PRESS RELEASE

International Forest Products Limited

Vancouver, B.C. **July 27, 2006**

Interfor Records Earnings of $8.0 Million in Q2

Improved performance from Coastal operations; gains from property sales contribute to results

OPERATING RESULTS

International Forest Products Limited ("Interfor" or the "Company") (TSX: IFP.A) recorded net earnings of $8.0 million or $0.17 per share in the 2nd Quarter of 2006 compared to $8.7 million or $0.18 per share in the 1st Quarter of 2006, and $9.0 million or $0.18 per share in the 2nd Quarter of 2005. Through the first 6 months of 2006 Interfor recorded net earnings of $16.8 million or $0.34 per share compared to $19.9 million or $0.41 per share in the first 6 months of 2005.

Included in the Company's 2nd Quarter results were $2.0 million or $0.05 per share in one-time items and other income. These items include $10.1 million ($7.9 million, after-tax) in gains on the sale of property and equipment offset in part by one-time restructuring costs and capital asset write-downs totalling $8.0 million ($5.9 million after tax). After allowing for these items, net earnings in the 2nd Quarter were $6.0 million or $0.12 per share compared to $5.2 million or $0.11 per share in the 1st Quarter and $5.1 million or $0.10 per share in the 2nd Quarter of 2005.

Positively impacting results in the 2nd Quarter was an improvement in performance in the Company's Coastal operations. Increased production and lower costs within the woodlands group, higher operating margins at the Acorn and Queensboro mills and reduced losses from closed operations were the primary contributors. These improvements helped to offset the impact of lower North American structural product prices and higher log costs in the U.S. which negatively impacted the Company's Interior and U.S. operating units.

In the 2nd Quarter, benchmark SPF 2X4 prices fell on average by almost 8% to US$317 per thousand board feet, while the Canadian dollar increased slightly to US$0.89.

Lumber shipments in the 2nd Quarter were flat at 328 million board feet and were 25% above the shipments of 263 million board feet achieved in the 2nd Quarter of 2005 reflecting primarily the inclusion of the Molalla mill for the full quarter in 2006 compared to one month in the 2nd Quarter of 2005.

Sales revenue in the 2nd Quarter increased by 5% to $224 million compared to $214 million in the 1st Quarter, and was 5% above sales revenue of $213 million in the 2nd Quarter of 2005.

EBITDA excluding other income (and one-time items) increased by 20% in the 2nd Quarter to $23.6 million compared to $19.7 million the 1st Quarter, and was flat relative to EBITDA in the 2nd Quarter of 2005.

During the quarter, significant additional progress was made on the Company's restructuring program, including:

- the sale of additional surplus property and logging equipment;
- the sale of the Saltair remanufacturing facility in Chemainus, B.C.;
- the sale of equipment from the former Field sawmill operation in Comox, B.C.; and
- additional staff restructuring.

In addition, the Company announced in June that it had reached agreement-in-principle to sell its' MacKenzie mill in Surrey, B.C. subject to the buyer concluding financial arrangements. The transaction is scheduled to close in the 3rd Quarter.

At the same time, sale of the Company's helicopter logging subsidiary, which was announced in February, is still awaiting regulatory approval.

Each of these restructuring activities is consistent with Interfor's strategy to focus on its core manufacturing operations.

During the 2nd Quarter Interfor paid $5.4 million ($3.6 million, after tax) in deposits for countervailing and anti-dumping duties on shipments of 103 million board feet from Canada to the U.S. At the end of the quarter, Interfor had paid total deposits of US$101.6 million (CAD $113.4 million using June 30, 2006 exchange rates) since the deposit requirement came into effect in May 2002.

CASH FLOW AND BALANCE SHEET

Interfor generated $21.1 million in cash from operations in the 2nd Quarter before working capital changes, and $20.7 million after changes in working capital were considered. In addition, $16.0 million was received from the sale of property and equipment.

Capital spending in the 2nd Quarter amounted to $26.2 million including $7.4 million on roads, $3.4 million on maintenance of business projects, $14.6 million on discretionary projects and $0.8 million on land development.

Interfor's net debt dropped $9.6 million in the 2nd Quarter to $13.7 million, representing a ratio of net debt to invested capital of 3.3% compared to 5.6% at the end of the 1st Quarter.

