	<u>Qtr 2</u>
	restated ¹		
	(millions of dollars except share and per share amounts)		
Sales	211.6	170.2	166.6
Operating earnings (loss)	12.9	(2.1)	(20.8)
EBITDA ⁴	31.7	12.9	(8.2)
Net earnings (loss) after tax, before restructuring costs and property, plant & equipment write-downs	11.6	1.3	(10.9)
Net earnings (loss)	11.6	0.9	(12.0)
Net earnings (loss) per share – basic and diluted	0.24	0.02	(0.34)
Cash flow from operations ² per share	0.54	0.20	(0.34)
Shares outstanding – end of period (millions) ³	48.4	48.4	35.5
– weighted average (millions)	48.4	48.4	35.5

1 Restated for adoption of new accounting policies and accounting policy changes. See note 2 to Unaudited Interim Consolidated Financial Statements.

2 Cash generated from operations before considering changes in operating working capital.

3 As at July 27, 2004 the number of shares outstanding by class are: Class A – 47.4 million, Class B – 1.0 million, Total – 48.4 million.

4 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs. The Company disclosed 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, readers should consider net earnings in evaluating the Company's performance. EBITDA can be calculated from the statement of operations as follows:

Net earnings (loss)	11.6	0.9	(12.0)
Add: Income taxes (recovery)	4.6	(0.3)	(7.4)
Interest expense	0.4	0.5	1.2
Depletion and amortization	15.1	11.2	8.3
Restructuring costs, asset write-downs and other	0.0	0.6	1.7
EBITDA	31.7	12.9	(8.2)

Volume and Price Statistics

Lumber sales (MMfbm)	195	189	167
Lumber production (MMfbm)	204	204	151
Log sales (thousand cubic metres)	457	253	313
Log production (thousand cubic metres)	924	576	479
Log consumption (thousand cubic metres)	849	856	674
Average lumber selling price (\$/Mfbm) ¹	\$702	\$620	\$648

1 \$ Canadian, FAS Value, net of countervailing duty and antidumping duty.

CASH FLOW AND BALANCE SHEET

During the quarter, Interfor generated \$26.3 million in cash from operations before changes in working capital, representing an improvement of \$16.7 million over the previous quarter and \$38.3 million compared to the 2nd Quarter of 2003.

Investments in working capital increased by \$44.7 million in the 2nd Quarter, reflecting the return to more reasonable activity levels.

Overall, Interfor's net debt increased to \$25.0 million at the end of the quarter, representing a percentage of net debt to invested capital of 6.5%, as compared to (0.4%) at the end of the 1st Quarter of 2004, and 23.8% at June 30, 2003. At June 30, 2004, the Company had unused operating lines of credit of \$45.4 million (2003 - \$57.6 million) and an unused term line of credit of \$75.0 million (2003 - \$nil).

Capital spending in the 2nd Quarter was \$11.6 million including \$8.9 million in roads, \$0.8 million in maintenance capital, \$0.6 million in high return discretionary projects and \$1.3 million in land development costs. Capital spending in the previous quarter totaled \$9.5 million, and \$9.6 million in the same quarter in 2003. In addition, Interfor received net proceeds of \$2.8 million on the sale of the second of four phases of the Sawyer's Landing property in Pitt Meadows to add to the \$2.6 million received on the sale of the first phase in the 1st Quarter of 2004.

PROPOSED ACQUISITION OF CROWN PACIFIC'S SAWMILL ASSETS

On July 9, 2004, Interfor announced that it had reached agreement to acquire the sawmill assets of Crown Pacific Limited Partners and its affiliates ("Crown Pacific") in the U.S. Pacific Northwest. Crown Pacific and most of its affiliates have been in bankruptcy protection since June 2003. The agreed purchase price is US\$57.3 million, plus working capital estimated at US\$16.0 million.

