



**International Forest Products Limited**  
**Third Quarter Report**  
**For the nine months ended September 30, 2004**



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

Dated as of October 27, 2004

**OPERATING RESULTS**

International Forest Products Limited (“Interfor” or the “Company”) recorded net earnings of \$9.8 million or \$0.20 per share before restructuring costs in the 3<sup>rd</sup> Quarter of 2004 compared to net earnings of \$11.6 million or \$0.24 per share in the immediately preceding quarter, and a net loss of \$1.4 million or \$0.04 per share in the 3<sup>rd</sup> Quarter of 2003.

On August 31<sup>st</sup> Interfor announced its intention to proceed with the permanent closure of its Squamish sawmill, effective October 31<sup>st</sup>. As a result the Company took a one-time provision of \$18.8 million in the 3<sup>rd</sup> Quarter to account for the write-down of plant and equipment (\$13.6 million) and for other costs associated with the mill’s closure (\$5.2 million). During the quarter, the Company also negotiated the termination of a logging contract and restructured the labour contract at the Albion remanufacturing facility, which together resulted in additional restructuring costs of \$1.3 million. Including the restructuring provisions Interfor recorded a net loss in the 3<sup>rd</sup> Quarter of \$3.1 million or \$0.06 per share.

The results reflect the continued strong performance of the B.C. Interior operation and the earnings of the newly-acquired operations in the U.S. Pacific Northwest. The earnings of the B.C. Interior operation were 31% higher than in the 2<sup>nd</sup> Quarter, while U.S. operations made a strong contribution to the Company’s results following the completion of the acquisition on September 1<sup>st</sup>. The results from these operations helped to offset the reduction in earnings from the Company’s B.C. Coastal operations which declined by approximately 50% in the quarter.

Strong results from Seaboard Shipping Company Limited – which increased by 65% compared to the 2<sup>nd</sup> Quarter – also contributed positively to the Company’s 3<sup>rd</sup> Quarter results.

Lumber shipments increased by 22% to 238 million board feet in the 3<sup>rd</sup> Quarter from 195 million board feet in the 2<sup>nd</sup> Quarter reflecting modest increases in production from both the B.C. Coastal and Interior operations as well as the addition of production from the Company’s U.S. operations in September. Lumber shipments in the 3<sup>rd</sup> Quarter of 2003 were significantly lower at 143 million board feet. Log production in the Company’s B.C. operations dropped by 4% from 924,000 m<sup>3</sup> to 891,000 m<sup>3</sup> compared with the 2<sup>nd</sup> Quarter but was more than double the 336,000 m<sup>3</sup> produced in the 3<sup>rd</sup> Quarter of 2003.

Overall, sales revenue increased to \$239.0 million in the 3<sup>rd</sup> Quarter compared to \$211.6 million in the 2<sup>nd</sup> Quarter, and \$149.9 million in the 3<sup>rd</sup> Quarter of 2003. EBITDA declined slightly to \$31.2 million from \$31.7 million in the 2<sup>nd</sup> Quarter. In the 3<sup>rd</sup> Quarter of 2003 EBITDA was \$7.1 million.

During the 3<sup>rd</sup> Quarter Interfor paid \$11.4 million (\$7.3 million after tax or \$0.15 per share) in deposits for countervailing and antidumping duties on shipments of 69.4 million board feet from Canada to the U.S. In the 2<sup>nd</sup> Quarter Interfor paid \$10.2 million (\$6.5 million after tax or \$0.13 per share) in duty deposits, while in the 3<sup>rd</sup> Quarter of 2003 duties totaled \$7.3 million (\$4.6 million after tax or \$0.12 per share). At the end of the 3<sup>rd</sup> Quarter of 2004, Interfor had paid total deposits of US\$60.2 million (CAD\$77.4 million utilizing September 30, 2004 exchange rates) since the deposit requirement came into effect in May 2002.

