



International Forest Products Limited

Third Quarter Report

For the three and nine months ended September 30, 2009

Management's Discussion and Analysis

Dated as of October 22, 2009

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and nine months ended September 30, 2009 relative to 2008, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the interim Consolidated Financial Statements for the three and nine months ended September 30, 2009 and 2008, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2008 and 2007 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for 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.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

Forward-Looking Statements

This reports contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words "believe", "may", "will", "expects", "estimates", "projects", "continue", "anticipates", "intends", and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor's actual results 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 Interfor's 2008 Annual Report available on www.sedar.com. The forward-looking information and statements contained in this report are based on Interfor's current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

Review of Operating Results

Overview

Interfor reported net earnings of \$9.7 million for the third quarter of 2009, or \$0.21 per share, and a net loss for the nine months ended September 30, 2009 of \$18.9 million, or \$0.40 per share. This compares to a net loss of \$8.1 million, or \$0.17 per share, for the third quarter of 2008, and a net loss of \$36.7 million, or \$0.78 per share, for the first nine months of 2008.

Included in the third quarter, 2009, results is a gain on the sale of the former Queensboro sawmill site for gross proceeds of \$30.1 million and an after-tax gain of \$19.0 million, or \$0.40 per share, with the net proceeds of \$29.9 million used to pay down debt.

Before restructuring costs, foreign exchange gains and other income, the Company's net loss for the third quarter of 2009 amounted to \$7.4 million or \$0.16 per share as compared to a net loss of \$7.7 million, or \$0.16 per share for the third quarter of 2008, and a net loss of \$35.8 million, or \$0.76 per share for the first nine months of 2009 as compared to a net loss of \$13.8 million, or \$0.29 per share in the corresponding period in 2008.

EBITDA for the third quarter of 2009 and the first nine months of 2009 was \$25.3 million and \$10.3 million, respectively, compared to \$0.7 million and \$11.7 million for the corresponding periods in 2008. Adjusted EBITDA for the third quarter and first nine months of 2009 was \$3.6 million and negative \$12.1 million, respectively, compared to \$0.1 million and \$10.6 million for the same periods in 2008.

Demand for softwood lumber continued to be weak through the third quarter of 2009, as U.S. housing starts remained at historically low levels. Average U.S. housing starts year-to-date for September 2009 were 553,000 units, only marginally above half of the September 2008 housing starts of 981,000. The inventory of new and existing homes for sale fell to 8.4 months supply in August, 2009, compared to a peak of 11.2 months supply in April, 2008, but is still at historically high levels. The negative effects of the U.S. housing downturn have been magnified by the global recession and a volatile Canadian dollar.

Extensive industry curtailments in all regions generated some price stability, with year-to-date highs in lumber prices reached in August, 2009, but still significantly lower than lumber prices in the corresponding period of 2008. The average price of SPF #2&Btr 2x4 for August, 2009 reached a high for 2009 at US\$200 per mfbm, still well below the 2008 high of US\$280 per mfbm price reached in August, 2008.

Sales realizations and closing inventory valuations were significantly impacted by low product demand and weak product pricing for the third quarter of 2009, and the first nine months of 2009. The Company has responded to decreased product demand by adjusting production levels in all operations.

On a positive note, the new Adams Lake sawmill, which had its start-up on April 20, 2009, continues its impressive ramp-up, averaging in excess of 110% of pro forma on a per hour basis. The mill's operating schedule was recently increased from 54 hours to 64 hours per week, with a goal of moving to 80 hours per week in the near future, log supply and markets permitting.

Sales

Additional sales volumes from the Beaver sawmill acquired in late 2008 and new wholesale programs in 2009 more than offset lower operating rates as compared to 2008. Additional volumes resulting from the start-up of the new Adams Lake sawmill impacted results in the third quarter, 2009, as compared to the third quarter, 2008. Compared to the same periods in 2008, lumber shipments were up 48.7 million board feet, or 36.8%, for the third quarter of 2009, and up 63.0 million board feet, or 17.0%, for the first nine months of 2009.

Unit lumber sales values were lower by \$131 per mfbm, or 23.6%, for the quarter and \$175 per mfbm, or 27.9%, for the first nine months, relative to the same periods in 2008, reflecting weaker lumber prices overall and a shift in sales mix away from higher-value cedar products. Prices for dimension and industrial products strengthened slightly in the third quarter, 2009, primarily due to industry-wide curtailments, but were still significantly lower than comparable periods in 2008. In comparison to corresponding periods in 2008, the Canadian dollar weakened on average by 5.8% vis-à-vis its U.S. counterpart in the third quarter, 2009, and by 15.0% vis-à-vis its U.S. counterpart, for the first nine months, 2009, but any positive impact from foreign exchange was more than offset by lower lumber prices.

In comparison to the same periods of 2008, log sales were down \$11.5 million, or 39.9%, for the third quarter, and \$42.2 million, or 49.4%, in the first nine months of 2009, as the demand for logs fell in conjunction with the reduction in lumber demand and the resultant reduction in logging activity. On the B.C. Coast, the average sales price was virtually unchanged at \$69 per cubic metre in the third quarter of 2009, as compared to \$71 per cubic metre in the same quarter, 2008. This reflects a higher sales volume of lower quality logs in both quarters. For the first nine months of 2009, the average sales value declined by \$15 per cubic metre, as compared to the same period for 2008, due to lower operating rates, a change in sales mix to lower grade and pulp logs, and lower cedar sales values.

Pulp chip and other by-product revenues for the third quarter and first nine months of 2009 were virtually unchanged in comparison to the third quarter and first nine months of 2008. The 2009 impact of reduced sawmill operating rates on chip volumes was mitigated by the additional volumes generated from the Beaver sawmill acquired in 2008. Average chip prices were down \$10 per mfbm, or 20.8%, for the third quarter, 2009 and \$5 per mfbm, or 10.9%, for the first nine months, 2009, as compared to same periods of 2008, reflecting reduced global demand for pulp.