The transaction is subject to U.S. Bankruptcy Court approval and is to be effected under procedures that provide for the possibility of competing bids. An order setting out procedures and timeframes for the transaction was approved by the U.S. Bankruptcy Court in Phoenix, Arizona, on July 26, 2004. A hearing to approve the transaction is scheduled for August 19, 2004. In the event that a superior offer is submitted to the Court, and a transaction completed with another party, Interfor will receive a break-up fee of US\$2.0 million and expense reimbursement of US\$500,000. The agreement is also subject to regulatory approval in the U.S. Barring unforeseen events, the transaction is expected to close September 1, 2004.

The acquisition of the Crown Pacific sawmills, if completed, will increase Interfor's total lumber capacity to almost 1.3 billion board feet per year and add more than CAD\$120.0 million to the Company's annual sales revenue.

The assets included in the acquisition are Crown Pacific's sawmill operations located at Gilchrist, Oregon, and at Marysville and Port Angeles, Washington. The mills have a combined annual capacity of 335 million board feet and each is located in close proximity to Crown Pacific-owned tree farms and to other well established timber sources.

Interfor will finance the purchase from a combination of its existing and new banking facilities. At completion of the transaction, Interfor expects a pro-forma debt to invested capital ratio of approximately 25%.

OUTLOOK

In spite of a modest decline in housing activity, the price of structural lumber in the U.S. market remains strong, with prices significantly above the levels of one year ago. Expectations are that prices will remain strong in the near term but will moderate later in the year in response to seasonal factors and anticipated increases in interest rates.

The cedar market has been steady throughout the year and is expected to show reasonable activity for the balance of the year. However, cedar's high product values result in correspondingly high U.S. duty charges which constrain the Company's ability to deliver adequate returns from this area of its business. The Japanese market, on the other hand, has improved from last year and there are signs of renewed confidence in that market, although building activity and product pricing are not expected to increase by any material amount going forward.

From an operating standpoint Interfor expects to maintain production levels at or near to current rates. Log inventories are in reasonably good shape for this time of year in spite of the warm, dry weather that has affected logging activity in certain parts of the province. The pace of lumber sales is good. Interfor is looking forward to the completion of the Crown Pacific transaction which should help to boost the results in the 3rd Quarter and for the balance of the year.

In addition, Interfor continues to review the configuration of its Coastal sawmilling operations. Subsequent to the end of the 2nd Quarter, the Company made an offer to pay severance to approximately 70 of the employees at its Squamish sawmill and committed that a decision regarding the future of the mill would be made no later than September 15, 2004.

The Company has also committed to \$2.5 million in high-return capital projects for the MacKenzie mill in Surrey and is close to finalizing plans for a major upgrade at another operation.

Interfor is continuing to move forward with the sale of surplus properties. A signed agreement for sale is in place for the former Fraser Mills site in Coquitlam subject to environmental approvals, and there is strong interest in the former McDonald Cedar site in Fort Langley. The sales of both properties are expected to close in 2004 or early 2005.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations, including Interfor's Annual Statutory Information for 2003, can be found on its website at www.interfor.com and on SEDAR at www.sedar.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 report.



William L. Sauder
Chairman



Duncan K. Davies
President and Chief Executive Officer



CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended June 30, 2004 and 2003 (unaudited)

(thousands of dollars except earnings per share)

