



International Forest Products Limited

First Quarter Report

For the three months ended March 31, 2008

Management's Discussion and Analysis

Dated as of April 23, 2008

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three months ended March 31, 2008 relative to 2007, 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 months ended March 31, 2008 and 2007, and Interfor's Annual Statutory Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2007 and 2006 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 U.S. duty refunds, net, and 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 report contains statements that are forward looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign currency exchange rates and other factors referenced herein and in the Company's Annual Statutory Information Form.

Review of Operating Results

Overview

Interfor recorded a net loss of \$1.1 million, or \$0.02 per share for the first quarter of 2008, compared to net earnings of \$0.6 million, or \$0.01 per share, for the same quarter in 2007. EBITDA and Adjusted EBITDA for the first quarter of 2008 were \$8.5 million and \$8.5 million, respectively, compared to \$13.0 million and \$10.8 million, for the same quarter of 2007.

Before restructuring costs, the Company's net earnings for the first quarter of 2008 amounted to \$0.5 million or \$0.01 per share as compared to net earnings of \$0.8 million, or \$0.02 per share for the first quarter of 2007. Included in the first quarter results of 2008 were \$1.7 million in continuing pre-tax costs associated with the idled Queensboro sawmill.

The operating loss for the first quarter of 2008 reflected depressed North American structural lumber prices, and the weaker U.S. dollar, both of which weighed heavily on sales realizations and inventory valuations. Seasonally adjusted U.S. housing starts in March 2008 were the lowest in 17 years, and were down 36.5% year-over-year. The Company responded to the worst market conditions in recent memory by proactively curtailing production in its commodity operations in the first quarter. On a more positive note, Interfor's Canadian specialty operations delivered strong results in the quarter, with a higher-value sales mix, stable prices, good cost control and a drawdown in inventory levels all contributing factors.

Sales

Lumber shipments were down 130.7 million board feet, or 53.5%, for the first quarter of 2008 compared to the same quarter of 2007, reflecting lower operating rates. Unit lumber sales values over the same period were up \$150 per mfbm, or 28.7%, with significant volumes of a higher-value cedar and Japanese hemlock product mix more than offsetting the impact of lower structural lumber prices and the stronger Canadian dollar. Compared to the first quarter of 2007, the Canadian dollar was up 17 cents on average, or 14.3%, relative to its U.S. counterpart.

Pulp chip and other by-product revenues for the first quarter of 2008 were down \$10.5 million, or 65.6%, compared to the first quarter of 2007, with sales volumes down significantly due to the decline in sawmill operating rates. Average chip prices were down \$15 per mfbm, or 26.8%, reflecting the impact on realizations from the stronger Canadian dollar, as well as species mix. Log sales were up \$11.5 million, or 59.3%, with high sales volumes of lower quality logs in the quarter to reduce inventories as well as to meet the demand for pulp logs. This is reflected in the average sales price which declined to \$75 per cubic metre in the first quarter of 2008, as compared to \$91 per cubic metre for the same period of 2007.

Operating Costs

Production costs for the first quarter of 2008 were down \$43.3 million, or 29.9%, compared to the same period in 2007, substantially as a result of market curtailments and the indefinitely idled Queensboro operation - lumber production was down 144 million board feet, or 58.1%. B.C. log production increased by 45,000 cubic metres, or 12.3%. Lower log prices in the Pacific Northwest, as a result of weaker demand, also contributed to the decrease in costs.

The Canada/U.S. lumber export tax remained at 15% through the first quarter of 2008. Export taxes were down \$2.2 million, due to a drop of 42 million board feet in shipments to the U.S. and lower prices.

There was no change in selling and administrative costs for the first quarter of 2008 compared to the first quarter of 2007. The Company recorded long term incentive compensation ("LTIC") recovery of \$0.3 million for the first quarter of 2008, reflecting a 5.6% decline in the Company's share price over the period. For the first quarter of 2007, the Company recorded a LTIC expense of \$2.0 million.

Amortization and depletion expense for the first quarter of 2008 was down \$3.1 million, or 25.2% compared to the same quarter of 2007, primarily as a result of lower operating rates.

Restructuring costs totaled \$2.2 million in the first quarter of 2008, compared to \$0.3 million in the first quarter of 2007. Costs in the first quarter of 2008 consisted of severance costs arising from the permanent closure of the Albion remanufacturing operation located in Maple Ridge, B.C., and voluntary severance offered to hourly workers at the Company's idled Queensboro sawmill.

Interest, Other Foreign Exchange Gain (loss), Other Income

Net interest expense was \$0.4 million for the first quarter of 2008, compared to the net interest income of \$0.9 million in the first quarter of 2007, which was generated by investment of significant cash balances retained from the U.S. duty refunds. Other foreign exchange losses were \$0.4 million for the three months ended March 31, 2008, compared to \$1.1 million for the same period of 2007 arising from the impact of the stronger CAD\$ on the \$U.S. cash balances held after receipt of the U.S. duty refunds. The Company reported minimal Other income for the first quarter of 2008, in contrast to the first quarter of 2007, when it recorded \$2.2 million from gains on the disposal of surplus property, plant and equipment and the Company's interest in Tree Farm Licence 54.