OUTLOOK

Benchmark SPF 2X4 is currently trading in the range of $285 - $290 per thousand board feet, down $60 per thousand board feet from the same time last year, reflecting concerns over the state of housing activity in the U.S. market.

Cedar prices, on the other hand, are 5 to 10% above last year's level, although some downward pressure is likely through the latter half of the year. In Japan, economic conditions continue to improve, with housing starts currently in the range of 1.3 million units on an annualized basis. Prices in Japan moved up 2-3% in the 2nd Quarter, but have fallen back slightly for the 3rd Quarter. Prices for industrial and specialty grades are firm, with good order files and modest increases on some items.

Log inventories are in good shape in the Company's Coastal and Interior Operations, but remain challenging in the U.S.

The Company's intention is to operate each of its mills on a normal schedule during the 3rd Quarter subject to log supply and market conditions.

Capital spending will accelerate in the 3rd and 4th Quarters of 2006 as the Company moves forward with previously announced projects at Port Angeles, Molalla, Gilchrist and Adams Lake.

SHARE BUY-BACK PROGRAM

During the 2nd Quarter, Interfor purchased a total of 386,600 shares at an average cost of $6.95 per share under the Share Buy Back Program authorized in November 2005. A total of 425,700 shares have been purchased since the inception of the Program at an average cost of $6.91 per share. All of the shares purchased under the Program were cancelled at the time of purchase.

FORWARD LOOKING STATEMENTS

This press release 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.

EBITDA

In this Press Release reference is made to EBITDA and EBITDA excluding Other Income. EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of property, plant, equipment and timber. EBITDA excluding Other Income represents EBITDA less other income. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management 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.

ABOUT INTERFOR

Interfor is one of the Pacific Northwest's largest producers of quality wood products. The Company has operations in British Columbia, Washington and Oregon, including four sawmills in the Coastal region of British Columbia, one in the B.C. Interior, one in Washington and two in Oregon. In addition, Interfor operates value-added remanufacturing and specialty products facilities in B.C. and Washington.

Additional information relating to the Company and its operations, including Interfor's Annual Statutory Information for 2005, can be found on its website at www.interfor.com and or on SEDAR at www.sedar.com

SELECTED STATISTICS

	Three Months Ended June 30 2006	Three Months Ended June 30 2005	Six Months Ended June 30 2006	Six Months Ended June 30 2005
Lumber volume (MMfbm)				
- Sales	328	263	656	519
- Production [1]	326	266	651	519
Log Volume (000 m^3)				
- Production	667	765	1,058	1,213
Prices ($/Mfbm)				
- Lumber [2]	530	615	535	623
- Pulp Chips	26	27	26	28
Shares Outstanding (millions)				
- Total at period end [3]	48.4	48.7	48.4	48.7
- Weighted average	48.6	48.7	48.7	48.7

(1) excluding volumes custom cut for third parties
(2) gross sales before countervailing and antidumping duties
(3) as of July 26, 2006 the number of shares outstanding by class are as follows:

Class A subordinate voting	47,396,496
Class B common	1,015,779
Total	48,412,275

There will be a conference call on Friday, July 28, 2006 at 8:00 AM (Pacific Time) hosted by **INTERNATIONAL FOREST PRODUCTS LIMITED** for the purpose of reviewing the Company's release of its Second Quarter 2006 Financial Results. The dial-in number is ***1-888-633-8341***.

The conference call will also be recorded for those unable to join in for the live discussion. The number to call is ***1-800-558-5253 Reservation 21298697#*** and will be available until August 11, 2006.

William L. Sauder
Chairman

Duncan K. Davies
President and C.E.O.