	3 Months June 30, 2004	3 Months June 30, 2003	6 Months June 30, 2004	6 Months June 30, 2003
		(restated – note 2)		(restated – note 2)
Sales	\$ 211,644	\$ 166,641	\$ 381,838	\$ 351,601
Costs and expenses:				
Production (note 2(a))	168,385	164,358	314,354	335,668
Selling and administration	5,066	4,016	11,097	8,940
U.S. countervailing and antidumping duty deposits (notes 2(d) and 10(a))	10,188	9,088	18,755	17,790
Amortization of plant and equipment	5,150	4,616	10,435	10,091
Depletion and amortization of timber, roads and other	9,951	3,702	15,830	7,686
Restructuring costs (note 6)	-	1,700	600	1,700
	198,740	187,480	371,071	381,875
Operating earnings (loss)	12,904	(20,839)	10,767	(30,274)
Interest expense on long-term debt	(94)	(583)	(234)	(1,198)
Other interest expense	(283)	(673)	(698)	(1,077)
Other income	1,662	929	2,783	3,426
Equity in earnings of investee companies	2,062	1,712	4,216	3,886
	3,347	1,385	6,067	5,037
Earnings (loss) before income taxes	16,251	(19,454)	16,834	(25,237)
Income taxes (recovery):				
Current	450	600	850	900
Future (note 2(a))	4,170	(8,005)	3,450	(11,689)
	4,620	(7,405)	4,300	(10,789)
Net earnings (loss)	\$ 11,631	\$ (12,049)	\$ 12,534	\$ (14,448)
Net earnings (loss) per share, basic and diluted (note 8)	\$ 0.24	\$ (0.34)	\$ 0.26	\$ (0.41)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the six months ended June 30, 2004 and 2003 (unaudited)

(thousands of dollars)

	6 Months June 30, 2004	6 Months June 30, 2003
		(restated – note 2)
Retained earnings, beginning of year, as restated (note 2(a))	\$ 41,505	\$ 66,399
Net earnings (loss)	12,534	(14,448)
Retained earnings, end of period	\$ 54,039	\$ 51,951

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2004 and 2003 (unaudited)

(thousands of dollars)

	3 Months June 30, 2004	3 Months June 30, 2003	6 Months June 30, 2004	6 Months June 30, 2003
Cash provided by (used in):		(restated – note 2)		(restated – note 2)
Operating activities:				
Net earnings (loss)	\$ 11,631	\$ (12,049)	\$ 12,534	\$ (14,448)
Items not involving cash:				
Amortization of plant and equipment	5,150	4,616	10,435	10,091
Depletion and amortization of timber, roads and other	9,951	3,702	15,830	7,686
Future income taxes	4,170	(8,005)	3,450	(11,689)
Reforestation liability	1,016	80	2,404	624
Other long-term liabilities	(2,136)	2,216	(2,011)	2,653
Equity in earnings of investee companies	(2,062)	(1,712)	(4,216)	(3,886)
Writedown of property, plant and equipment	195	-	195	-
Other	(1,662)	(929)	(2,783)	(2,005)
	26,253	(12,081)	35,838	(10,974)
Cash generated from (used in) operating working capital:				
Accounts receivable	(12,973)	2,101	(22,667)	(3,642)
Inventories	(31,232)	41,986	(37,503)	42,417
Prepaid expenses	(2,486)	(1,342)	(1,704)	(81)
Accounts payable and accrued liabilities	1,983	(22,279)	24,407	(47,359)
Income taxes	41	381	231	597
	(18,414)	8,766	(1,398)	(19,042)
Investing activities:				
Additions to property, plant and equipment	(2,688)	(5,056)	(6,082)	(13,118)
Additions to logging roads and timber	(8,933)	(4,508)	(15,056)	(9,096)
Proceeds on disposal of property, plant and equipment	3,435	2,372	6,109	3,012
Investments and other assets	107	(47)	4,270	448
	(8,079)	(7,239)	(10,759)	(18,754)
Financing activities:				
Repurchase of capital stock	-	-	-	(923)
Issuance of capital stock	-	-	81	342
Increase (decrease) in bank indebtedness	25,027	(1,527)	12,076	38,135
	25,027	(1,527)	12,157	37,554
Increase (decrease) in cash	(1,466)	-	-	(242)
Cash on deposit, beginning of period	1,466	-	-	242
Cash on deposit, end of period	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

June 30, 2004 and 2003 (unaudited) and December 31, 2003 (audited)

(thousands of dollars)