Cash Flow and Financial Position

Cash generated by the Company from operations, after changes in working capital, was \$24.0 million for the first quarter of 2008, compared to cash used of \$28.0 million for the first quarter of 2007. The increase was principally the result of the payment in 2007 of the Softwood Lumber Agreement special charge liability of \$24.4 million and income tax of \$26.2 million whereas there was a significant reduction of inventories in the first quarter of 2008.

Capital expenditures for the first quarter of 2008 were \$13.7 million, excluding changes in amounts accrued, (Quarter 1, 2007 - \$16.4 million), with \$9.9 million related to spending on the new Adams Lake sawmill, \$0.6 million on other high-return discretionary projects, \$0.6 million on maintenance projects, and \$2.6 million on roads. Construction of the new sawmill at Adams Lake remains on schedule and on budget. The mill is expected to commence start-up procedures in the fourth quarter of 2008, as planned.

There were no shares purchased under the Company's Normal course Issuer Bid in the first quarter of 2008 (Quarter

1, 2007 - 347,000 Class A shares at a cost of \$2.7 million).

On February 1, 2008, the Company obtained a financing commitment from its lenders to increase and extend the maturity date of its syndicated credit facilities. The financing will close on April 25, 2008. The existing Canadian operating line of credit will increase from \$40.0 million to \$100.0 million and will mature on April 25, 2009. The Company's existing Canadian revolving term line of credit ("Revolving Line") will increase from \$10.0 million to \$115.0 million, with \$55.0 million of the Revolving Line made available on April 25, 2008, and the remainder of \$60.0 million made available when the acquisition of the Pope and Talbot, Inc. ("P&T") sawmill and timber assets completes. The Revolving Line will mature on April 25, 2011. The maturity date of the U.S. operating line of credit was also extended to May 23, 2008.

At March 31, 2008, the Company had a \$9.1 (US\$8.9) million deposit held in escrow in respect of the Pope and Talbot ("P&T") acquisition and cash of \$28.5 million. After deducting the Company's US\$ non-revolving term line of \$35.8 (US\$35.0) million, the Company ended the quarter with net cash of \$1.8 million.

Selected Quarterly Financial Information

Quarterly Earnings Summary	2008		2007		2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars except share and per share amounts)							
Sales – Lumber	76.2	70.7	93.2	143.0	127.5	120.5	153.9	173.5
– Logs	30.9	35.6	30.3	33.2	19.4	32.6	31.4	22.0
– Wood chips and other by-products	5.5	7.2	10.0	17.1	16.0	12.1	11.3	9.3
– Other	1.8	1.9	2.0	2.1	1.7	9.3	12.6	19.7
Total Sales	114.4	115.4	135.5	195.4	164.6	174.5	209.2	224.5
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	(1.3)	(15.3)	(4.6)	(3.5)	(1.8)	(2.4)	-	8.3
Operating earnings (loss)	(3.5)	(15.7)	(4.6)	(4.9)	(2.1)	94.5	-	0.3
Net earnings (loss)	(1.1)	(8.9)	(1.6)	(3.4)	0.6	77.2	1.6	8.0
Net earnings (loss) per share – basic	(0.02)	(0.19)	(0.03)	(0.07)	0.01	1.60	0.03	0.17
– diluted	(0.02)	(0.19)	(0.03)	(0.07)	0.01	1.58	0.03	0.16
EBITDA ³	8.5	(4.6)	8.9	14.5	13.0	115.0	14.5	33.7
Cash flow from operations per share ¹	0.22	(0.06)	0.10	0.12	0.37	1.82	0.29	0.40
Shares outstanding – end of period (millions) ²	47.1	47.1	47.1	47.6	47.8	48.1	48.3	48.4
– weighted average (millions)	47.1	47.1	47.4	47.8	48.0	48.2	48.4	48.6
Adjusted EBITDA ³	8.5	(4.7)	7.2	12.6	10.8	11.5	13.9	23.6

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

2 As at April 23, 2008, the number of shares outstanding by class are: Class A Subordinate Voting shares – 46,089,076 Class B Common shares – 1,015,779, Total – 47,104,855.

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 U.S. duty refunds, net, and other income.

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

	2008		2007		2006			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars)							
Net earnings (loss)	(1.1)	(8.9)	(1.6)	(3.4)	0.6	77.2	1.6	8.0
Add: Income taxes (recovery)	(2.5)	(7.1)	(1.8)	(4.5)	(0.3)	38.5	(1.3)	2.1
Interest expense (income)	0.4	0.2	(0.1)	(0.5)	(0.9)	0.5	0.9	1.0
Interest income on U.S. duty refund, net of special charge	-	-	-	-	-	(12.7)	-	-
Depletion and amortization	9.1	10.7	11.7	16.2	12.2	13.6	13.4	14.6
Other foreign exchange (gains) losses	0.4	0.2	0.7	5.3	1.1	(2.1)	-	-
Restructuring costs, asset write-downs and other	2.2	0.3	-	1.4	0.3	-	-	8.0
EBITDA	8.5	(4.6)	8.9	14.5	13.0	115.0	14.5	33.7
Deduct:								
U.S. duty refunds, net	-	-	-	-	-	96.9	-	-
Other income	-	0.2	1.7	1.9	2.2	6.6	0.6	10.1
Adjusted EBITDA	8.5	(4.7)	7.2	12.6	10.8	11.5	13.9	23.6