Operating Costs

Production costs for the third quarter of 2009 were down \$12.4 million, or 11.3%, and \$60.2 million, or 18.8%, for the first nine months of 2009, compared to the same periods in 2008. The decreases are primarily as a result of market related curtailments in manufacturing and logging, partially offset by an increase in lumber production for the first nine months of 2009 generated by the Beaver sawmill acquired in late 2008 and, to a lesser extent, the new Adams Lake

sawmill. Lumber production increased by 32 million board feet, or 21.7%, for the third quarter, 2009 compared to the third quarter, 2008, and by 36 million board feet, or 9.5%, for the first nine months, 2009, compared to the same period in 2008. Unit cash conversion costs declined by 22.0%, for the third quarter, 2009 and 13.8%, for the first nine months of 2009, vis-à-vis the same periods for 2008, primarily as a result of increased operating efficiencies, lower log costs in the U.S. and the start-up of the new Adams Lake sawmill.

Compared to the same periods in 2008, B.C. log production was reduced by 168,200 cubic meters, or 33.6%, for the third quarter of 2009, and 874,800 cubic metres, or 55.0%, for the first nine months of 2009, with a substantial volume of logs in 2008 harvested through heli-logging, resulting in significantly higher costs for the comparative period. To match production to consumption and reduce inventories, log production has been dramatically curtailed in 2009 to date. Stumpage rates were lower by \$11 per cubic metre for the third quarter and \$12 per cubic metre for first nine months, 2009, as compared to the prior year, as stumpage rates for high cost coastal timber fell in response to depressed log prices.

The Canada/U.S. lumber export tax remained at 15% through the first nine months of 2009. Export taxes were virtually unchanged for the third quarter, 2009, compared to same quarter, 2008, and decreased by \$0.7 million for the first nine months of 2009, as compared to the first nine months of 2008.

Despite the addition of three sawmills in mid and late 2008, selling and administrative costs have decreased by \$0.3 million for the third quarter, 2009, and by \$0.6 million for the first nine months of 2009, as compared to the corresponding periods of 2008, reflecting continued rigor in controlling costs through 2009.

Long term incentive compensation expense of \$0.7 million for the third quarter, 2009, and \$1.7 million for the first nine months of 2009, reflect increases in the Company's share price of 33.2% and 84.1% respectively. Recoveries of \$0.7 million and \$1.1 million were recorded for corresponding periods in 2008, as the Company's share price declined by 15.3% and 27.2% respectively.

Amortization and depletion expense for the third quarter of 2009 was down \$1.4 million, or 12.1%, compared to the same quarter of 2008 and down \$7.5 million, or 22.5%, for the first nine months of 2009, compared to the same nine months of 2008, primarily as a result of lower operating rates for coastal logging operations.

In the third quarter, 2009, the Company recorded \$3.1 million in asset write-downs as it determined certain assets were impaired in the current operating environment. In addition, the downsizing of the Company's workforce in response to reduced operating rates resulted in severance costs of \$0.3 million for the third quarter, 2009, and \$1.5 million for the first nine months of 2009. These restructuring costs, combined with a recovery of \$0.3 million related to successful defence of a legal dispute previously accrued as restructuring expenses, net to \$4.3 million expense for the first nine months of 2009.

Restructuring costs in the third quarter of 2008 totalled \$1.3 million, related to an impairment charge taken on the assets of the old Adams Lake sawmill. Restructuring costs in the first nine months of 2008 totalled \$34.1 million, arising primarily from the permanent closure of the Queensboro sawmill and were comprised of severance, site remediation and impairment charges.

Interest, Other Foreign Exchange Gain, Other Income and Income Taxes

Increases in interest expense for the third quarter and first nine months of 2009 were \$0.8 million and \$3.2 million respectively as compared to the corresponding periods of 2008. The acquisition of several sawmills and related assets in mid and late 2008, the construction of the Adams Lake sawmill and continued operating losses increased the Company's debt level. This, coupled with higher borrowing rates, all contributed to the increased interest expense in 2009.

Other foreign exchange gains were negligible for the third quarter of 2009 and 2008 and the first nine months of 2009 and 2008.

On August 31, 2009, the Company completed the sale of its former Queensboro mill site to Port Metro Vancouver for net proceeds of \$29.9 million. In addition, the Company received \$2.5 million as an advance of compensation under the *Forest Act* for timber and other assets, and forestry and engineering costs resulting from the 2006 legislated takeback of certain logging rights on the B.C. Central Coast. \$2.0 million of the advance compensation received was recorded as proceeds on the disposal of the related timber, roads and bridges. Combined with other minor sales of surplus equipment in the third quarter, 2009, these activities generated a gain of \$21.7 million, reported as Other income.

The asset disposals in the third quarter combined with the disposals of surplus property and buildings in Maple Ridge,

B.C. and other minor sales of surplus equipment in the first half of 2009 generated total Other income of \$22.4 million for the first nine months of 2009. This compares to \$1.2 million reported in Other income from net compensation received under the *Forest Revitalization Act* and gains on disposal of surplus equipment and a timber licence for the first nine months of 2008.

Reduced shipment volumes and the volatility of the Canadian dollar resulted in a decline in equity income of \$0.9 million in the third quarter, 2009, as compared to the third quarter, 2008 and \$2.0 million for the first nine months, 2009, as compared to the same period, 2008.

The Company continued to provide a tax valuation allowance in respect of certain loss carry-forwards for the third quarter, 2009, and first nine months, 2009, as compared to the same periods in 2008. In addition, the gain on the sale of the former Queensboro sawmill site is subject to tax at the lower capital gains rates, which also served to reduce the third quarter, 2009, income tax provision.

Cash Flow and Financial Position

During the third quarter, 2009, the Company used \$0.5 million to fund operations, after changes in working capital, compared to 13.9 million cash used for the third quarter of 2008, which was impacted by working capital required by the addition of the Kootenay operations.

For the nine months ended September 30, 2009 the Company generated \$17.4 million cash from operations, after changes in working capital, compared to \$16.3 million cash generated in the first nine months of 2008. Significant production curtailments caused a drawdown of inventories by \$25.0 million and the carry back of 2008 tax losses resulted in the receipt of \$16.2 million in cash tax refunds in the first nine months of 2009.