**ACQUISITION OF CROWN PACIFIC’S SAWMILL ASSETS COMPLETE**

On September 1<sup>st</sup> Interfor completed the acquisition of the sawmill assets of Crown Pacific Limited Partners (“Crown Pacific”) for \$99.0 million including working capital. \$41.6 million was funded through the Company’s existing Revolving Line, \$46.0 million through a new Non-Revolving Line, and the balance of \$11.4 million through the Operating Line. The Non-Revolving Line was established to provide financing for the acquisition. The newly-acquired sawmills have an annual lumber capacity of 335 million board feet and add an attractive element of geographic and product diversification. The three sawmills are being operated under the name Interfor Pacific Inc., under the direction of Sandy Fulton, who joined Interfor as Senior Vice President, U.S. Operations on the date of the acquisition.

Selected Quarterly Financial Information	2004	2004	2003
	Qtr 3	Qtr 2	Qtr 3 restated <sup>1</sup>
	(millions of dollars except share and per share amounts)		
Sales	239.0	211.6	149.9
Operating earnings (loss)	(7.7)	12.9	(3.2)
EBITDA <sup>4</sup>	31.2	31.7	7.1
Net earnings (loss) after tax, before restructuring costs and property, plant & equipment write-downs	9.8	11.6	(1.4)
Net earnings (loss)	(3.1)	11.6	(1.4)
Net earnings (loss) per share – basic and diluted	(0.06)	0.24	(0.04)
Cash flow from operations <sup>2</sup> per share	0.44	0.54	0.10
Shares outstanding – end of period (millions) <sup>3</sup>	48.4	48.4	48.4
– weighted average (millions)	48.4	48.4	38.3

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 October 26, 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 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, 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)	(3.1)	11.6	(1.4)
Add: Income taxes (recovery)	(2.5)	4.6	(1.2)
Interest expense	1.0	0.4	1.1
Depletion and amortization	15.7	15.1	8.6
Restructuring costs, asset write-downs and other	20.1	0.0	0.0
<b>EBITDA</b>	<b>31.2</b>	<b>31.7</b>	<b>7.1</b>

### Volume and Price Statistics

Lumber sales (MMfbm)	238	195	143
Lumber production (MMfbm)	247	204	149
Log production (thousand cubic metres)	891	924	336
Average lumber selling price (\$/Mfbm) <sup>1</sup>	\$673	\$702	\$670

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

### CASH FLOW AND BALANCE SHEET

During the 3<sup>rd</sup> Quarter Interfor generated \$21.1 million in cash from operations before changes in working capital, and \$32.1 million after changes in working capital were considered.

Capital spending in the 3<sup>rd</sup> Quarter amounted to \$16.5 million including \$7.3 million in roads, \$1.5 million in maintenance capital, \$7.0 million in high return discretionary projects and \$750,000 in land development costs. The spending on discretionary projects includes approximately \$4.7 million related to the planned rebuild of the Company's Western Whitewood sawmill in New Westminster, which was announced on August 31<sup>st</sup>.

The Company restructured its term financing on September 1, 2004 in order to facilitate the Crown Pacific acquisition. The Canadian revolving term line (the "Revolving Line") was increased to CAD\$90.0 million from \$75.0 million and the maturity date was extended to April 27, 2007. As at September 30, 2004, the Revolving Line was drawn by US\$31.0 million (2003 - \$nil). A new \$US non-revolving term line (the "Non-Revolving Line") was established in the amount of US\$35.0 million with a maturity date of September 2, 2009. As at September 30, 2004, the line was fully drawn (2003 - \$nil).

Including the financing for the Crown Pacific acquisition, Interfor's net debt increased to \$106.1 million at the end of the 3<sup>rd</sup> Quarter, representing a ratio of net debt to invested capital of 22.9% compared to 6.5% at the end of the 2<sup>nd</sup> Quarter, and 0.3% at the end of the 3<sup>rd</sup> Quarter of 2003.

### TERMINATION OF BID TO ACQUIRE RIVERSIDE FOREST PRODUCTS LIMITED

On October 4, 2004, Interfor announced that it had reached an agreement to acquire the outstanding shares of Riverside Forest Products Limited ("Riverside"), subject to regulatory and contractual conditions.

On October 22, 2004, the Company announced the termination of the agreement in response to a superior offer from another company. Under the terms of the agreement with Riverside, Interfor received a break fee of \$11.0 million, which will be included (net of expenses) in the Company's accounts in the 4<sup>th</sup> Quarter.