Volume and Price Statistics

		2008		2007		2006			
		Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Lumber sales	(million fbm)	113	161	196	270	244	225	299	319
Lumber production ¹	(million fbm)	104	150	187	269	249	222	292	326
Log sales ²	(thousand cubic metres)	399	382	315	319	207	381	358	229
Log production ²	(thousand cubic metres)	411	373	401	626	366	616	707	667
Average selling price – lumber ³	(\$/thousand fbm)	\$672	\$441	\$476	\$530	\$522	\$534	\$515	\$545
Average selling price – logs ²	(\$/cubic metre)	\$75	\$91	\$95	\$101	\$91	\$85	\$87	\$95
Average selling price – pulp chips	(\$/thousand fbm)	\$41	\$37	\$43	\$54	\$56	\$49	\$35	\$26

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs

2 B.C. operations

3 Gross sales before duties and 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.

Excluding the impact of the U.S. duty refunds in the fourth quarter of 2006, the decrease in operating earnings for the seven most recent quarters related primarily to weak U.S. structural lumber markets, and the stronger Canadian dollar. For the third and fourth quarters of 2007, strike action also contributed to lower reported operating earnings. All these factors contributed in lower operating rates and lumber sales realizations in the applicable periods.

Acquisition of P&T's Mills and Woodlands

On January 7, 2008, the courts overseeing the creditor restructuring of P&T in Canada and the United States approved the sale of P&T's Castlegar and Grand Forks sawmill assets and related timber tenures in the Southern B.C. Interior, and its Spearfish sawmill assets in South Dakota to Interfor. The purchase price is US\$69 million, plus working capital and adjustments for certain other items. The transaction has also been approved by the Canadian Competition Bureau, the B.C. Ministry of Forests and Range, and U.S. anti-trust authorities. Concurrent with this transaction, the Company has agreed to sell the Spearfish, South Dakota sawmill to a private company for US\$14 million plus working capital.

The Company expects to complete the transaction by the Asset Purchase Agreement termination date of April 30, 2008.

The Company has paid a US\$8.8 million interest-bearing deposit held in escrow in respect of this transaction, which is refundable should the transaction not complete due to circumstances beyond the Company's control. At March 31, 2008, this deposit and accumulated interest totaled US\$8.9 million and was revalued to \$9.1 million using the quarter-end exchange rate.

The acquisition of the two Southern B.C. Interior sawmills will increase Interfor's total lumber capacity by approximately 460 million board feet per year to approximately 1.8 billion board feet. The mills add critical mass in one of the Company's core operating regions and broaden the Company's product lines in both specialty and commodity grades. The acquired timber tenures represent annual harvesting rights of approximately 1.0 million cubic metres.

The Company has identified a number of opportunities to improve the financial performance of the mills through improvements in operational efficiency and other non-capital initiatives, and other cost savings that will be realized through high-return capital projects.

Agreement to Purchase Kamloops Timber Tenure

On February 18, 2008, the Company reached agreement to acquire a timber tenure in the Kamloops region currently owned by Weyerhaeuser Company Limited ("Weyerhaeuser") having an Allowable Annual Cut (AAC) of approximately 356,000 cubic metres. The tenure will strengthen Interfor's long term timber supply in the region and help to offset anticipated declines in future supply as a result of the Mountain Pine Beetle infestation. The acquisition will benefit Interfor's sawmill at Adams Lake and the communities associated with that operation.

The transaction is subject to various regulatory reviews and is expected to close in the second quarter of 2008.

Accounting Policy Changes

On December 1, 2006, the Accounting Standards Board of the Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards, Handbook Section 1535, *Capital Disclosures*, Handbook Section 3031, *Inventories*, Handbook Section 3862, *Financial Instruments – Disclosures*, and Handbook Section 3863, *Financial Instruments – Presentation*. The Company has adopted these new standards effective January 1, 2008. The adoption of these new standards had no financial impact on the consolidated financial statements.

Section 1535 specifies the disclosure of the Company's objectives, policies and processes for managing capital, including a description of what components of liabilities and shareholders' equity the Company defines as capital and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any.

Section 3031 provides significantly more guidance of the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns.

Sections 3862 and 3863 replaced Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing its disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks.

Seaboard Shipping Company Limited ("Seaboard"), an equity investment of the Company, recently adopted the deferral method of accounting for dry-dock activities whereby actual costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled dry-dock activity. Previously, dry-dock activities were accounted for using the accrue-in-advance method. In accordance with CICA Handbook Section 1506, *Accounting Changes*, Seaboard adopted this policy retrospectively, resulting in the restatement of prior years' results.

As the investment in Seaboard is accounted for using the equity method, the Company has recorded its \$2.3 million share of the impact of the restatement as an increase in the carrying value of its investment in Seaboard and an increase in retained earnings. There was no effect on net earnings (loss) previously reported for any of the periods presented.

New Accounting Policies

In 2007, the Canadian Accounting Standards Board announced that Canadian generally accepted accounting principles ("Canadian GAAP") will cease to exist for all publicly accountable enterprises targeted for fiscal years commencing January 1, 2011. From that date onward, publicly traded companies and certain other publicly accountable enterprises will be required to report under International Financial Reporting Standards ("IFRS"). The impact of the transition to IFRS on the Company's consolidated financial statements has not been determined.