Contact: Gerald J. Friesen
Vice President and Corporate Secretary
(604) 689-6804

CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and six months ended June 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months June 30, 2006	3 Months June 30, 2005	6 Months June 30, 2006	6 Months June 30, 2005
Sales	$ 223,907	$ 213,408	$ 437,510	$ 406,334
Costs and expenses:				
Production	192,367	179,857	376,139	340,373
Selling and administration	4,893	5,130	9,895	10,590
Long term incentive compensation	(1,596)	(1,122)	(841)	606
U.S. countervailing and antidumping duty deposits (note 11)	5,397	8,013	10,574	14,899
Amortization of plant and equipment	7,418	6,372	15,049	12,518
Depletion and amortization of timber, roads and other	7,153	8,567	9,941	13,673
	215,632	206,817	420,757	392,659
Operating earnings before restructuring costs	8,275	6,591	16,753	13,675
Restructuring costs and write-downs of property, plant, equipment and timber (note 7)	7,990	26,461	7,577	26,461
Operating earnings (loss)	285	(19,870)	9,176	(12,786)
Interest expense on long-term debt	(800)	(820)	(1,562)	(1,584)
Other interest expense	(230)	(216)	(472)	(490)
Other income (note 6)	10,125	21,417	13,092	28,359
Equity in earnings of investee companies	715	1,948	1,559	4,780
	9,810	22,329	12,617	31,065
Earnings before income taxes	10,095	2,459	21,793	18,279
Income tax expense (recovery):				
Current	(686)	249	(53)	2,334
Future	2,747	(6,750)	5,084	(3,936)
	2,061	(6,501)	5,031	(1,602)
Net earnings	$ 8,034	$ 8,960	$ 16,762	$ 19,881
Net earnings per share (note 9)				
Basic	$ 0.17	$ 0.18	$ 0.34	$ 0.41
Diluted	0.16	$ 0.18	$ 0.34	$ 0.40

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the six months ended June 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)	6 Months June 30, 2006	6 Months June 30, 2005
Retained earnings, beginning of year	$ 85,943	$ 66,218
Net earnings	16,762	19,881
Retained earnings, end of period	$ 102,705	$ 86,099

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)	3 Months June 30, 2006	3 Months June 30, 2005	6 Months June 30, 2006	6 Months June 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 8,034	$ 8,960	$ 16,762	$ 19,881
Items not involving cash:				
Amortization of plant and equipment	7,418	6,372	15,049	12,518
Depletion and amortization of timber, roads and other	7,153	8,567	9,941	13,673
Future income taxes	2,747	(6,750)	5,084	(3,936)
Reforestation liability	857	6	2,076	979
Other long-term liabilities	(166)	(804)	(814)	(1,963)
Equity in earnings of investee companies	(715)	(1,948)	(1,559)	(4,780)
Write-downs of property, plant, equipment and timber	5,868	28,007	5,868	30,277
Other (note 6)	(10,125)	(21,413)	(12,650)	(28,342)
	21,071	20,997	39,757	38,307
Cash generated from (used in) operating working capital:				
Accounts receivable	(4,036)	(11,809)	(7,710)	(9,306)
Inventories	1,076	7,066	7,995	6,000
Prepaid expenses	(712)	202	(2,397)	2,102
Accounts payable and accrued liabilities	4,902	(199)	(284)	(4,507)
Income taxes	(1,567)	(2,722)	(1,259)	(777)
	20,734	13,535	36,102	31,819
Investing activities:				
Additions to property, plant and equipment	(18,752)	(12,578)	(31,683)	(31,488)
Additions to logging roads and timber	(7,410)	(5,987)	(10,405)	(10,988)
Additions to deferred start-up costs	-	(1,115)	-	(1,115)
Proceeds on disposal of property, plant, equipment, timber and roads	16,045	2,298	21,060	24,258
Acquisitions	-	(79,905)	-	(79,905)
Cash received on acquisition of subsidiary	-	2,650	-	2,650
Investments and other assets	(45)	(107)	1,776	5,698
	(10,162)	(94,744)	(19,252)	(90,890)
Financing activities:				
Issuance of share capital, net of expenses	385	37	525	190
Repurchase of share capital	(2,695)	-	(2,695)	-
Increase (decrease) in bank indebtedness	(10,072)	14,150	(8,053)	14,150
Funds from promissory note payable to investee company	-	27,757	-	27,757
Additions to long-term debt	-	31,405	-	31,405
Repayments of long-term debt	-	(12,396)	-	(32,910)
	(12,382)	60,953	(10,223)	40,592
Foreign exchange (gain) loss on cash and cash equivalents held in a foreign currency:	(440)	146	(313)	220
Increase (decrease) in cash	(2,250)	(20,110)	6,314	(18,259)
Cash on deposit, beginning of period	27,625	20,110	19,061	18,259
Cash on deposit, end of period	$ 25,375	$ -	$ 25,375	$ -
Supplementary disclosures (see also note 4)				
Cash interest paid	$ 1,030	$ 1,036	$ 2,034	$ 2,074
Cash income taxes paid	881	3,032	1,206	3,176