## **CANADA – U.S. SOFTWOOD LUMBER DISPUTE**

The softwood lumber trade discussions and legal actions between the Government of Canada, the provincial governments and the U.S. Government are continuing. On August 31, 2004, a North American Free Trade Agreement (“NAFTA”) Panel reaffirmed its prior rulings that the U.S. International Trade Commission (“ITC”) had not demonstrated that the U.S. softwood lumber industry is threatened with material injury by reason of Canadian imports and remanded this determination back to the ITC to make a new determination consistent with the Panel’s decision, which the ITC did under protest. On October 12, 2004, the NAFTA panel issued an order affirming the negative determination of the ITC. On October 13, 2004 the U.S. administration announced its intention to file an Extraordinary Challenge proceeding in the NAFTA injury case.

Interfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments categorically deny U.S. allegations which result in the imposition of the countervailing and anti-dumping duties. Canadian interests will continue to pursue appeals of the final countervailing and anti-dumping determinations with the appropriate courts, NAFTA panels and the World Trade Organization (“WTO”). As such, the actual amount of duties for softwood lumber products shipped will depend upon the outcome of these various appeals or upon a negotiated settlement. In addition, the U.S. undertakes annual administrative reviews which could result in revisions to duty rates. Any differences between revised duty rates and the rates at which deposits were paid can result in a refund or charge to Interfor, plus interest.

The final amount of countervailing and antidumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels.

## **OUTLOOK**

In spite of the continuing robust state of construction activity in the U.S., the price of structural lumber – as measured by the benchmark SPF 2X4, 2&BTR – has declined by more than 30% in the last two months. Similarly, the prices of traditional products in Japan have declined by almost 10% since the end of the 2<sup>nd</sup> Quarter.

The impact of the drop in product prices has been exacerbated by the recent strength in the value of the Canadian dollar, which has risen from a level of CAD\$1.26 per US\$1.00 at the end of the 3<sup>rd</sup> Quarter to a current level, as at the report date, of CAD\$1.22 per US\$1.00.

The combination of lower product prices and stronger Canadian dollar is expected to have a negative impact on the Company’s financial results in the near term.

## **TSX SYMBOL CHANGE**

On November 22, 2004, Interfor’s trading symbol on the Toronto Stock Exchange (“TSX”) will change from IFP.A to IFP.SV.A. This is part of the Symbol Change Initiative announced in April 2004 by the TSX.

## **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](http://www.interfor.com) and on SEDAR at [www.sedar.com](http://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 nine months ended September 30, 2004 and 2003 (unaudited)

(thousands of dollars except earnings per share)

	3 Months Sept. 30, 2004	3 Months Sept. 30, 2003	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
		(restated – note 2)		(restated – note 2)
<b>Sales</b>	\$ 238,952	\$ 149,909	\$ 620,790	\$ 504,210
<b>Costs and expenses:</b>				
Production (notes 2(a) and 2(d))	192,497	132,328	506,851	470,696
Selling and administration	6,896	4,884	17,993	13,824
U.S. countervailing and antidumping duty deposits (notes 2(d) and 11(a))	11,427	7,296	30,182	25,086
Amortization of plant and equipment	6,022	4,896	16,457	14,987
Depletion and amortization of timber, roads and other	9,659	3,698	25,489	11,384
Restructuring costs (note 7)	20,143	-	20,743	1,700
	246,644	153,102	617,715	537,677
<b>Operating earnings (loss)</b>	(7,692)	(3,193)	3,075	(33,467)
Interest expense on long-term debt	(441)	(483)	(675)	(1,681)
Other interest expense	(543)	(570)	(1,241)	(1,647)
Other income	69	26	2,852	3,452
Equity in earnings of investee companies	3,042	1,692	7,258	5,578
	2,127	665	8,194	5,702
<b>Earnings (loss) before income taxes</b>	(5,565)	(2,528)	11,269	(27,765)
<b>Income taxes (recovery):</b>				
Current	1,250	(200)	2,100	700
Future (note 2(a))	(3,760)	(976)	(310)	(12,665)
	(2,510)	(1,176)	1,790	(11,965)
<b>Net earnings (loss)</b>	\$ (3,055)	\$ (1,352)	\$ 9,479	\$ (15,800)
<b>Net earnings (loss) per share (note 9)</b>				
Basic	\$ (0.06)	\$ (0.04)	\$ 0.20	\$ (0.43)
Diluted	\$ (0.06)	\$ (0.04)	\$ 0.19	\$ (0.43)