	June 30, 2004	December 31, 2003	June 30, 2003
		(restated – note 2)	(restated – note 2)
Assets			
Current assets:			
Accounts receivable	\$ 48,945	\$ 26,278	\$ 43,801
Inventories	130,548	93,045	99,846
Prepaid expenses	8,384	6,680	6,379
Future income taxes	4,589	4,505	6,309
	192,466	130,508	156,335
Investments and other assets:			
Investments and advances	41,193	41,122	37,475
Deferred financing fee, net of accumulated amortization	-	53	133
	41,193	41,175	37,608
Property, plant and equipment, net of accumulated amortization	186,622	194,660	197,695
Timber and logging roads, net of accumulated depletion and amortization	85,955	86,637	87,885
Goodwill	13,862	13,862	19,647
	\$ 520,098	\$ 466,842	\$ 499,170
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 5)	\$ 25,027	\$ 12,951	\$ 38,135
Accounts payable and accrued liabilities	93,723	69,316	78,865
Income taxes payable	589	358	787
	119,339	82,625	117,787
Reforestation liability, net of current portion (note 2(a))	18,574	16,170	17,656
Long-term debt	-	-	50,000
Other long-term liabilities (note 2(a))	11,953	13,964	11,530
Future income taxes (note 2(a))	10,369	6,835	20,007
Shareholders' equity:			
Share capital (note 7)			
Class A subordinate voting shares	293,543	293,462	217,958
Class B common shares	4,080	4,080	4,080
Contributed surplus	8,201	8,201	8,201
Retained earnings	54,039	41,505	51,951
	359,863	347,248	282,190
	\$ 520,098	\$ 466,842	\$ 499,170

Contingencies (note 10) and Commitments (note 11)

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

(Tabular amounts expressed in thousands except per share amounts)

Three and six months ended June 30, 2004 and 2003

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, 2003, except for the new accounting policies and changes in accounting policies adopted subsequent to that date, as detailed below.

2. Adoption of new accounting policies and accounting policy changes:

The following accounting policy adoptions and accounting policy changes have an effective date of January 1, 2004, except for item (c), which has an effective date of June 30, 2004:

(a) Asset retirement obligations:

The Company retroactively adopted the Canadian Institute of Chartered Accountants ("CICA") new handbook section 3110 on the recognition and measurement of asset retirement obligations, which for the Company encompasses primarily reforestation and road deactivation liabilities. Under this new section, asset retirement obligations are recognized at the fair value in the period in which the legal obligation was incurred, with fair value of a liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

The following changes to historical financial statements have been made to reflect the new policy:

	Prior Policy	New policy
Balance Sheet as at June 30, 2003:		
Reforestation liability	\$ 22,716	\$ 17,656
Other long-term liabilities	12,062	11,530
Future income taxes payable	18,134	20,007
Retained earnings, ending	48,232	51,951
Retained earnings, beginning	63,101	66,399
Statement of Operations for the six months ended June 30, 2003:		
Production costs	\$ 336,000	\$ 335,668
Future income taxes recovery	11,600	11,689
Net loss	14,869	14,448
Net loss per share	0.42	0.41
Statement of Operations for the three months ended June 30, 2003:		
Production costs	\$ 164,403	\$ 164,358
Future income taxes recovery	8,020	8,005
Net loss	12,079	12,049
Net loss per share	0.34	0.34
Balance Sheet as at December 31, 2003:		
Reforestation liability	\$ 21,044	\$ 16,170
Other long-term liabilities	14,463	13,964
Future income taxes payable	5,035	6,835
Retained earnings, ending	37,932	41,505

Utilizing a before-tax discount rate of 7.0%, the reforestation liability was estimated based on an assumption of undiscounted cash flows of \$31,000,000 (2003 - \$31,000,000) to be paid over a 15 year period, and the road deactivation liability was based on undiscounted cash flows of \$5,000,000 (2003 - \$5,000,000) to be paid over a 11 year period.