See accompanying notes to consolidated financial statements

INTERFOR

CONSOLIDATED BALANCE SHEETS

June 30, 2006 and 2005 (unaudited) and December 31, 2005 (audited)

(thousands of Canadian dollars)	June 30, 2006	December 31, 2005	June 30, 2005
Assets			
Current assets:			
Cash	$ 25,375	$ 19,061	$ -
Accounts receivable (note 13(c))	45,621	37,911	55,808
Income taxes recoverable	1,884	625	263
Inventories	90,773	102,960	113,107
Prepaid expenses	7,957	6,439	8,254
Future income taxes	4,493	6,659	5,060
Current assets held for sale (note 3)	5,071	-	-
	181,174	173,655	182,492
Investments and other assets			
Investments and advances (note 4)	7,389	62,370	55,990
Deferred financing fee, net of accumulated amortization	299	377	526
	7,688	62,747	56,516
Property, plant and equipment, net of accumulated amortization	283,770	289,227	299,548
Timber and logging roads, net of accumulated depletion and amortization	52,704	52,375	63,476
Goodwill and other intangible assets	13,135	15,694	15,733
Future income taxes	1,843	3,980	-
Long-lived assets held for sale (note 3)	4,899	-	-
	$ 545,213	$ 597,678	$ 617,765
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 5(a))	$ -	$ 8,053	$ 14,150
Accounts payable and accrued liabilities	82,401	82,685	82,408
Promissory note payable to investee company (note 4)	-	54,354	27,757
Future income taxes payable	-	351	-
	82,401	145,443	124,315
Reforestation liability, net of current portion	17,318	15,242	17,961
Long-term debt (note 5(b))	39,067	40,705	73,524
Other long-term liabilities	5,853	6,667	7,470
Future income taxes	3,569	3,100	2,592
Shareholders' equity:			
Share capital (note 8)			
Class A subordinate voting shares	292,819	294,683	294,771
Class B common shares	4,080	4,080	4,080
Contributed surplus	7,880	8,186	8,201
Cumulative translation adjustment	(10,479)	(6,371)	(1,248)
Retained earnings	102,705	85,943	86,099
	397,005	386,521	391,903
	$ 545,213	$ 597,678	$ 617,765

Contingencies (note 11)
Subsequent events (notes 5(b) and 13(c))

See accompanying notes to consolidated financial statements

On behalf of the Board:

W. L. Sauder
Director

H. C. Kalke
Director

(Tabular amounts expressed in thousands except per share amounts)

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, 2005.

2. Seasonality of operating results:

The Company operates in the solid wood business which includes logging and manufacturing operations. Logging activities vary throughout the year 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. Manufacturing operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations and from third party suppliers. 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.

3. Assets held for sale:

On February 10, 2006, the Company signed an agreement to sell its helicopter logging operations, conducted by its wholly-owned subsidiary, Helifor Industries Limited. The transaction is subject to Canadian Transportation Agency approval and is expected to close prior to the year-end.

On June 23, 2006, the Company reached an agreement for the sale of its MacKenzie sawmill assets. The sale is subject to the purchaser concluding its financial arrangements and is scheduled to close in the third quarter of 2006.

As at June 30, 2006, the company has classified the assets of these operations as assets held for sale.

4. Payable to investee company:

On April 21, 2005, the Seaboard Limited Partnership (“the Seaboard Partnership”), made an advance to its partners, with the Company’s share of the advance being $27,757,000. The Company signed an unsecured promissory note which was payable on demand on or before January 31, 2006 and was non-interest bearing until January 31, 2006 and interest bearing at the rate of 5% per annum thereafter.

On December 29, 2005, the Seaboard Partnership provided a second advance to its partners, with the Company’s share of this advance being $26,597,000. The advance was payable on demand and was non-interest bearing.

On January 3, 2006, the Seaboard Partnership declared an income distribution to its partners, of which the Company’s share of $54,354,000 was received by way of setoff against the advance and the promissory note payable to the Seaboard Partnership. In accordance with equity accounting, the income distribution was recorded as a reduction of the investment in Seaboard.

5. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

June 30, 2006	Canadian Operating Facility	Mapri Developments	U.S. Operating Facility	Total
Available line of credit	$ 60,000	$ 4,000	$ 16,743	$ 80,743
Maximum borrowing available	54,868	4,000	16,743	75,611
Unused portion of line	50,392	4,000	16,609	71,001
Outstanding letters of credit included in line utilization	4,476	-	134	4,610
June 30, 2005				
Available line of credit	$ 75,000	$ 4,000	$ 18,381	$ 97,381
Maximum borrowing available	70,066	4,000	18,381	92,447
Unused portion of line	51,600	4,000	14,876	70,476
Outstanding letters of credit included in line utilization	4,283	-	441	4,724

In the second quarter of 2006, the Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain unchanged, except for a reduction in the interest rate premiums, and a reduction in the maximum operating credit available to $60,000,000 (June 30, 2005 - $75,000,000). The line is 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.

(Tabular amounts expressed in thousands except per share amounts)

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

(a) Bank indebtedness (continued):

In the first quarter of 2006, the Company renewed its existing U.S. operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totalling US$15,000,000. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific Inc. The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1¼%. The line of credit is secured by the accounts receivables and inventories of Interfor Pacific Inc. and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The line matures on March 1, 2007.

On acquisition of Mapri Developments Ltd. ("Mapri") on May 31, 2005, the Company renewed Mapri's existing revolving line of credit of $4,000,000. This demand line bears interest at bank prime plus ¼%, and, after renegotiation in the first quarter of 2006, is secured by a general charge over all assets of B.W. Creative Wood Industries Ltd., a wholly-owned subsidiary of Mapri. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories and matures on August 1, 2006.

(b) Long-term debt:

The maximum borrowing available under the Company's Canadian revolving term line ("Revolving Line") is $90,000,000 (June 30, 2005 - $90,000,000). As at June 30, 2006, the Revolving Line was undrawn (June 30, 2005 – US$25,000,000 revalued to CAD$30,635,000). 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 and matures on April 27, 2007. Effective July 12, 2006, the Company reduced the maximum borrowing available under this facility to $40,000,000.

As at June 30, 2006, the $US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US$35,000,000 (June 30, 2005 - US$35,000,000) and was revalued at the month-end exchange rate to CAD$39,067,000 (June 30, 2005 - CAD$42,889,000). 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 and matures on September 1, 2009.

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 within the next five years are as follows:

2006	$ -
2007	-
2008	-
2009	39,067
2010	-
	$ 39,067

6. Other income:

	3 months June 30, 2006	3 months June 30, 2005	6 months June 30, 2006	6 months June 30, 2005
Gain on disposal of Marysville sawmill	$ -	$ -	$ 874	$ -
Gain on disposal of surplus Squamish properties	8,534	-	8,534	-
Gain on disposal of other surplus property, plant and equipment	1,574	1,916	3,225	2,485
Gain on settlement of timber takeback	-	-	-	6,373
Equity income participation in gain on disposal of Western Stevedoring	-	19,501	-	19,501
Other income	17	-	459	-
	$ 10,125	$ 21,417	$ 13,092	$ 28,359

During the second quarter, 2006, the Company completed the sale of surplus properties in Squamish, B.C. for sale proceeds of $10,533,000 and a gain of $8,534,000. In addition, all property, plant and equipment of Saltair Timber Products Limited and surplus equipment of Field Sawmill division on Vancouver Island, B.C. as well as surplus logging and other assets were sold in the quarter for proceeds of $4,730,000 and a gain of $1,574,000.

In the first quarter, the Company completed the sale of its sawmill located in Marysville, Washington. The Company recorded sale proceeds of $2,542,000 and a gain of $874,000.

(Tabular amounts expressed in thousands except per share amounts)

7. Restructuring costs and write-downs of property, plant, equipment and timber:

	3 Months June 30, 2006	3 Months June 30, 2005	6 months June 30, 2006	6 months June 30, 2005
Property, plant, equipment and timber write-downs	$ 5,868	$ 28,007	$ 5,868	$ 30,277
Severance and other restructuring costs (recoveries)	2,122	(1,546)	1,709	(1,546)
Other (recoveries)	-	-	-	(2,270)
	$ 7,990	$ 26,461	$ 7,577	$ 26,461

In the second quarter, 2006, the Company reviewed the valuation of certain B.C. coastal assets which it did not consider to be part of its future core operations. An impairment charge of $5,868,000 was recorded in the quarter to reduce the carrying values of these assets to estimated fair values. The Company continued its programs to improve its competitive cost structure resulting in additional severance charges of $2,193,000 for the quarter ($3,396,000 for the six months).