In February, 2008, the CICA issued a new accounting standard, Handbook Section 3064, *Goodwill and Intangible Assets*. 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. This standard will be applicable to the Company for annual and interim accounting periods beginning on January 1, 2009.

The Company is still evaluating the full impact of this standard on its consolidated financial statements.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended March 31, 2008 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 March 31, 2008. For a full discussion of critical accounting estimates, please refer to the Company's discussion in its Annual MD&A for the year ended December 31, 2007 as filed on SEDAR at www.sedar.com.

Outlook

There remains no immediate end in sight to the challenging North American structural lumber market conditions, and little prospect of any meaningful price recovery over the balance of 2008. The Company will continue to regularly monitor the economics of affected operations and curtail production where necessary. Export taxes on sales to the U.S. are expected to remain at 15% through 2008. Cedar prices are expected to weaken in the second quarter in the face of increased supply, while prices in Japan could soften as well.

The outlook for the CAD\$ versus the US\$ and Yen for 2008 continues to be very difficult to predict, given heightened concerns over the health of the U.S. economy and the continuing volatility of currency markets.

Stumpage rates on the B.C. Coast for the second quarter of 2008 are expected to increase, reflecting the strength of cedar log prices, and will impact production costs and margins in that region.

Given the current climate, the Company will continue to maintain tight control over cash, while remaining alert to selective growth opportunities in regions and products with attractive fundamentals. The rebuild of the Adams Lake sawmill, the P&T acquisition, and the Kamloops timber tenure acquisition remain the only major capital investments currently approved for 2008.

Additional Information

Additional information relating to the Company and its operations can be found on its website at www.interfor.com and in the Annual Information Form 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 months ended March 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Sales	\$ 114,374	\$ 164,646
Costs and expenses:		
Production	101,367	144,688
Selling and administration	4,491	4,453
Long term incentive compensation expense (recovery)	(259)	1,992
Export taxes	936	3,136
Amortization of plant and equipment	5,684	7,511
Depletion and amortization of timber, roads and other	3,449	4,697
	115,668	166,477
Operating loss before restructuring costs	(1,294)	(1,831)
Restructuring costs (note 10)	(2,240)	(250)
Operating loss	(3,534)	(2,081)
Interest expense on long-term debt	(518)	(796)
Other interest income	151	1,683
Other foreign exchange loss	(385)	(1,149)
Other income (note 9)	7	2,226
Equity in earnings of investee companies	667	433
	(78)	2,397
Earnings (loss) before income taxes	(3,612)	316
Income taxes (recovery):		
Current	(4,350)	94
Future	1,830	(375)
	(2,520)	(281)
Net earnings (loss)	\$ (1,092)	\$ 597
Net earnings (loss) per share, basic and diluted (note 11)	\$ (0.02)	\$ 0.01

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the three months ended March 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Retained earnings, beginning of year, as restated (note 2(d))	\$ 170,408	\$ 183,729 (restated - note 2(d))
Net earnings (loss)	(1,092)	597
Retained earnings, end of period	\$ 169,316	\$ 184,326

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ (1,092)	\$ 597
Items not involving cash:		
Amortization of plant and equipment	5,684	7,511
Depletion and amortization of timber, roads and other	3,449	4,697
Future income taxes (recovery)	1,830	(375)
Other assets	(29)	1,682
Reforestation liability	390	141
Other long-term liabilities	(45)	1,975
Share of earnings net (in excess) of cash distributions of investee company	(667)	3,936
Foreign exchange loss (gain) on translation of long term debt	1,057	(378)
Other	(28)	(2,247)
	10,549	17,539
Cash generated from (used in) operating working capital:		
Accounts receivable	4,402	3,667
Inventories	13,593	(4,167)
Prepaid expenses	210	(1,222)
Accounts payable and accrued liabilities	(366)	(21,357)
Income taxes	(4,386)	(22,472)
	24,002	(28,012)
Investing activities:		
Additions to property, plant and equipment	(9,646)	(10,730)
Additions to deferred start-up costs	-	(959)
Additions to logging roads and timber	(2,640)	(4,742)
Proceeds on disposal of property, plant, equipment, timber and roads	28	3,788
Deposit held in escrow for acquisition	(64)	-
Investments and other assets	(372)	(463)
	(12,694)	(13,106)
Financing activities:		
Repurchase of share capital (note 8)	-	(2,687)
Issuance of share capital (note 8)	-	238
Increase (decrease) in bank indebtedness	-	(582)
	-	(3,031)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(653)	594
Decrease in cash	10,655	(43,555)
Cash on deposit, beginning of period	17,795	149,171
Cash on deposit, end of period	\$ 28,450	\$ 105,616
Supplementary disclosures		
Cash interest paid (received)	\$ 367	\$ (887)
Cash income taxes paid	-	22,472

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

March 31, 2008 and 2007 (unaudited) and December 31, 2007 (audited)

(thousands of Canadian dollars)