(b) Hedging relationships and accounting for derivative financial instruments:

The Company adopted the CICA new Accounting Guideline-13, *Hedging Relationships*, which discusses the identification, designation, documentation and effectiveness of hedging relationships. The new requirements have been applied on a prospective basis to all instruments existing on, or entered into after January 1, 2004. The Company believes that its use of derivative foreign currency forwards and options disclosed in note 12(a) results in an economic hedge against fluctuations in foreign exchange rates related to future revenue. However, the Company has chosen to not designate its derivative forward foreign exchange contracts and options as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months ended June 30, 2004 and 2003

2. Adoption of new accounting policies and accounting policy changes (continued):

(c) Impairment of long-lived assets:

The Company adopted the new CICA recommendations of Section 3063, *Impairment of Long-lived Assets*. These recommendations require the Company to determine if an impairment loss exists, by determining if the carrying amount of a long-lived asset exceeds the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value. Prior standards required that an impairment loss be measured at the amount by which the long-lived asset's carrying amount exceeded its undiscounted cash flows. On adoption, this new standard did not impact the Company's consolidated financial statements.

(d) Countervailing and anti-dumping duties:

The CICA introduced a new recommendation for the application of generally accepted accounting principles (GAAP), which provides guidance on alternate sources to consult with when an issue is not specifically addressed by Canadian GAAP. Prior to January 1, 2004, the Company, along with other companies in the forest industry, presented sales net of countervailing and anti-dumping duties. In accordance with the new GAAP standard, countervailing and anti-dumping duties have been reclassified to costs and expenses. Prior period amounts have been restated to reflect these reclassifications.

(e) Employee future benefits:

The Company adopted the new disclosure requirements of the revised CICA recommendations of Section 3461, *Employee Future Benefits*, effective June 30, 2004. The revisions to the CICA Handbook Section are in the area of disclosure and are intended to improve and expand upon previous reporting requirements. Accordingly, the Company discloses its total benefits cost under its various pension plans (described in the Company's audited annual consolidated financial statements) as follows:

	3 months June 30, 2004	3 months June 30, 2003	6 months June 30, 2004	6 months June 30, 2003
Defined contribution plan	\$ 467	\$ 484	\$ 942	\$ 1,158
Defined benefit plan	141	105	268	228
Unionized employees' pension plan	1,235	1,176	2,407	2,673
Senior management supplementary pension plan	26	26	53	53
Total pension expense	\$ 1,869	\$ 1,791	\$ 3,670	\$ 4,112

3. Comparative figures:

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

4. 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.

5. Bank indebtedness:

The Company renewed its operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totaling \$75,000,000 (2003 - \$100,000,000), and subject to a borrowing base calculation dependent upon certain accounts receivable and inventories. The loan bears interest at 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 now matures on April 28, 2005. As at June 30, 2004, bank indebtedness and outstanding letters of credit brought the unused portion of the line to \$45,377,000 (2003 - \$57,627,000).

6. Restructuring costs:

In light of the 20% reduction of the Company's timber tenures discussed below (note 10(b)), the Company reduced staff levels and recorded severance costs of \$600,000 pre tax (\$380,000 after tax) during the 1st Quarter of 2004.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements
(Tabular amounts expressed in thousands except per share amounts)
Three and six months ended June 30, 2004 and 2003

7. Share capital:

In January 2004, the Company introduced a Deferred Share Unit ("DSU") Plan for Directors and senior officers of the Company. The Plan, which allows for immediate vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSUs either increase or decrease in value in a direct relationship with the Company's Class "A" Subordinate Voting shares. Participants in the Total Shareholder Return Plan may elect to receive their award in DSUs at the end of any performance period. DSUs may also be granted directly to Directors or senior employees of the Company at the discretion of the Board. In January 2004 a total of 24,000 DSUs were granted to Directors under the plan at a value of \$6.05 per unit and charged to operations. Subsequent changes to share values will result in adjustments to compensation expense.