Capital expenditures for the third quarter of 2009 were \$2.8 million, excluding changes in amounts accrued, and \$20.2 million year-to-date (Quarter 3, 2008 - \$28.3 million; first nine months, 2008 - \$63.0 million). Spending in the current quarter was primarily related to \$2.1 million on road construction. For the first nine months of 2009, spending related primarily to the construction of the new Adams Lake sawmill totalled \$15.4 million and \$3.2 million on road construction. Construction of the new sawmill at Adams Lake is substantially complete and the mill had an extremely successful start-up which commenced on April 20, 2009 on a one-shift basis and has steadily increased operating hours and productivity since.

All discretionary capital expenditures remain curtailed until market indicators show significant and sustained improvement.

Completion of the sale of the former Queensboro mill site for net proceeds of \$29.9 million and receipt of an advance of \$2.5 million against compensation for timber and related forestry and engineering combined with the sales of other surplus assets generated a total of \$32.1 million in cash proceeds for the third quarter, 2009, and were used to pay down debt.

The proceeds generated in the third quarter combined with proceeds received from the disposals of surplus property and equipment in the first half of 2009 resulted in total proceeds of \$36.7 million and a gain of \$22.4 million for the first nine months of 2009.

On January 2, 2009, the Seaboard Limited Partnership declared an income distribution to its partners. Interfor's share was \$3.7 million and was paid to the Company by way of setoff against the promissory note payable to the Seaboard Limited Partnership in the first quarter of 2009.

The Company drew \$4.6 million against its bank indebtedness and Revolving Term Line during the third quarter of 2009, primarily to fund capital expenditures. Utilizing proceeds from the sale of the former Queensboro mill site and compensation from the Crown for timber takeback settlements, the Company was able to make cash payments of \$32.4 million against its bank indebtedness and Revolving Term Line during the third quarter, 2009.

For the first nine months of 2009, the proceeds from the sale of surplus assets, cash tax refunds and the release of cash from working capital allowed the Company to make total cash payments of \$51.1 million against its bank indebtedness and Revolving Term Line. This was offset by drawings of \$23.6 million to fund the remaining construction costs of the new Adams Lake sawmill and other capital asset additions. The Company's total net debt has been reduced by \$39.2 million over this period. The impacts of the stronger Canadian dollar offset by the settlement of US\$ derivative contracts accounted for \$4.4 million of this reduction.

On April 21, 2009, the Company amended and extended its existing syndicated credit facilities. The existing Canadian Operating Line decreased from \$100.0 million to \$65.0 million and the maturity date was extended to April 23, 2010. As part of the amendment, margining availability was extended to include inventory domiciled in the United States.

The Company's Revolving Term Line was increased from \$115.0 million to \$150.0 million, with no change to its maturity date of April 24, 2011. Except for an increase in pricing and the margining amendment, all other terms and conditions of the lines remained substantially unchanged. The net impact of these amendments is effectively to increase available liquidity by \$35.0 million.

As a result of the extension of margining coverage, all U.S. working capital is included in the Company's syndicated operating facility and the US\$10.0 million U.S. Operating Line was not extended when it matured on April 24, 2009.

On September 1, 2009, the Non-Revolver Term Line of US\$35.0 million (\$37.5 million) was fully drawn and classified as current as it matures on September 1, 2010. The Revolver Term Line was drawn at US\$30.2 million (\$32.3 million) and \$61.0 million for an aggregate of \$93.3 million at September 30, 2009 and matures on April 24, 2011, leaving an unused available line of \$56.7 million as at September 30, 2009. The Operating Line was drawn at \$23,000 with an unused available line of \$44.6 million at September 30, 2009 and matures on April 23, 2010. The combined unused bank facilities available at September 30, 2009 are in excess of \$100 million.

Based on current pricing projections and the expected renewal of the Operating Line and refinancing of the Non-Revolver Term Line, the Company believes it will have sufficient resources through 2010 to fund any shortfall from operations, interest payments, essential capital expenditures, and the acquisition of the timber tenure from Weyerhaeuser. The Company expects to be able to extend all existing credit facilities as they become due.

At September 30, 2009, the Company had cash of \$2.2 million. After deducting the Company's bank indebtedness and drawings under its Revolver Term Line and Non-Revolver Term, the Company ended the quarter with net debt of \$128.6 million or 26.0% of invested capital.

Selected Quarterly Financial Information

Quarterly Earnings Summary

	2009				2008		2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars except share and per share amounts)							
Sales – Lumber	76.8	62.3	56.5	65.6	73.4	82.2	76.2	70.7
– Logs	17.3	13.0	12.8	18.3	28.8	25.7	30.9	35.6
– Wood chips and other by-products	8.9	5.9	7.4	8.8	8.9	7.4	5.5	7.2
– Other	2.2	0.6	0.6	0.8	0.9	2.1	1.8	1.9
Total Sales	105.2	81.8	77.3	93.5	112.0	117.4	114.4	115.4
Operating loss before restructuring costs and asset write-downs	(7.0)	(16.4)	(15.2)	(8.1)	(12.8)	(11.7)	(1.0)	(15.1)
Operating loss	(10.4)	(16.3)	(16.3)	(8.9)	(14.1)	(42.2)	(3.2)	(15.4)
Net earnings (loss)	9.7	(15.0)	(13.6)	(18.7)	(8.1)	(27.7)	(0.9)	(8.8)
Net earnings (loss) per share – basic and diluted	0.21	(0.32)	(0.29)	(0.40)	(0.17)	(0.59)	(0.02)	(0.19)
EBITDA ³	25.3	(7.3)	(7.7)	2.0	0.7	2.5	8.5	(4.6)
Cash flow from operations per share ¹	(0.07)	(0.23)	(0.22)	0.12	0.06	(0.06)	0.22	(0.05)
Shares outstanding – end of period (millions) ²	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Adjusted EBITDA ³	3.6	(7.3)	(8.4)	1.7	0.1	1.9	8.5	(4.7)

1 Cash generated from operations before taking account of changes in operating working capital.

2 As at October 22, 2009, the number of shares outstanding by class are: Class A Subordinate Voting shares – 46,101,476 Class B Common shares – 1,015,779, Total – 47,117,255.

3 EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and asset write-downs. 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. Adjusted EBITDA represents EBITDA adjusted for other income.