During the first and second quarters, 2006, the Company received recoveries totalling $1,687,000 from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia, as reimbursement for severance costs of workers who were displaced by the reductions in harvesting rights taken under the *Forestry Revitalization Act*. As the associated costs had been expensed in the current and prior years as restructuring costs, the recovery served to offset additional severance costs for these workers recorded in the current year to date. The Company continues to pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any additional mitigation is not yet determinable and will be recorded when the amounts can be estimated.

8. Share capital:

On November 9, 2005, the Company commenced a normal course issuer bid to acquire up to 2,384,000 Class A Subordinate Voting shares (“Class A Shares”) (representing approximately 5% of the outstanding Class A Shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding Class A Shares being purchased in any 30-day period. During the second quarter of 2006 the Company acquired 386,600 Class A shares at a total cost of $2,695,000 and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled $306,000 and has been charged to contributed surplus. No Class A Shares were purchased under the normal course issuer bid during the 1st Quarter of 2006. The normal course issuer bid will terminate no later than November 8, 2006.

9. Net earnings per share:

	3 months June 30, 2006			3 months June 30, 2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	$ 8,034	48,639	$ 0.17	$ 8,960	48,678	$ 0.18
Share options	-	662	-	-	629	-
Diluted earnings per share	$ 8,034	49,301	$ 0.16	$ 8,960	49,307	$ 0.18

	6 months June 30, 2006			6 months June 30, 2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	$ 16,762	48,660	$ 0.34	$ 19,881	48,667	$ 0.41
Share options	-	644	-	-	653	-
Diluted earnings per share	$ 16,762	49,304	$ 0.34	$ 19,881	49,320	$ 0.40

(Tabular amounts expressed in thousands except per share amounts)

10. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company purchases and harvests logs which are 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 June 30, 2006	3 months June 30, 2005	6 months June 30, 2006	6 months June 30, 2005
Canada	$ 65,830	$ 64,163	$ 118,623	$ 116,716
United States	123,368	113,568	252,354	205,089
Japan	17,777	16,857	33,158	43,896
Other export	16,932	18,820	33,375	40,633
	$ 223,907	$ 213,408	$ 437,510	$ 406,334

Sales by product line are as follows:

	3 months June 30, 2006	3 months June 30, 2005	6 months June 30, 2006	6 months June 30, 2005
Lumber	$ 173,532	$ 161,812	$ 351,200	$ 323,906
Logs	21,396	30,425	36,001	47,783
Wood chips and other by products	9,340	8,282	18,434	16,494
Other	19,639	12,889	31,875	18,151
	$ 223,907	$ 213,408	$ 437,510	$ 406,334

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

	June 30, 2006	Dec. 31, 2005	June 30, 2005
Canada	$ 205,548	$ 214,211	$ 238,160
United States	148,960	143,085	140,597
	$ 354,508	$ 357,296	$ 378,757

11. Contingencies:

On May 16, 2002, the U.S. International Trade Commission ("USITC") published its final written determination on injury in the countervailing duty ("CVD") and antidumping duty ("ADD") investigations and stated that Canadian softwood lumber threatens material injury to the U.S. industry. As a result, effective from May 22, 2002, cash deposits were required for shipments at the rates determined by the U.S. Department of Commerce ("USDOC").

Effective December 12, 2005, the USDOC implemented new deposit rates based on its second Administrative review period (April 1, 2003 to March 31, 2004 for the CVD case; and May 1, 2003 to April 30, 2004 for the ADD case) and reduced the CVD deposit rate to 8.70% and the all others ADD rate to 2.11%. Effective January 23, 2006, the USDOC further amended the ADD rate to 2.10%, reducing the Company's combined CVD and ADD deposit rate to 10.80%. The Company has not recorded any receivable for prior periods related to the change in the cash deposit rate applicable to new shipments.