	Mar. 31, 2008	Dec. 31, 2007	Mar. 31, 2007
		restated - note 2(d)	restated - note 2(d))
Assets			
Current assets:			
Cash and cash equivalents	\$ 28,450	\$ 17,795	\$ 105,616
Deposit (note 5)	9,092	8,761	-
Accounts receivable	32,912	37,172	46,947
Income taxes recoverable	14,212	8,838	-
Inventories (note 6)	63,166	76,429	85,241
Prepaid expenses	6,130	6,267	5,613
Future income taxes	2,627	3,083	3,849
	156,589	158,345	247,266
Investments and other assets (note 2(d))	13,599	12,094	10,402
Property, plant and equipment, net of accumulated amortization	309,652	300,150	312,048
Timber and logging roads, net of accumulated depletion and amortization	54,273	55,050	47,651
Goodwill and other intangible assets	13,078	13,078	13,136
Future income taxes	9,694	7,000	1,972
Long-lived assets held for sale	3,239	3,239	-
	\$ 560,124	\$ 548,956	\$ 632,475
Liabilities and Shareholders' Equity			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 51,182	\$ 49,999	\$ 73,886
Income taxes payable	-	-	4,973
Future income taxes	3	-	184
	51,185	49,999	79,043
Reforestation liability, net of current portion	12,264	11,874	13,351
Long-term debt (note 7(b))	35,753	34,696	40,411
Other long-term liabilities	8,814	8,859	10,577
Future income taxes	16,918	13,080	11,751
Shareholders' equity:			
Share capital (note 8)			
Class A subordinate voting shares	284,444	284,444	289,180
Class B common shares	4,080	4,080	4,080
Contributed surplus	5,408	5,408	7,177
Accumulated other comprehensive income (loss)	(28,058)	(33,892)	(7,421)
Retained earnings (note 2(d))	169,316	170,408	184,326
	435,190	430,448	477,342
	\$ 560,124	\$ 548,956	\$ 632,475

Commitment and Contingency (note 16)

Agreement-in-principle (note 17)

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder
Director

H.C. Kalke
Director

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

For the three months ended March 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Net earnings (loss)	\$ (1,092)	\$ 597
Other comprehensive income (loss), net of income taxes (recovery):		
Net change in unrealized foreign currency translation gains (losses)	5,834	(1,060)
Other comprehensive income (loss)	5,834	(1,060)
Comprehensive income (loss)	\$ 4,742	\$ (463)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Accumulated other comprehensive loss, beginning of year	\$ (33,892)	\$ (6,361)
Other comprehensive income (loss)	5,834	(1,060)
Accumulated other comprehensive loss, end of period	\$ (28,058)	\$ (7,421)

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 months ended March 31, 2008 and 2007 (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, 2007, except for the new accounting policies adopted subsequent to that date, as discussed in Note 2.

2. Adoption of changes in accounting policies:

The Canadian Institute of Chartered Accountants ("CICA") issued four new accounting standards, which have been adopted, together with the change in accounting policy of an investee company, on January 1, 2008. These changes are described as follows:

(a) Capital disclosures:

CICA Handbook Section 1535, *Capital Disclosures*, specifies the disclosure of the Company's objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders' equity the Company defines as capital, and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any. Refer to Note 14 for additional disclosures.

(b) Inventories:

CICA Handbook Section 3031, *Inventories*, provides significantly more guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and the amount of any inventory writedowns.

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average of cost of production on a three month rolling average, lagged by one month and adjusted for exceptional costs, as in the case of a curtailment.

Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are in boom form, or in aggregate on a species and sort basis where the logs do not exist in boom form. Cost for internally produced log inventories is determined as the weighted average of cost of logging on a twelve month rolling average, lagged by one month and adjusted for exceptional costs, as in the case of a curtailment. Log inventories purchased from external sources are costed at acquisition cost. Net realizable value of logs is based on either replacement cost or, for logs for which have been committed to processing into lumber, on estimated net realizable value after taking into consideration costs of completion and sale.

The adoption of this new standard had no financial effect on the consolidated financial statements of the Company. Refer to Note 6 for additional disclosures.

(c) Financial instruments – Disclosure and Presentation:

CICA Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks. Refer to note 15 for additional disclosures.

(d) Equity investment:

Seaboard Shipping Company Limited ("Seaboard"), an equity investment of the Company, recently adopted the deferral method of accounting for dry-dock activities whereby actual costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled dry-dock activity. Previously, dry-dock activities were accounted for using the accrue-in-advance method. In accordance with CICA Handbook Section 1506, *Accounting Changes*, Seaboard adopted this policy retrospectively, resulting in the restatement of prior years' results. As the investment in Seaboard is accounted for using the equity method, the Company has recorded its share of the impact of the restatement as follows:

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Retained Earnings for the three months ended March 31, 2007:			
Retained earnings, beginning	\$ 181,477	\$ 2,252	\$ 183,729
Consolidated Balance Sheet as at March 31, 2007:			
Investments and other assets	8,150	2,252	10,402
Retained earnings, ending	182,074	2,252	184,326
Consolidated Balance Sheet as at December 31, 2007:			
Investments and other assets	9,842	2,252	12,094
Retained earnings, ending	168,156	2,252	170,408

The restatement has not affected net earnings (loss) previously reported for any of the periods presented.