EBITDA and Adjusted EBITDA can be calculated from the Statements of Operations as follows:

	2009				2008		2007	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars)							
Net earnings (loss)	9.7	(15.0)	(13.6)	(18.7)	(8.1)	(27.7)	(0.9)	(8.8)
Add: Income taxes (recovery)	0.1	(3.6)	(3.1)	10.4	(5.2)	(13.9)	(2.4)	(7.0)
Interest expense	2.2	2.0	1.6	2.5	1.5	0.8	0.4	0.2
Depletion and amortization	9.9	9.5	6.3	7.8	11.3	13.0	8.8	10.5
Other foreign exchange (gains) losses	-	(0.1)	-	(0.9)	-	(0.4)	0.4	0.2
Restructuring costs, asset write-downs and other	3.3	(0.1)	1.1	0.8	1.3	30.6	2.2	0.3
EBITDA	25.3	(7.3)	(7.7)	2.0	0.7	2.5	8.5	(4.6)
Deduct:								
Other income (expense)	(21.7)	-	(0.6)	(0.3)	0.6	0.6	-	(0.2)
Adjusted EBITDA	3.6	(7.3)	(8.4)	1.7	0.1	1.9	8.5	(4.7)

Volume and Price Statistics

		2009				2008		2007	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Lumber sales	(million fbm)	181	131	122	133	132	125	113	161
Lumber production	(million fbm)	180	115	121	118	148	128	104	150
Log sales ¹	(thousand cubic metres)	242	216	200	236	372	312	399	382
Log production ¹	(thousand cubic metres)	333	312	72	290	501	679	411	373
Average selling price – lumber ²	(\$/thousand fbm)	\$424	\$477	\$462	\$494	\$555	\$658	\$672	\$441
Average selling price – logs ¹	(\$/cubic metre)	\$69	\$56	\$54	\$69	\$70	\$79	\$75	\$91
Average selling price – pulp chips	(\$/thousand fbm)	\$38	\$40	\$46	\$58	\$48	\$47	\$41	\$37

1 B.C. operations

2 Gross sales before export taxes

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's logging divisions experience higher production levels 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.

The impact of the global recession on overall demand and lower lumber prices increased the operating losses in the fourth quarter of 2008 and the first two quarters of 2009. Demand continued to be depressed in the third quarter of 2009, and the Canadian dollar strengthened significantly. The decrease in operating earnings for the fourth quarter in 2007 and the first three quarters in 2008 related primarily to weak U.S. structural lumber markets, and the stronger Canadian dollar. For the fourth quarter of 2007, strike action also contributed to lower reported operating earnings. All of these factors contributed to lower operating rates and lumber sales realizations in the applicable periods.

Agreement to Purchase Timber Assets from Weyerhaeuser

On July 3, 2009, the Company finalized a revised agreement to acquire a timber tenure and related reforestation liabilities in the Kamloops region from Weyerhaeuser Company Limited. The transfer of the tenure requires regulatory approval. Subject to receiving the required approval, the Company expects to conclude this transaction in late 2009 or early 2010. This agreement replaces the agreement dated February 18, 2008 which was previously disclosed.

Accounting Policy Changes

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets* on a retrospective basis. This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27 ("EIC 27").

The Company previously deferred start-up costs on major plant construction to the extent these costs met the criteria under EIC 27 and the site met sustainable production levels defined as the earlier of:

- (a) Seventy percent of production capacity for two consecutive months; or
- (b) Six months

and to a maximum of twenty percent of the total project.

Start-up costs were amortized over five years on a straight-line basis.

The Financial Statements have been restated on a retrospective basis to reflect the requirements of the new standard.

Future Accounting Policy Changes

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles ("Canadian GAAP") will be converged with International Financial Reporting Standards ("IFRS") for fiscal years commencing January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS conversion project in 2008 with the provision of training to key employees. Early in 2009, the Company developed an implementation plan, assembled a cross functional team, provided additional technical training to team members and commenced a high level review of its financial statement elements to identify major differences between Canadian GAAP and IFRS. Additional team members were engaged in the second quarter and subject matter specialists were identified.

An initial diagnostic has been completed, and significant progress has been made on a detailed review of the impact of IFRS on Interfor's consolidated financial statements, expected to be complete by the end of 2009. As required, the Company is engaging outside consultants to provide expertise and assistance. As subject areas reach completion, recommendations are being brought forward to the Company Executive for discussion and approval prior to implementation.

Any changes required to systems and controls, including information technology systems, are being identified as the project progresses. Currently, it is not anticipated that significant changes to computer systems will be required.

An opening balance sheet prepared under IFRS at the date of transition, January 1, 2010, is currently planned to be completed in the first half of 2010. Financial statements and notes will be prepared for each quarter of 2010 to be used for comparative purposes in 2011.

While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: property, plant, and equipment; logging roads and bridges; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; and employee future benefits.

Progress is on schedule.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended September 30, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

There were no material changes to the Company's critical accounting estimates during the quarter ended September 30, 2009. For a full discussion of critical accounting estimates, please refer to the Company's discussion in its MD&A for the year ended December 31, 2008 as filed on SEDAR at www.sedar.com.

Outlook

World-wide financial markets have shown appreciable improvement over the last quarter, reflecting more encouraging economic news. The Dow Jones Industrial Average Index gained 15% over the quarter, while the TSX Index improved almost 10%. The quick rebound of late is partly a reflection of such temporary factors as government stimulus and the extent of the fall that has occurred over the past year. Most expect the pace of growth to start slowing.

Low mortgage rates, relatively attractive home prices and various tax incentives to spur housing activity are working to stabilize the downturn in existing home sales. Despite recent progress in financial markets, consumer confidence remains fairly low and unemployment high, leading consumers to proceed with caution. While financial market conditions have improved, credit availability will be constrained for some time to come, and will serve to limit the pace of recovery.

As a result, activity in the housing market remains well below normal with little prospect of any sustained or meaningful improvement in lumber demand in the near-term. Until there is sufficient improvement in the U.S. housing market, widespread capacity reductions are likely to continue in the industry to reduce oversupply of lumber. The volatility of the Canadian dollar also remains a concern.

In the face of weak demand and volatile currency, the Company will continue to maintain its disciplined approach to production, focus on managing the business for cash, ensure adequate liquidity is maintained and realize on the benefits of recent strategic activities and investments. All discretionary capital spending remains curtailed.