On November 23, 2005 Interfor was selected by the U.S. Department of Commerce ("USDOC") as a mandatory respondent in the third administrative review of the antidumping duty order on softwood lumber products from Canada ("ADD AR3"). As a mandatory respondent, the U.S. Department of Commerce ("USDOC") will calculate a company-specific ADD for the review period May 1, 2004 to April 30, 2005. In June the USDOC released a Notice of Preliminary Results of the Review which indicated Interfor's ADD rate would be 6.46%. The Company will be disputing the USDOC preliminary findings with respect to USDOC clerical errors and calculation methodology. The ADD AR3 is expected to be completed in late 2006 at which time Interfor will be assigned a final Company-specific ADD rate for the review period. This rate will also remain effective as a deposit rate for the Company until the release of the final results of the Fourth Administrative Review in late 2007.

The Company has expensed $10,574,000 (2005 - $14,899,000) in duties for the six months ended June 30, 2006. The Company has paid US$101,590,000 in cash deposits since May 22, 2002. These total U.S. deposits translated at the June 30, 2006 exchange rate equate to $113,395,000.

Interfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments (together, "Canadian Interests") categorically deny U.S. allegations which result in the imposition of the CVD and ADD. While exploring the possibility of a negotiated settlement to the dispute, Canadian Interests continue to pursue appeals of the final CVD and ADD determinations with the appropriate courts, NAFTA panels and the World Trade Organization. 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.

(Tabular amounts expressed in thousands except per share amounts)

11. Contingencies (continued):

On April 27, 2006 the federal governments of Canada and the United States reached a framework agreement to resolve the softwood lumber dispute. On July 1, 2006 Canada and the United States agreed on the legal text of the agreement. The proposed agreement provides for the return of approximately 80% of duties paid, plus interest. The agreement has a term of seven years and provides for an extension of two years and for early termination by either government after two years. Canadian softwood lumber exporters will pay an export charge when the price of lumber is at or below US$355 per thousand board feet, as determined by the Random Lengths Framing Lumber Composite Price. The Province of B.C. will have the right to choose between an export charge only or a lower export charge with a quota. This choice will be made separately for the B.C. Coast and B.C. Interior regions. A significant number of Canadian forest product companies and provincial governments have indicated that unless certain changes are made to the agreement they may not support the agreement and may refuse to withdraw their legal challenges. As of the date of this report it is not possible to determine whether a final settlement will be reached and whether the terms of the potential agreement will be varied.

12. Employee future benefits:

The total benefits cost under the Company's various pension plans (described in the Company's audited annual consolidated financial statements) are as follows:

	3 months June 30, 2006	3 months June 30, 2005	6 months June 30, 2006	6 months June 30, 2005
Defined contribution plan	$ 364	$ 431	$ 839	$ 911
Defined benefit plan	117	125	243	271
Unionized employees' pension plan	1,101	1,070	2,122	2,178
U.S. employees benefit plan	150	170	334	313
Senior management supplementary pension plan	22	157	112	235
Total pension expense	$ 1,754	$ 1,953	$ 3,650	$ 3,908

13. Financial instruments:

(a) Fair value of financial instruments:

At June 30, 2006, the fair value of the Company's long-term debt approximated its carrying value of $39,067,000 as the long-term debt bears interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) 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, 2006, the Company has outstanding obligations to sell a maximum of US$10,500,000 at an average rate of CAD$1.1220 and Japanese ¥380,000,000 at an average rate of ¥98.52 to the CAD$1.00 during 2006. All foreign currency gains or losses to June 30, 2006 have been recognized in the Statement of Operations.

In September 2005, the Company entered into a cross currency interest rate swap. The Company swapped a notional $20,000,000 USD denominated debt at an exchange rate of 1.1765 (CAD$23,530,000). The Company will pay 5.84%, including a spread of 200 basis points, on the Canadian dollar equivalent and receive 90 day LIBOR plus a spread of 200 basis points on the US$20,000,000. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009 and has been marked to market with all gains or losses recognized in the Statement of Operations.

(c) 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. In the first quarter, 2006, the Company renewed this agreement and extended its termination date to March 31, 2007. At June 30, 2006, the Company received cash proceeds of $20,000,000 (June 30, 2005 - $25,000,000), from the sale of receivables. Effective July 17, 2006, the Company temporarily reduced its sale of receivables to nil.

INTERFOR

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