INTERNATIONAL FOREST PRODUCTS LIMITED

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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. Acquisition of Pope and Talbot, Inc. sawmills:

On January 7, 2008, the courts overseeing the creditor restructuring of Pope and Talbot, Inc. ("P&T") in Canada and the United States approved the sale of two southern B.C. interior sawmills and their related timber tenures and one sawmill in South Dakota to the Company for US\$69,000,000 plus working capital and other adjustments. The transaction has also been approved by the Canadian Competition Bureau and the U.S. anti-trust authorities. The Company expects to complete the transaction by the Asset Purchase Agreement termination date of April 30, 2008.

The Company has paid a US\$8,800,000 interest-bearing deposit held in escrow in respect of this transaction, which is refundable should the transaction not complete due to circumstances beyond the Company's control. At March 31, 2008, this deposit and accumulated interest totaled US\$8.9 million and was revalued to \$9.1 million using the quarter-end exchange rate.

The Company has also reached an agreement to sell the Spearfish, South Dakota sawmill, being acquired as part of the P&T transaction to Neiman Enterprises, Inc., a family owned company based in Wyoming, for US\$14,000,000 plus working capital. The sale of the Spearfish sawmill will close concurrently with the P&T transaction.

6. Inventories:

	Mar. 31, 2008	Dec. 31, 2007	Mar. 31, 2007
Logs	\$ 39,476	\$ 53,631	\$ 54,824
Lumber	19,196	18,588	25,101
Other	4,494	4,210	5,316
	\$ 63,166	\$ 76,429	\$ 85,241

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 March 31, 2008 is \$15,066,000 (March 31, 2007 - \$8,056,000).

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

(a) Bank indebtedness:

	Canadian Operating Facility	U.S. Operating Facility	Total
March 31, 2008			
Available line of credit	\$ 40,000	\$ 10,215	\$ 50,215
Maximum borrowing available	40,000	6,840	46,840
Unused portion of line	35,259	6,717	41,976
Outstanding letters of credit included in line utilization	4,741	123	4,864
March 31, 2007			
Available line of credit	\$ 60,000	\$ 11,546	\$ 71,546
Maximum borrowing available	59,311	11,546	70,857
Unused portion of line	54,073	11,407	65,480
Outstanding letters of credit included in line utilization	5,238	139	5,377

On February 1, 2008, the Company obtained a financing commitment from its lenders to increase and extend its syndicated credit facilities. The existing Canadian operating line of credit ("Operating Line") is to increase from \$40,000,000 to \$100,000,000. The financing will close on April 25, 2008. The Operating Line will mature on April 24, 2009.

INTERNATIONAL FOREST PRODUCTS LIMITED

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

(a) Bank indebtedness (continued):

The Operating Line bears interest at bank prime plus a margin depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans. 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, and mortgage security on sawmills and charges against timber tenures. 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.

The maturity date of the U.S. operating line of credit was extended to May 23, 2008.

(b) Long-term debt:

On February 1, 2008, the Company obtained a financing commitment from its lenders to increase and extend its syndicated credit facilities. The existing Canadian revolving term line of credit ("Revolving Line") is to increase from \$10,000,000 to \$115,000,000. The existing US\$35,000,000 Non-Revolving Line remains unchanged. The financing will close on April 25, 2008, with \$55,000,000 of the Revolving Line made available on April 25, 2008, and the remainder of \$60,000,000 made available when the P&T transaction completes. The extended Revolving Line will mature on April 24, 2011. The Revolving Line bears interest at bank prime plus a margin depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans.

The US dollar non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (December 31, 2007 - US\$35,000,000; March 31, 2007 - US\$35,000,000) and was revalued at the quarter-end exchange rate to \$35,753,000 (December 31, 2007 - \$34,696,000; March 31, 2007 - \$40,411,000). 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. The foreign exchange loss of \$1,058,000 arising on revaluation of the Non-Revolving Line at March 31, 2008 was recognized in Other foreign exchange loss on the Statement of Operations. The foreign exchange gain of \$378,000 for the quarter ending March 31, 2007 was recognized in Other Comprehensive Income as the Company had designated the Non-Revolving as a hedge against its investment in its self-sustaining U.S. operations until March 31, 2007.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories and mortgage security on all sawmills and charges against all timber. The lines 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 follows:

2009	\$	35,753
2010		-
2011		-
2012		-
2013		-
	\$	35,753

8. Share capital:

On November 9, 2006, the Company commenced a normal course issuer bid ("NCIB 05") to acquire up to 2,366,000 Class A Subordinate Voting shares ("Class A Shares"). NCIB 05 terminated on November 8, 2007. On January 3, 2008, the Company commenced a normal course issuer bid ("NCIB 06") to acquire up to 1,300,000 Class A shares (representing approximately 2.8% 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 shares being purchased in any 30-day period. The shares are cancelled as purchased. NCIB 06 will terminate no later than January 7, 2009.

As the Company acquired Class A shares, the shares were cancelled. The excess of the cost of the shares over the assigned value has been charged to contributed surplus. The Company also issued Class A shares as previously granted share options were exercised. There were no changes to the Class B shares.

The transactions in share capital are described below:

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Acquisitions under normal course issuer bid		
Number of shares purchased and cancelled	-	347
Cost	\$ -	\$ 2,687
Excess of cost of shares over assigned value charged to contributed surplus	-	543
Shares issued on exercise of options		
Number of shares	-	58
Proceeds	\$ -	\$ 238

INTERNATIONAL FOREST PRODUCTS LIMITED

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9. Other income:

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Gain on disposal of surplus property, plant and equipment, roads and timber	\$ 28	\$ 2,246
Other (expense)	(21)	(20)
	\$ 7	\$ 2,226

In the first quarter of 2008, the Company disposed of surplus equipment, generating a gain of \$28,000.