8. Net earnings (loss) per share

	3 months June 30, 2004	3 months June 30, 2003	6 months June 30, 2004	6 months June 30, 2003
Net earnings (loss) reported	\$ 11,631	\$ (12,049)	\$ 12,534	\$ (14,448)
Weighted average common shares outstanding	48,409	35,482	48,406	35,507
Earnings (loss) per share, basic and diluted	\$ 0.24	\$ (0.34)	\$ 0.26	\$ (0.41)

9. 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 June 30, 2004	3 months June 30, 2003	6 months June 30, 2004	6 months June 30, 2003
Canada	\$ 88,557	\$ 62,856	\$ 146,698	\$132,486
United States	56,275	47,641	104,184	91,591
Japan	40,939	31,232	76,357	81,284
Other export	25,873	24,912	54,599	46,240
	\$ 211,644	\$ 166,641	\$ 381,838	\$ 351,601

Sales by product line are as follows:

	3 months June 30, 2004	3 months June 30, 2003	6 months June 30, 2004	6 months June 30, 2003
Lumber	\$ 152,068	\$ 124,514	\$ 287,241	\$ 268,760
Logs	37,391	24,799	59,813	53,152
Wood chips and other by products	9,705	7,241	17,844	15,621
Other	12,480	10,087	16,940	14,068
	\$ 211,644	\$ 166,641	\$ 381,838	\$ 351,601

10. Contingencies:

(a) U.S. Softwood Lumber dispute:

The Company has recorded \$10,188,000 (2003 - \$9,088,000) for the quarter and \$18,755,000 (2003 - \$17,790,000) for the six months ended June 30, 2004 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 June 30, 2004 charged to operations total \$74,264,000 (US\$51,556,000). These total U.S. deposits translated at quarter-end exchange rates equate to CAD\$68,261,000 at June 30, 2004.

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.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months ended June 30, 2004 and 2003

10. Contingencies (continued):

(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.

In February 2004, the Crown notified the Company of the specific AAC by individual licence that it intended to take back. A number of details including transition issues must be resolved before a transfer date can be established. Since this process is expected to take several years, the company is permitted to operate in these areas until the transfer date.

The effect of the 20% timber take-back will result in a reduction of approximately 579,000 m3 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. Proposed acquisition of sawmill assets of Crown Pacific Limited Partners:

On July 9, 2004, the Company announced that it had reached agreement to acquire the sawmill assets of Crown Pacific Limited Partners and its affiliates ("Crown Pacific") in the U.S. Pacific Northwest. Crown Pacific and most of its affiliates have been in bankruptcy protection since June 2003. The agreed purchase price is US\$57,300,000, plus working capital estimated at US\$16,000,000.

The transaction is subject to U.S. Bankruptcy Court approval and is to be effected under procedures that provide for the possibility of competing bids. An order setting out procedures and timeframes for the transaction was approved by the U.S. Bankruptcy Court in Phoenix, Arizona, on July 26, 2004. A hearing to approve the transaction is scheduled for August 19, 2004. In the event that a superior offer is submitted to the Court, and a transaction completed with another party, Interfor will receive a break-up fee of US\$2.0 million and expense reimbursement of US\$500,000. The agreement is also subject to regulatory approval in the U.S. Barring unforeseen events, the transaction is expected to close September 1, 2004.

The Company will finance the purchase through a combination of its existing and new banking facilities.

12. Financial instruments:

(a) 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 June 30, 2004, the Company has outstanding obligations to sell a maximum of US\$8,500,000 at an average rate of CAD\$1.3524 and Japanese ¥300,000,000 at an average rate of ¥79.37 to the CAD\$, and to buy a maximum of US\$5,000,000 at an average rate of CAD\$1.3332 during 2004. All foreign currency gains or losses to June 30, 2004 have been recognized in the statement of operations.