Additional Information

Additional information relating to the Company and its operations can be found on its website at www.interfor.com, in the 2008 Annual Report and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.



E. Lawrence Sauder
Chairman



Duncan K. Davies
President and Chief Executive Officer



CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended Sept. 30, 2009 and 2008 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Sept. 30, 2009	3 Months Sept.30, 2008 (restated - note 2)	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008 (restated - note 2)
Sales	\$ 105,169	\$ 111,953	\$ 264,271	\$ 343,731
Costs and expenses:				
Production	96,530	108,882	260,490	320,733
Selling and administration	3,984	4,309	12,683	13,313
Long term incentive compensation expense (recovery)	716	(720)	1,707	(1,081)
Export taxes	1,047	998	2,418	3,114
Amortization of plant and equipment	6,128	5,868	17,289	16,901
Depletion and amortization of timber, roads and other	3,789	5,419	8,363	16,207
	112,194	124,756	302,950	369,187
Operating loss before restructuring costs	(7,025)	(12,803)	(38,679)	(25,456)
Restructuring costs and asset write-downs (note 10)	(3,325)	(1,269)	(4,312)	(34,101)
Operating loss	(10,350)	(14,072)	(42,991)	(59,557)
Interest expense on long-term debt	(1,809)	(1,324)	(4,673)	(2,542)
Other interest expense	(431)	(156)	(1,169)	(125)
Other foreign exchange gain	11	34	114	28
Other income (note 9)	21,723	604	22,352	1,163
Equity in earnings of investee company	700	1,625	938	2,900
	20,194	783	17,562	1,424
Earnings (loss) before income taxes	9,844	(13,289)	(25,429)	(58,133)
Income taxes (recovery):				
Current	24	(5,416)	24	(12,856)
Future	100	245	(6,600)	(8,582)
	124	(5,171)	(6,576)	(21,438)
Net earnings (loss)	\$ 9,720	\$ (8,118)	\$ (18,853)	\$ (36,695)
Net earnings (loss) per share, basic and diluted (note 11)	\$ 0.21	\$ (0.17)	\$ (0.40)	\$ (0.78)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the three and nine months ended Sept. 30, 2009 and 2008 (unaudited)

(thousands of Canadian dollars)

	3 Months Sept. 30, 2009	3 Months Sept.30, 2008 (restated - note 2)	9 Months Sept.30, 2009	9 Months Sept. 30, 2008 (restated - note 2)
Retained earnings, beginning of period	\$ 84,175	\$ 139,562	\$ 112,748	\$ 168,139
Net earnings (loss)	9,720	(8,118)	(18,853)	(36,695)
Retained earnings, end of period	\$ 93,895	\$ 131,444	\$ 93,895	\$ 131,444

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended Sept. 30, 2009 and 2008 (unaudited)

(thousands of Canadian dollars)

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008 (restated - note 2)	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008 (restated - note 2)
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ 9,720	\$ (8,118)	\$ (18,853)	\$ (36,695)
Items not involving cash:				
Amortization of plant and equipment	6,128	5,868	17,289	16,901
Depletion and amortization of timber, roads and other	3,789	5,419	8,363	16,207
Future income taxes (recovery)	100	245	(6,600)	(8,582)
Other assets	598	339	77	42
Reforestation liability	202	(1,161)	613	(3,752)
Other long-term liabilities	62	(576)	726	(692)
Share of earnings in excess of cash distributions of investee company	(700)	(1,625)	(938)	(2,900)
Write-down of plant and equipment (note 10)	3,067	1,243	3,067	28,576
Unrealized foreign exchange loss (gain) and other non-cash items	(4,644)	1,876	(5,764)	2,551
Other (note 9)	(21,723)	(627)	(22,357)	(1,249)
	(3,401)	2,883	(24,377)	10,407
Cash generated from (used in) operating working capital:				
Accounts receivable	(1,895)	4,808	1,828	6,001
Inventories	699	(3,531)	25,044	(281)
Prepaid expenses	(2,449)	(140)	(368)	(1,308)
Accounts payable and accrued liabilities	6,523	(12,394)	(867)	2,370
Income taxes	-	(5,481)	16,183	(854)
	(523)	(13,855)	17,443	16,335
Investing activities:				
Additions to property, plant and equipment	(1,126)	(20,199)	(20,320)	(45,810)
Additions to logging roads and timber	(2,125)	(6,167)	(3,238)	(14,064)
Proceeds on disposal of property, equipment, timber and roads	32,075	1,110	36,659	1,975
Acquisitions	-	(34,511)	-	(83,929)
Deposit held in escrow for acquisition	-	-	-	8,943
Investments and other assets	(126)	(1,795)	(866)	(1,732)
	28,698	(61,562)	12,235	(134,617)
Financing activities:				
Issuance of share capital	-	56	-	56
Increase (decrease) in bank indebtedness, net	(28,754)	4,716	(30,566)	5,398
Additions to long-term debt (note 7(b))	34,000	67,139	44,000	134,064
Repayments of long-term debt (note 7(b))	(33,000)	-	(41,000)	(38,925)
	(27,754)	71,911	(27,566)	100,593
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(64)	(44)	(111)	(106)
Increase (decrease) in cash and cash equivalents	357	(3,550)	2,001	(17,795)
Cash and cash equivalents, beginning of period	1,828	3,550	184	17,795
Cash and cash equivalents, end of period	\$ 2,185	\$ -	\$ 2,185	\$ -
Supplementary disclosures				
Cash interest paid	\$ 2,240	\$ 1,480	\$ 5,842	\$ 2,667
Cash income taxes paid (received)	24	1,129	(16,155)	(12,207)

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

September 30, 2009 (unaudited) and December 31, 2008 (audited)

(thousands of Canadian dollars)