In the first quarter of 2007, the Company disposed of surplus property, plant and equipment as well as its interest in Tree Farm Licence 54. These dispositions combined to generate sales proceeds of \$3,788,000 and a gain of \$2,246,000.

10. Restructuring costs:

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.

During the first quarter of 2007, the Company recorded severance costs of \$250,000, net of recoveries 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*.

11. Net earnings (loss) per share:

	3 Months Mar. 31, 2008			3 Months Mar. 31, 2007		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ (1,092)	47,105	\$ (0.02)	\$ 597	47,976	\$ 0.01
Share options	-	219*	-	-	632	-
Diluted earnings (loss) per share	\$ (1,092)	47,105*	\$ (0.02)	\$ 597	48,608	\$ 0.01

*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 Mar. 31, 2008	3 Months Mar. 31, 2007
Canada	\$ 50,711	\$ 54,256
United States	36,772	75,825
Japan	9,141	18,359
Other export	17,750	16,206
	\$ 114,374	\$ 164,646

INTERNATIONAL FOREST PRODUCTS LIMITED

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12. Segmented information (continued):

Sales by product line are as follows:

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Lumber	\$ 76,234	\$ 127,481
Logs	30,883	19,390
Wood chips and other by products	5,510	16,033
Other	1,747	1,742
	<u>\$ 114,374</u>	<u>\$ 164,646</u>

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

	Mar. 31, 2008	Dec. 31, 2007	Mar. 31, 2007
Canada	\$ 238,460	\$ 232,988	\$ 211,434
United States	141,782	138,529	161,401
	<u>\$ 380,242</u>	<u>\$ 371,517</u>	<u>\$ 372,835</u>

13. Employee future benefits:

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

	3 Months Mar. 31, 2008	3 Months Mar. 31, 2007
Defined contribution plan	\$ 324	\$ 351
Defined benefit plan	21	129
Unionized employees' pension plan	411	587
U.S. employees benefit plan	122	176
Senior management supplementary pension plan	120	90
Total pension expense	<u>\$ 998</u>	<u>\$ 1,333</u>

14. Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and sustain future development of the business. The Company monitors the return on average invested capital, which it defines as net earnings (loss) plus after tax interest cost divided by the average of opening and closing invested capital comprised of the total of bank indebtedness, long-term debt and shareholders' equity.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long-term through increases in share value.

In January 2008, the Company filed a normal course issuer bid, as described in note 8. As all purchases are made at market prices, the timing of any purchases will be managed based on the share price and available cash flow. The Company considers its shares to be undervalued, and a buy-back program is consistent with the Company's goal of creating long-term value for its shareholders.

There were no changes in the Company's approach to capital management during the period. Under its debt financing agreements, the Company cannot exceed a total debt to total capitalization ratio of 45%, with total debt defined as the total of bank indebtedness, including letters of credit, and long-term debt, net of cash and cash equivalents.

15. Financial instruments:

(a) Fair value of financial instruments:

At March 31, 2008, the fair value of the Company's long-term debt approximated its carrying value of \$35,752,500 (March 31, 2007 - \$40,411,000) as the long-term debt bore interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

INTERNATIONAL FOREST PRODUCTS LIMITED

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15. Financial instruments (continued):

(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 March 31, 2008, the Company has outstanding obligations to sell a maximum of US\$7,000,000 at an average rate of US\$1.0078 to CAD\$1.00 and Japanese ¥275,000,000 at an average rate of ¥106.62 to the CAD\$1.00 during 2008. All foreign currency gains or losses to March 31, 2008 have been recognized in the Statement of Operations and the fair value of \$205,000 has been recorded in accounts payable and accrued liabilities.

During September 2005, the Company entered into a cross currency interest rate swap. The Company has 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 will pay an amount based on annual interest of 5.84% on the CAD\$23,530,000 and will 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 on the swap recognized in the Statement of Operations. The fair value of \$3,402,000 has been recorded in accounts payable and accrued liabilities.

(c) Financial risk management:

Financial instrument assets include cash resources, deposits and accounts receivable. Cash resources and deposits are designated as held-for-trading and measured at fair value, while accounts receivable are designated as loans and receivables and measured at amortized cost.

Financial instrument liabilities include accounts payable and accrued liabilities, long-term debt, and certain other long-term liabilities. All financial liabilities are designated as Other liabilities and are measured at amortized cost.

There are no financial instruments classified as available-for-sale or held-to-maturity.

The use of financial instruments exposes the Company to credit, liquidity and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through its standards and procedures, management has developed a control environment in which employees are clear on roles and obligations and management regularly monitors compliance with its risk management policies and procedures.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers and from short-term investments.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer, and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer on a prepayment basis.

All North American sales are conducted under standard industry terms. All lumber sales outside of the North American markets are either insured by the Export Development Corporation or are secured by irrevocable letters of credit.