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30, 2004 and 2003 (unaudited)

(thousands of dollars)

	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
		(restated – note 2)
<b>Retained earnings, beginning of year, as restated (note 2(a))</b>	\$ 41,505	\$ 66,399
<b>Net earnings (loss)</b>	9,479	(15,800)
<b>Share issue expenses, net of future income taxes of \$1,117</b>	-	(2,179)
<b>Retained earnings, end of period</b>	\$ 50,984	\$ 48,420

See accompanying notes to consolidated financial statements



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2004 and 2003 (unaudited)

(thousands of dollars)

	3 Months Sept. 30, 2004	3 Months Sept. 30, 2003	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
<b>Cash provided by (used in):</b>		(restated – note 2)		(restated – note 2)
<b>Operating activities:</b>				
<b>Net earnings (loss)</b>	\$ (3,055)	\$ (1,352)	\$ 9,479	\$ (15,800)
<b>Items not involving cash:</b>				
Amortization of plant and equipment	6,022	4,896	16,457	14,987
Depletion and amortization of timber, roads and other	9,659	3,698	25,489	11,384
Future income taxes	(3,760)	(976)	(310)	(12,665)
Reforestation liability	(69)	(678)	2,335	(54)
Other long-term liabilities	510	(72)	(1,501)	2,581
Equity in earnings of investee companies	(3,042)	(1,692)	(7,258)	(5,578)
Writedown of plant and equipment	14,926	-	15,121	-
Other	(69)	(26)	(2,852)	(2,031)
	21,122	3,798	56,960	(7,176)
<b>Cash generated from (used in) operating working capital:</b>				
Accounts receivable	(2,068)	4,307	(24,735)	665
Inventories	(1,895)	19,424	(39,398)	61,841
Prepaid expenses	67	133	(1,637)	52
Accounts payable and accrued liabilities	13,811	(3,884)	38,218	(51,243)
Income taxes	1,039	(385)	1,270	212
	32,076	23,393	30,678	4,351
<b>Investing activities:</b>				
Additions to property, plant and equipment	(9,257)	(5,494)	(15,339)	(18,612)
Additions to logging roads and timber	(7,284)	(3,047)	(22,340)	(12,143)
Proceeds on disposal of property, plant and equipment	70	24	6,179	3,036
Acquisition of sawmill assets of Crown Pacific (note 4)	(98,955)	-	(98,955)	-
Investments and other assets	(2,414)	(14)	1,856	434
	(117,840)	(8,531)	(128,599)	(27,285)
<b>Financing activities:</b>				
Repurchase of share capital	-	-	-	(923)
Issuance of share capital	-	72,207	81	72,549
Increase (decrease) in bank indebtedness	(3,094)	(37,069)	8,982	1,066
Additions to (reductions in) long-term debt (note 6(b))	82,431	(50,000)	82,431	(50,000)
	79,337	(14,862)	91,494	22,692
<b>Foreign exchange gain on cash and cash equivalents held in a foreign currency:</b>	6,427	-	6,427	-
<b>Decrease in cash</b>	-	-	-	(242)
<b>Cash on deposit, beginning of period</b>	-	-	-	242
<b>Cash on deposit, end of period</b>	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements



**CONSOLIDATED BALANCE SHEETS**

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

(thousands of dollars)	Sept. 30, 2004	Dec. 31, 2003	Sept. 30, 2003
		(restated – note 2)	(restated – note 2)
<b>Assets</b>			
<b>Current assets:</b>			
Accounts receivable (note 13(b))	\$ 57,518	\$ 26,278	\$ 39,494
Inventories	146,609	93,045	80,422
Prepaid expenses	11,360	6,680	6,246
Future income taxes	5,613	4,505	6,295
	221,100	130,508	132,457
<b>Investments and other assets:</b>			
Investments and advances	44,245	41,122	39,144
Deferred financing fee, net of accumulated amortization	560	53	118
	44,805	41,175	39,262
<b>Property, plant and equipment, net of accumulated amortization</b>	248,215	194,660	198,296
<b>Timber and logging roads, net of accumulated depletion and amortization</b>	82,444	86,637	87,286
<b>Goodwill and other intangible assets</b>	14,146	13,862	19,647
	\$ 610,710	\$ 466,842	\$ 476,948
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Bank indebtedness (note 6(a))	\$ 21,933	\$ 12,951	\$ 1,066
Accounts payable and accrued liabilities	107,567	69,316	74,981
Income taxes payable	1,628	358	402
	131,128	82,625	76,449
<b>Reforestation liability, net of current portion (note 2(a))</b>	18,505	16,170	16,978
<b>Long-term debt (note 6(b))</b>	84,202	-	-
<b>Other long-term liabilities (note 2(a))</b>	12,463	13,964	11,458
<b>Future income taxes (note 2(a))</b>	7,633	6,835	17,900
<b>Shareholders' equity:</b>			
Share capital (note 8)			
Class A subordinate voting shares	293,543	293,462	293,462
Class B common shares	4,080	4,080	4,080
Contributed surplus	8,201	8,201	8,201
Cumulative translation adjustment	(29)	-	-
Retained earnings	50,984	41,505	48,420
	356,779	347,248	354,163
	\$ 610,710	\$ 466,842	\$ 476,948

Contingencies (note 11) and Subsequent event (note 12)

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 nine months ended September 30, 2004 and 2003 (unaudited)

### 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 (e), 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 (restated - note 2(d))	New policy
Balance Sheet as at September 30, 2003:		
Reforestation liability	\$ 22,118	\$ 16,978
Other long-term liabilities	11,981	11,458
Future income taxes payable	16,003	17,900
Retained earnings, ending	44,654	48,420
Retained earnings, beginning	63,101	66,399
Statement of Operations for the nine months ended September 30, 2003:		
Production costs	\$ 471,099	\$ 470,696
Future income taxes recovery	12,600	12,665
Net loss	16,268	15,800
Net loss per share	0.45	0.43
Statement of Operations for the three months ended September 30, 2003:		
Production costs	\$ 132,399	\$ 132,328
Future income taxes recovery	1,000	976
Net loss	1,399	1,352
Net loss per share	0.04	0.04
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 \$30,000,000 (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 13(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.

#### (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.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2004 and 2003 (unaudited)

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

#### (d) Countervailing and anti-dumping duties and freight, wharfage and handling costs:

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. Similarly, freight, wharfage and handling costs have also been reclassified to production costs. 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 Sept. 30, 2004	3 months Sept. 30, 2003	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
Defined contribution plan	\$ 454	\$ 448	\$ 1,396	\$ 1,606
Defined benefit plan	203	230	470	459
Unionized employees' pension plan	1,458	1,073	3,865	3,746
Senior management supplementary pension plan	26	26	79	79
Total pension expense	\$ 2,141	\$ 1,777	\$ 5,810	\$ 5,890

#### (f) Foreign currency translation:

The integrated subsidiaries of the Company translate monetary items to Canadian Dollars at exchange rates in effect at the balance sheet date and non-monetary items at rates of exchange in effect when the assets were acquired or obligations incurred. Revenues and expenses are translated at average rates for the period. Foreign exchange gains and losses are included in production costs or sales, depending upon what type of activity originated the balances.

Self-sustaining operations' assets and liabilities are translated at the exchange rates in effect at the balance sheet date. Revenues and expenses are translated at average rates for the period. Any material corresponding foreign exchange gains and losses are deferred and disclosed separately as a cumulative translation adjustment, a separate component of shareholders' equity.

Long-term obligations denominated in foreign currencies are designated as hedges of investments in self-sustaining operations. Accordingly, cumulative unrealized gains or losses arising from the translation of these obligations are recorded as cumulative translation adjustments.