	Sept 30, 2009	Dec. 31, 2008 (restated - note 2)
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,185	\$ 184
Accounts receivable	22,196	25,441
Income taxes recoverable	41	16,225
Inventories (note 6)	52,305	78,991
Prepaid expenses	7,645	7,779
Future income taxes	2,944	2,890
	87,316	131,510
Investments and other assets (note 5)	16,859	19,372
Property, plant and equipment, net of accumulated amortization	367,147	395,727
Timber tenures, net of accumulated depletion	67,490	69,827
Logging roads and bridges, net of accumulated amortization	17,239	20,598
Goodwill and other intangible assets	13,078	13,078
Long-lived assets held for sale	3,424	15,138
	\$ 572,553	\$ 665,250
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 7(a))	\$ 23	\$ 30,589
Accounts payable and accrued liabilities	40,207	45,163
Payable to investee company (note 5)	-	3,651
Principal due within one year on long-term debt (note 7(b))	37,475	-
	77,705	79,403
Reforestation liability, net of current portion	16,298	15,685
Long-term debt (note 7(b))	93,335	137,414
Other long-term liabilities	13,133	12,407
Future income taxes	6,461	14,159
Shareholders' equity:		
Share capital (note 8)		
Class A subordinate voting shares	284,500	284,500
Class B common shares	4,080	4,080
Contributed surplus	5,408	5,408
Accumulated other comprehensive income (loss)	(22,262)	(554)
Retained earnings (note 2)	93,895	112,748
	365,621	406,182
	\$ 572,553	\$ 665,250

Commitment and contingency (note 15)

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder
Director

G.H. MacDougall
Director



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and nine months ended Sept. 30, 2009 and 2008 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008 (restated - note 2)	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008 (restated - note 2)
Net earnings (loss)	\$ 9,720	\$ (8,118)	\$ (18,853)	\$ (36,695)
Other comprehensive income (loss):				
Net change in unrealized foreign currency translation gains (losses) on translation of self-sustaining foreign subsidiaries	(13,471)	8,251	(21,708)	12,480
Other comprehensive income (loss)	(13,471)	8,251	(21,708)	12,480
Comprehensive income (loss)	\$ (3,751)	\$ 133	\$ (40,561)	\$ (24,215)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
For the three and nine months ended Sept. 30, 2009 and 2008 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008 (restated - note 2)	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008 (restated - note 2)
Accumulated other comprehensive income (loss) beginning of period	\$ (8,791)	\$ (29,543)	\$ (554)	\$ (33,772)
Other comprehensive income (loss)	(13,471)	8,251	(21,708)	12,480
Accumulated other comprehensive loss, end of period	\$ (22,262)	\$ (21,292)	\$ (22,262)	\$ (21,292)

See accompanying notes to 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, 2009 and 2008 (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, 2008, except for the new accounting policy adopted subsequent to that date, as discussed in Note 2.

2. Adoption of changes in accounting policies:

Effective January 1, 2009, the Company adopted the new Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3064, *Goodwill and Intangible Assets* on a retrospective basis. This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27 ("EIC 27").

The Company previously deferred start-up costs on major plant construction to the extent these costs met the criteria under EIC 27 and the site met sustainable production levels defined as the earlier of:

- (a) Seventy percent of production capacity for two consecutive months; or
- (b) Six months

and to a maximum of twenty percent of the total project.

Start-up costs were amortized over five years on a straight-line basis.

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

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Operations for the three months ended September 30, 2008:			
Amortization of plant and equipment	\$ 5,910	\$ (42)	\$ 5,868
Restructuring costs	1,269	-	1,269
Future income tax expense (recovery)	231	14	245
Net loss	8,146	(28)	8,118
Net loss per share, basic and diluted	(0.17)	-	(0.17)
Consolidated Statement of Operations for the nine months ended September 30, 2008:			
Amortization of plant and equipment	\$ 17,362	\$ (461)	\$ 16,901
Restructuring costs	36,518	(2,417)	34,101
Future income tax expense (recovery)	(9,494)	912	(8,582)
Net loss	38,661	(1,966)	36,695
Net loss per share, basic and diluted	(0.82)	0.04	(0.78)
Consolidated Statement of Retained Earnings for the three months ended September 30, 2008:			
Retained earnings, beginning	140,069	(507)	139,562
Retained earnings, ending	131,923	(479)	131,444
Consolidated Statement of Retained Earnings for the nine months ended September 30, 2008:			
Retained earnings, beginning	170,584	(2,445)	168,139
Retained earnings, ending	131,923	(479)	131,444
Consolidated Balance Sheet as at December 31, 2008:			
Property, plant and equipment, net of accumulated amortization	396,387	(660)	395,727
Accumulated other comprehensive loss	539	15	554
Retained earnings, ending	113,393	(645)	112,748
Consolidated Statement of Comprehensive Income for the three months ended September 30, 2008:			
Net loss	(8,146)	28	(8,118)
Other comprehensive income	8,270	(19)	8,251
Comprehensive income (loss)	124	9	133
Consolidated Statement of Comprehensive Income for the nine months ended September 30, 2008:			
Net loss	(38,661)	1,966	(36,695)
Other comprehensive income	12,508	(28)	12,480
Comprehensive income (loss)	(26,153)	1,938	(24,215)

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, 2009 and 2008 (unaudited)

2. Adoption of change in accounting policy (continued):

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Accumulated Other Comprehensive Income for the three months ended September 30, 2008:			
Accumulated other comprehensive loss, beginning	29,654	(111)	29,543
Accumulated other comprehensive loss, ending	21,384	(92)	21,292
Consolidated Statement of Accumulated Other Comprehensive Income for the nine months ended September 30, 2008:			
Accumulated other comprehensive loss, beginning	33,892	(120)	33,772
Accumulated other comprehensive loss, ending	21,384	(92)	21,292

3. Comparative figures:

Certain of the prior period'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 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 the bulk of 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.

5. Payable to investee company:

On December 29, 2008, the Seaboard Limited Partnership ("the Seaboard Partnership"), made an advance to its partners, with the Company's share of the advance being \$3,651,000. The Company signed an unsecured promissory note which was payable on demand on or before January 2, 2009 and was non-interest bearing until January 2, 2009.

On January 2, 2009, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share of \$3,651,000 was received by way of setoff against 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.

6. Inventories:

	Sept. 30, 2009	Dec. 31, 2008
Logs	\$ 25,705	\$ 49,941
Lumber	20,541	22,484
Other	6,059	6,566
	\$ 52,305	\$ 78,991

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at September 30, 2009 was \$12,721,000 (December 31, 2008 - \$20,270,000).