The Company regularly reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and based on this past experience, the Company believes that no impairment allowance is necessary in respect of trade accounts receivable past due. As at March 31, 2008, there were no trade accounts receivable past due which were considered uncollectible (March 31, 2007 - \$nil), and no reserve in respect of doubtful accounts was set up (March 31, 2007 - \$nil).

Deposits

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. As such, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company's policy is to provide financial guarantees only to wholly-owned subsidiary companies, with no guarantees outstanding at March 31, 2008.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As lumber sales outside of the North American markets are insured by the Export Development Corporation to 90% or secured by irrevocable letters of credit, credit exposure for these sales is limited.

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15. Financial instruments (continued):

(c) Financial risk management (continued):

(i) Credit risk (continued):

Exposure to credit risk (continued):

Accounts receivable carrying value at the reporting date by geographic region was:

	Mar. 31, 2008
Canada	\$ 15,695
United States	10,191
Japan	1,746
Other	5,280
	<u>\$ 32,912</u>

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations.

The Company also maintains a revolving Canadian Operating Line and a U.S. operating line of credit that can be drawn down to meet short-term financing needs.

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk

The Company is exposed to currency risk on cash and deposits, sales, purchases and loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations, primarily Canadian (CAD) and U.S. dollars (USD), but also the euro, Sterling and yen. The Company uses forward exchange contracts and cross currency interest rate swaps to hedge its currency risk, as described in Note 15(b) Derivative financial instruments. Daily, the Company assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

At March 31, 2008, the Company's Non-Revolving Line remains fully drawn at US\$35,000,000 (March 31, 2007 - US\$35,000,000). To March 31, 2007, the Company designated the Non-Revolving Line as a hedge against its investment in its self-sustaining U.S. operations. On April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its use of hedge accounting.

As at March 31, 2008, the Company's accounts receivable were denominated in the following currencies:

	CAD	USD	Japanese ¥
Accounts receivable	19,960	8,676	31,941
Accounts receivable held by self-sustaining foreign subsidiaries	-	3,719	-
	<u>19,960</u>	<u>12,395</u>	<u>31,941</u>

As at March 31, 2008, the Company held cash and cash equivalents, including the P&T deposit, of US\$16,289,000 with the remaining amounts in \$CAD. Of this amount, cash held by self-sustaining foreign subsidiaries totalled US\$1,008,000.

Based on the Company's net exposure to foreign currencies as at December 31, 2007, including USD denominated cash held in deposits and cash equivalents and USD denominated debt and other USD denominated financial instruments, the sensitivity of the USD balances to the Company's net annual earnings is as follows:

U.S. Dollar	\$0.01 increase vs CAD\$	\$0.8 million increase in net income
Japanese Yen	1 ¥ increase vs CAD\$	\$0.1 million increase in net income

Interest rate risk

The Company reduces its exposure to changes in interest rates on borrowings by entering into cross currency interest rate swaps, as described in Note 15(b) Derivative financial instruments.

Based on the Company's average debt level during 2007, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$0.1 million in net annual earnings.

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15. Financial instruments (continued):

(c) Financial risk management (continued):

(iii) Market risk (continued):

Other market price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

Based on 2007 levels of operations, a \$10 change in the Company's average selling price of its products would impact net annual earnings as follows:

Lumber	\$10 increase per thousand fbm	\$5.7 million increase in net income
Chips	\$10 increase ¹	\$2.9 million increase in net income

¹Interfor sells chips in either volumetric units (VU's or GPU's – B.C. Coastal operations) or bone dry units (BDU's – B.C. Interior and Pacific Northwest operations).

16. Commitments and contingency:

(a) Contractual obligations for Adams Lake sawmill construction:

The Company has undertaken obligations under various contracts totalling \$26,476,000 as at March 31, 2008, relating to construction of a new sawmill at its Adams Lake operation in the southern B.C. Interior. These amounts are expected to be paid over the next year.

(b) Softwood Lumber Agreement:

The Softwood Lumber Agreement ("SLA") includes a surge mechanism that increases the export tax by 50% (the "Surge Tax") when the monthly volume of exports exceeds a certain trigger volume, as defined in the SLA. This calculation is based on estimated trailing U.S. lumber consumption. In 2007, the U.S. Coalition for Fair Lumber Imports (the "Coalition") asserted that the consumption volumes used in calculation of the applicability of a surge tax should be based on a 12 month rolling average actual volume. Under current market conditions, the use of actual consumption rather than expected consumption would decrease the surge trigger volume, and could cause the exporters to be liable for additional Surge Tax. This issue was brought before the London Court of International Arbitration ("LCIA").

On March 4, 2008, the LCIA ruled in favour of the Canadian provinces utilizing the export charge only option ("Option A") under the SLA, including the Province of B.C., supporting the Canadian position that Surge Tax was not applicable to shipments to the U.S. over the period under review for Option A provinces.

17. Agreement-in-principle:

On February 18, 2008, the Company reached an agreement-in-principle to acquire a timber tenure in the southern B.C. Interior currently owned by Weyerhaeuser Company. The agreement is subject to completion of negotiations and regulatory approval and is expected to close in the second quarter, 2008.

18. Future Accounting Changes:

(a) International Financial Reporting Standards

The CICA will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011. The impact of the transition to IFRS on the Company's consolidated financial statements has not been determined.

(b) Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. 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. The Company is still evaluating the full impact of this standard on its consolidated financial statements.



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