There were no interest rate swaps outstanding as at June 30, 2004.

(b) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. At June 30, 2004, the company received cash proceeds of \$25,000,000 (2003 - \$20,000,000), increased from \$10,000,000 at December 31, 2003.

QUARTERLY COMPARISONS

	2004	2003	2002	2001	2000
Sales * (\$ millions)					
1st Quarter	170.2	185.0	182.9	160.4	188.3
2nd Quarter	211.6	166.6	192.6	182.5	206.1
3rd Quarter		148.8	207.1	194.0	174.3
4th Quarter		134.3	226.0	177.4	176.9
Year		634.7	808.6	714.3	745.6

EBITDA * (\$ millions)					
1st Quarter	12.9	4.7	13.0	9.1	27.5
2nd Quarter	31.7	(8.2)	41.1	14.6	37.5
3rd Quarter		7.2	31.3	12.9	23.4
4th Quarter		0.9	35.3	8.7	20.5
Year		4.6	120.7	45.3	108.9

Net Earnings (Loss) * (\$ millions)					
1st Quarter	0.9	(2.4)	2.7	(18.5)	9.9
2nd Quarter	11.6	(12.0)	16.3	(0.5)	10.6
3rd Quarter		(1.4)	8.0	(1.9)	5.8
4th Quarter		(6.9)	12.6	(4.4)	4.6
Year		(22.7)	39.6	(25.3)	30.9

Net Earnings (Loss) per Share Before Restructuring Costs, Capital Asset Write-Downs and Recoveries * (\$)

1st Quarter	0.03	(0.07)	0.07	0.01	0.24
2nd Quarter	0.24	(0.31)	0.27	(0.02)	0.31
3rd Quarter		(0.04)	0.27	(0.05)	0.16
4th Quarter		(0.12)	0.35	(0.12)	0.14
Year		(0.52)	0.97	(0.18)	0.85

Net Earnings (Loss) per Share * (\$)

1st Quarter	0.02	(0.07)	0.07	(0.58)	0.28
2nd Quarter	0.24	(0.34)	0.45	(0.02)	0.31
3rd Quarter		(0.04)	0.22	(0.05)	0.17
4th Quarter		(0.14)	0.35	(0.12)	0.14
Year		(0.58)	1.10	(0.73)	0.91

* Restated – see note 2 to Unaudited Interim Consolidated Financial Statements

OPERATING STATISTICS

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

2000				
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

2001				
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

2002				
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

2003				
1st Quarter	514	184	690 **	34
2nd Quarter	479	167	648 **	38
3rd Quarter	336	143	670 **	39
4th Quarter	636	138	634 **	36
Year	1,965	632	662 **	37

2004				
1st Quarter	576	189	620 **	34
2nd Quarter	924	195	702 **	39
3rd Quarter				
4th Quarter				
Year				

** net of countervailing & antidumping duty provision

RATIO AND INVESTMENT INFORMATION

	Three Months	Six Months	Year ended December 31,			
	Ended June 30, 2004	Ended June 30, 2004	2003	2002	2001	2000
Current ratio		1.6	1.6	1.6	1.5	1.4
Total debt as a percentage of invested capital		6.5%	3.6%	14.4%	28.1%	1.4%
Pre-tax return on total assets (before restructuring costs, capital asset write-downs and recoveries)	12.5% *	6.7% *	(7.5)%	9.9%	(1.7)%	12.4%
Return on average shareholders' equity	13.1% *	7.2% *	(7.0)%	14.2%	(9.6)%	11.9%
Return on average invested capital	13.0% *	7.2% *	(5.8)%	11.8%	(8.0)%	9.7%
Equity per share		\$7.43	\$7.18	\$8.36	\$7.24	\$8.38
Weighted average shares outstanding (millions)	48.4	48.4	39.5	35.9	34.6	34.0

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



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