### 3. Comparative figures:

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

### 4. Acquisition:

On September 1, 2004 the Company acquired the sawmill assets of Crown Pacific Limited Partners and its affiliates ("Crown Pacific") in the U.S. Pacific Northwest. To acquire these assets, the Company paid CAD \$98,955,000, of which \$41,622,000 was financed through the existing Revolving Line, \$45,955,000 was financed through a new Non-Revolving Line, and the balance through the Operating Line, more fully described in Note 6.

This acquisition has been accounted for using the purchase method and the purchase price is allocated as follows:

Net assets acquired:		
Current assets	\$	23,715
Property, plant and equipment		74,979
Intangible assets		295
		98,989
Liabilities assumed:		
Current liabilities		34
	\$	98,955
Cash consideration funded out of:		
Operating Line	\$	11,378
Revolving Line		41,622
Non-revolving Line		45,955
	\$	98,955

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2004 and 2003 (unaudited)

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### 5. 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.

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

#### (a) Bank indebtedness:

In the 1<sup>st</sup> Quarter of 2004, 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 - \$75,000,000), 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 matures on April 28, 2005. As at September 30, 2004, bank indebtedness and outstanding letters of credit brought the unused portion of the line to \$48,593,000 (2003 - \$69,171,000).

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

The Company restructured its term financing on September 1, 2004 in order to facilitate the acquisition of the sawmill assets of Crown Pacific Limited Partners and its affiliates. The Canadian revolving term line (the "Revolving Line") was increased to CAD\$90,000,000 from \$75,000,000 and the maturity date was extended to April 27, 2007. As at September 30, 2004, the Revolving Line was drawn by US\$31,700,000 (2003 - \$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 or Libor based loans.

A new \$US non-revolving term line (the "Non-Revolving Line") was established in the amount of US\$35,000,000 with a maturity date of September 1, 2009. As at September 30, 2004, the line was fully drawn (2003 - \$nil). The Non-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 Libor based loans.

Both lines are secured and are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization.

Minimum principal amounts due on long-term debt in CAD\$ within the next five years are as follows:

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2005	\$	-
2006		-
2007		40,018
2008		-
2009		44,184

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### 7. Restructuring costs:

In light of the 20% reduction of the Company's timber tenures discussed below (note 11(b)), the Company reduced staff levels and recorded severance costs of \$600,000 during the 1<sup>st</sup> Quarter of 2004.

In the 3<sup>rd</sup> Quarter, 2004, the Company announced that after more than a year of curtailed operations due to poor economic conditions, the Company would proceed with the permanent closure of its sawmill in Squamish, effective October 31, 2004. As a result of the closure of the Squamish mill, the Company recorded restructuring costs of \$18,839,000 including plant and equipment writedowns of \$13,555,000 and severance and other costs.

The Company also negotiated the termination of a logging contract and restructured the labour contract at the Albion remanufacturing facility, which together resulted in additional restructuring costs of \$1,304,000.

### 8. 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.

**INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2004 and 2003 (unaudited)

**9. Net earnings (loss) per share**

	3 months Sept. 30, 2004			3 months Sept. 30, 2003		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ (3,055)	48,409	\$ (0.06)	\$ (1,352)	38,291	\$ (0.04)
Share options	-	824*	-	-	407*	-
Diluted earnings (loss) per share	\$ (3,055)	48,409*	\$ (0.06)	\$ (1,352)	38,291*	\$ (0.04)

  

	9 months Sept. 30, 2004			9 months Sept. 30, 2003		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ 9,479	48,407	\$ 0.20	\$ (15,800)	36,445	\$ (0.43)
Share options	-	749	-	-	588*	-
Diluted earnings (loss) per share	\$ 9,479	49,156	\$ 0.19	\$ (15,800)	36,445*	\$ (0.43)

\*Where the addition of share options to the total shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those share options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

**10. 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 and the Pacific Northwest, U.S.A.

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

	3 months Sept. 30, 2004	3 months Sept. 30, 2003	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
Canada	\$ 85,533	\$ 55,865	\$ 232,231	\$ 188,352
United States	79,265	41,869	183,449	136,160
Japan	56,770	34,870	133,127	116,154
Other export	17,384	17,305	71,983	63,544
	\$ 238,952	\$ 149,909	\$ 620,790	\$ 504,210

Sales by product line are as follows:

	3 months Sept. 30, 2004	3 months Sept. 30, 2003	9 Months Sept. 30, 2004	9 Months Sept. 30, 2003
Lumber	\$ 180,980	\$ 112,245	\$ 468,220	\$ 383,709
Logs	37,586	19,278	97,399	72,426
Wood chips and other by products	11,143	6,992	28,987	22,613
Other	9,243	11,394	26,184	25,462
	\$ 238,952	\$ 149,909	\$ 620,790	\$ 504,210

The Company has capital assets, goodwill and other intangible assets located in:

	Sept. 30, 2004	Sept. 30, 2003
Canada	\$ 266,388	\$ 298,001
United States	78,417	7,224
Other	-	4
	\$ 344,805	\$ 305,229

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2004 and 2003 (unaudited)

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### 11. Contingencies:

#### (a) U.S. Softwood Lumber dispute:

The Company has recorded \$11,426,000 (2003 - \$7,297,000) for the quarter and \$30,181,000 (2003 - \$25,087,000) for the nine months ended September 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 September 30, 2004 charged to operations total \$85,691,000 (US\$60,200,000). These total U.S. deposits translated at quarter-end exchange rates equate to CAD\$77,442,000 at September 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.

#### (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 annual allowable cut 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 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.

### 12. Termination of agreement to acquire sawmill assets of Riverside Forest Products Limited:

On October 4, 2004, the Company announced that it had reached an agreement to acquire the outstanding shares of Riverside Forest Products Limited ("Riverside"), subject to regulatory and contractual conditions. On October 22, 2004, the Company announced the termination of the previously announced agreement in response to another company's offer to the shareholders of Riverside and Riverside's Special Committee having determined that the other company's offer was superior to Interfor's offer.

On October 22, 2004, the Company also terminated the lock-up agreements with certain executive officers of Riverside, who had agreed to tender their shares to the Company's offer. Under the terms of the terminations, Interfor received a break fee of \$11,000,000 from Riverside.

### 13. 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 September 30, 2004, the Company has outstanding obligations to sell a maximum of US\$9,000,000 at an average rate of CAD\$1.3038 and Japanese ¥190,000,000 at an average rate of ¥81.92 to the CAD\$1.00. All foreign currency gains or losses to September 30, 2004 have been recognized in the statement of operations.

There were no interest rate swaps outstanding as at September 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 September 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
<b>Sales * (\$ millions)</b>					
1st Quarter	170.2	186.2	184.2	161.7	189.5
2nd Quarter	211.6	168.1	194.4	183.8	207.3
3rd Quarter	239.0	149.9	208.7	195.2	175.3
4th Quarter		135.4	227.5	178.3	178.2
Year		639.6	814.8	719.0	750.3

<b>EBITDA * (\$ millions)</b>					
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	31.2	7.1	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

<b>Net Earnings (Loss) * (\$ millions)</b>					
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	(3.1)	(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	0.20	(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	(0.06)	(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

## RATIO AND INVESTMENT INFORMATION

	Three Months	Nine Months	Year ended December 31,			
	Ended Sept. 30, 2004	Ended Sept. 30, 2004	2003	2002	2001	2000
Current ratio		1.7	1.6	1.6	1.5	1.4
Total debt as a percentage of invested capital		22.9%	3.6%	14.4%	28.1%	1.4%
Pre-tax return on total assets (before restructuring costs, capital asset write-downs and recoveries)	9.5% *	7.0% *	(7.5)%	9.9%	(1.7)%	12.4%
Return on average shareholders' equity	7.2% *	4.8% *	(7.0)%	14.2%	(9.6)%	11.9%
Return on average invested capital	6.9% *	4.6% *	(5.8)%	11.8%	(8.0)%	9.7%
Equity per share		\$7.37	\$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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## OPERATING STATISTICS

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

<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	143	670 **	39
4th Quarter	636	138	634 **	36
Year	1,965	632	662 **	37

<b>2004</b>				
1st Quarter	576	189	620 **	35
2nd Quarter	924	195	702 **	40
3rd Quarter	891	238	673 **	37
4th Quarter				
Year				

\*\* net of countervailing & antidumping duty provision