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, 2009 and 2008 (unaudited)

7. Cash, bank indebtedness and long-term debt:

(a) Bank indebtedness:

	Canadian Operating Facility	U.S. Operating Facility	Total
September 30, 2009			
Available line of credit	\$ 65,000	\$ -	\$ 65,000
Maximum borrowing available	49,624	-	49,624
Operating Line drawings	23	-	23
Outstanding letters of credit included in line utilization	4,995	-	4,995
Unused portion of line	44,606	-	44,606
December 31, 2008			
Available line of credit	\$ 100,000	\$ 12,180	\$ 112,180
Maximum borrowing available	54,234	7,836	62,070
Operating Line drawings	25,747	6,090	31,837
Outstanding letters of credit included in line utilization	5,105	146	5,251
Unused portion of line	23,382	1,600	24,982

On April 21, 2009, the Company amended and extended its existing syndicated credit facilities. The existing Canadian operating line of credit ("Operating Line") decreased from \$100,000,000 to \$65,000,000 and the maturity date was extended to April 23, 2010. As part of the amendment, margining availability was extended to include inventory domiciled in the United States. Except for an increase in pricing and the margining amendment, all other terms and conditions of the line remained substantially unchanged.

As a consequence of the extension of margining coverage, all U.S. working capital is included in its syndicated operating facility and the US\$10,000,000 U.S. operating facility was not extended when it matured on April 24, 2009 and all outstanding drawings were repaid. As at December 31, 2008, the U.S. operating line of credit was drawn by US\$5,000,000.

The Operating Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio. Borrowing levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories. The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The Operating Line is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. As at September 30, 2009, the Operating Line was drawn by \$23,000 (December 31, 2008 - \$25,747,000).

Offsetting drawings under the operating lines at December 31, 2008 are cash balances net of outstanding cheques of \$1,248,000.

(b) Long-term debt:

On April 21, 2009, the Company amended and extended its existing syndicated credit facilities. The Company's revolving term line of credit ("Revolving Term Line") increased from \$115,000,000 to \$150,000,000, with no change to its maturity date of April 24, 2011. Except for an increase in pricing, all other terms and conditions of the line remained substantially unchanged.

The Revolving Term Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio.

As at September 30, 2009, the Revolving Term Line was drawn by US\$30,200,000 (December 31, 2008 - US\$30,200,000) revalued at the quarter-end exchange rate to \$32,335,000 (December 31, 2008 - \$36,784,000), and \$61,000,000 (December 31, 2008 - \$58,000,000) for total drawings of \$93,335,000 (December 31, 2008 - \$94,784,000), leaving an unused available line of \$56,665,000. The Company repaid \$8,000,000 of advances under the Revolving Term Line in the first quarter, 2009, drew \$10,000,000 in the second quarter, 2009, and drew \$1,000,000, net of repayments, in the third quarter, 2009. The portion of the line drawn in \$US funds was designated as a hedge against the Company's investment in its self-sustaining U.S. operations effective October 1, 2008 and unrealized foreign exchange gains of \$4,448,000 (September 30, 2008 - \$nil) arising on revaluation of the Non-Revolving Term Line for the year ending September 30, 2009 were recognized in Other comprehensive income.

The U.S. dollar non-revolving term line (the "Non-Revolving Term Line") remains fully drawn at US\$35,000,000 (December 31, 2008 - US\$35,000,000) and was revalued at the quarter-end exchange rate to \$37,475,000 (December 31, 2008 - \$42,630,000). The Non-Revolving Term Line bears interest at rates based on bank prime plus a margin or, at the Company's option, at rates for LIBOR based loans plus a margin, in all cases depending upon a financial ratio and matures on September 1, 2010. The foreign exchange gain of \$5,156,000 arising on revaluation of the Non-Revolving Term Line for the nine months ended September 30, 2009 (September 30, 2008 - \$2,552,000 loss) was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The term lines are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

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, 2009 and 2008 (unaudited)

7. Cash, bank indebtedness and long-term debt (continued):

(b) Long-term debt (continued):

Minimum principal amounts due on long-term debt within the next five years are follows:

Sept. 30, 2010	\$	37,475
Sept. 30, 2011		93,335
Sept. 30, 2012		-
Sept. 30, 2013		-
Sept. 30, 2014		-
	\$	130,810

8. Share capital:

On January 3, 2008, the Company commenced a normal course issuer bid ("NCIB 06") to acquire up to 1,300,000 Class A Subordinate Voting shares ("Class A Shares"). NCIB 06 terminated on January 7, 2009 with no share purchases.

9. Other income (expense):

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008
Gain on disposal of surplus property, plant and equipment	\$ 20,719	\$ 27	\$ 21,353	\$ 649
Gain on settlement of timber takeback	1,004	550	1,004	550
Gain on disposal of investment	-	50	-	50
Other expense	-	(23)	(5)	(86)
	\$ 21,723	\$ 604	\$ 22,352	\$ 1,163

In the first quarter of 2009, the Company disposed of surplus property and buildings in Maple Ridge, B.C., previously classified as held for sale. This disposition, combined with minor sales of surplus equipment in the first and second quarters, generated proceeds of \$4,584,000 and a gain of \$634,000.

In the third quarter, 2009, the Company completed the sale of its former Queensboro mill site, located in New Westminster, B.C. and its remaining surplus equipment, yielding net proceeds of \$29,987,000 and a gain of \$20,715,000. In addition, the Company received \$2,000,000 as an advance of compensation under the *Forest Act* for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast, and recorded a gain of \$1,004,000 (see also note 15 (b)). Other minor sales of surplus equipment in the third quarter, 2009, contributed an additional gain of \$4,000.

In the second quarter of 2008, the Company received compensation through the *Forest Revitalization Act* for obsolete infrastructure due to the timber takeback. This, coupled with sales of surplus equipment in the first and second quarters of 2008, generated sales proceeds of \$865,000 and a gain of \$622,000. Additional surplus equipment, an investment and a timber licence were sold in the third quarter, 2008, for sales proceeds of \$1,110,000 and a gain of \$627,000.

10. Restructuring costs and asset write-downs:

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008
Plant and equipment writedowns	\$ 3,067	\$ 1,243	\$ 3,067	\$ 28,576
Severance costs	258	26	1,510	4,499
Other (recovery)	-	-	(265)	1,026
	\$ 3,325	\$ 1,269	\$ 4,312	\$ 34,101

During the first, second and third quarters of 2009, the Company recorded total severance costs of \$1,510,000 as it downsized its workforce in response to reduced operating rates. In the second quarter, 2009, the Company was successful in defending a legal dispute and was able to reverse restructuring costs previously accrued. The Company recorded \$3,067,000 in asset write-downs in the third quarter, 2009, as it determined certain assets were impaired in the current operating environment.

During the first quarter of 2008, the Company recorded severance costs of \$2,240,000, as it permanently closed its Albion remanufacturing operation located in Maple Ridge, B.C., and also offered voluntary severance to hourly workers at its idled Queensboro sawmill located in New Westminster, B.C. In the second quarter of 2008, the Queensboro sawmill was permanently closed following more than one year of curtailment, and further severance and remediation costs totalling \$3,259,000 were recorded, together with an impairment charge of \$27,333,000 on the plant and equipment.

In the third quarter, 2008, due to deteriorating market conditions, the Company indefinitely curtailed the old Adams Lake sawmill and recorded an impairment charge of \$1,243,000 on the plant and equipment. Additional severance costs of \$26,000 were also recorded in the quarter.

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, 2009 and 2008 (unaudited)

11. Net earnings (loss) per share:

	3 Months Sept. 30, 2009			3 Months Sept. 30, 2008		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ 9,720	47,117	\$ 0.21	\$ (8,118)	47,109	\$ (0.17)
Share options	-	-	-	-	121*	-
Diluted loss per share	\$ 9,720	47,117	\$ 0.21	\$ (8,118)	47,109	\$ (0.17)

	9 Months Sept. 30, 2009			9 Months Sept. 30, 2008		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ (18,853)	47,117	\$ (0.40)	\$ (36,695)	47,106	\$ (0.78)
Share options	-	-	-	-	183*	-
Diluted loss per share	\$ (18,853)	47,117	\$ (0.40)	\$ (36,695)	47,106	\$ (0.78)

*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.

12. 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 U.S. Pacific Northwest, U.S.A.

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

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008
Canada	\$ 34,319	\$ 44,131	\$ 79,974	\$ 136,484
United States	43,596	40,191	109,143	121,944
Japan	14,170	8,641	39,203	28,198
Other export	13,084	18,990	35,951	57,105
	\$ 105,169	\$ 111,953	\$ 264,271	\$ 343,731

Sales by product line are as follows:

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008
Lumber	\$ 76,781	\$ 73,404	\$ 195,544	\$ 231,875
Logs	17,271	28,754	43,132	85,309
Wood chips and other by products	8,864	8,852	22,161	21,741
Other	2,253	943	3,434	4,806
	\$ 105,169	\$ 111,953	\$ 264,271	\$ 343,731

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

	Sept. 30, 2009	Dec. 31, 2008
Canada	\$ 304,453	\$ 317,141
United States	163,925	197,227
	\$ 468,378	\$ 514,368

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, 2009 and 2008 (unaudited)

13. Employee future benefits:

The total benefits cost under its various pension plans, retirement savings and other post-retirement benefit plans (described in the Company's audited annual consolidated financial statements) are as follows:

	3 Months Sept. 30, 2009	3 Months Sept. 30, 2008	9 Months Sept. 30, 2009	9 Months Sept. 30, 2008
Canadian employees' deferred profit sharing plan	\$ 268	\$ 316	\$ 886	\$ 987
Defined benefit plan	112	43	337	94
Unionized employees' pension plan	365	440	925	1,243
Post-retirement benefits plan	19	-	55	-
U.S. employees' 401(k) plan	125	120	409	357
Senior management supplementary pension plan	122	125	368	375
Total pension expense	\$ 1,011	\$ 1,044	\$ 2,980	\$ 3,056

14. 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 counterparties are the Company's Canadian bankers, which are highly rated.

As at September 30, 2009, the Company has outstanding obligations to sell a maximum of US\$9,500,000 at an average rate of CAD\$1.0865 to the USD\$1.00, buy a maximum of US\$35,000,000 at an average rate of CAD\$1.07085 to the USD\$1.00, sell Japanese ¥12,000,000 at an average rate of ¥83.83 to the CAD\$1.00, and sell Japanese ¥169,000,000 at an average rate of ¥93.40 to the USD\$1.00, during 2009. All foreign currency gains or losses to September 30, 2009 have been recognized in the Statement of Operations and the fair value of these foreign currency contracts being a receivable of \$65,000 has been recorded in other accounts receivable (December 31, 2008 - \$113,000 liability fair value recorded in accounts payable and accrued liabilities).

During September 2005, the Company entered into a cross currency interest rate swap. The Company had agreed to receive US\$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD\$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company paid an amount based on annual interest of 5.84% on the CAD\$23,530,000 and received a 90 day LIBOR plus a spread of 200 basis points on the US\$20,000,000. LIBOR was recalculated at set interval dates. The swap matured on September 1, 2009 and foreign exchange losses of \$2,050,000 for the first nine months of 2009 (September 30, 2008 - \$1,305,000 gain) were recognized in the Statement of Operations. The fair value of this cross currency interest rate swap was an asset of \$409,000 at December 31, 2008 and was recorded in accounts receivable.

15. Commitment and contingency:

(a) Acquisition:

On July 3, 2009, the Company finalized a revised agreement to acquire a timber tenure and related reforestation liabilities in the Kamloops region from Weyerhaeuser Company Limited. The transfer of the tenure requires regulatory approval. Subject to receiving the required approval, the Company expects to conclude this transaction in late 2009 or early 2010.

(b) Central and North Coast land use decisions:

In 2006, the Government of B.C. ("the Crown") announced land use decisions for the Central Coast and the North Coast regions of B.C. which recently resulted in permanent reductions in the Company's allowable annual cut ("AAC") in the plan areas. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas.

In the third quarter, 2009, the Company received \$2,500,000 as an advance of compensation under the *Forest Act* for timber, roads and bridges, and forestry and engineering work related to timber returned pursuant to the Plan. The Company recorded \$2,000,000 as proceeds on disposition of related assets, and \$500,000 as a recovery of production costs.

The amount and timing of any further compensation payable to the Company as a result of the AAC reductions is not yet determinable, and will be recorded when the amounts can be reasonably estimated.



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