



International Forest Products Limited

Third Quarter Report

For the three and nine months ended September 30, 2008

Management's Discussion and Analysis

Dated as of October 22, 2008

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, 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 and nine months ended September 30, 2008 and 2007, and Interfor's Annual 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 Report.

Review of Operating Results

Overview

Interfor recorded a net loss of \$8.1 million, or \$0.17 per share. The net loss for the same quarter in 2007 was \$1.6 million, or \$0.03 per share. For the nine months ended September 30, 2008, the Company reported a net loss of \$38.7 million, or \$0.82 per share, compared to a net loss of \$4.4 million, or \$0.09 per share for the first nine months of 2007.

Despite the continued deterioration in U.S. housing markets and unprecedented turmoil in financial markets, EBITDA remained positive for the third quarter and first nine months of 2008 at \$0.7 million and \$11.7 million, respectively, compared to \$8.9 million and \$36.4 million for the corresponding periods in 2007. Adjusted EBITDA for the third quarter and first nine months of 2008 was \$0.1 million and \$10.6 million respectively, compared to \$7.2 million and \$30.6 million for the same periods in 2007.

Before restructuring costs, foreign exchange gains (losses) and other one-time items, the Company's net loss for the third quarter, 2008, was \$7.7 million after-tax, or \$0.16 per share, as compared to a loss of \$2.2 million after-tax, or \$0.05 per share in the third quarter, 2007. The losses for the first nine months of 2008, adjusted for restructuring costs, foreign exchange gains (losses) and other one-time items totalled \$14.1 million after-tax, or \$0.30 per share, as compared to \$2.4 million after-tax, or \$0.05 per share for the first nine months of 2007.

Included in the third quarter results of 2008 were \$2.5 million (\$1.7 million after-tax, or \$0.04 per share) in accelerated depreciation and impairment charges related to the old Adams Lake sawmill which was indefinitely curtailed in early October in preparation for completion of the new mill.

Significant declines in overall U.S. construction spending, the tightening of availability of housing loans in the U.S., and sharply declining lumber prices in September directly impacted Interfor's loss in the third quarter, 2008. In comparison to the same periods of the previous year, depressed prices and a weaker U.S. dollar impacted sales realizations and inventory valuations in the third quarter and first nine months of 2008. Seasonally adjusted U.S. housing starts in September 2008 were down 31.1% year-over-year.

North American structural lumber prices, which had strengthened in the second quarter and in the first two months of the third

quarter, dropped sharply in September 2008, significantly impacting inventory valuations and sales realizations. Production in the Company's commodity operations was proactively curtailed throughout the first three quarters of 2008, and prices justified most mills operating on a one shift basis throughout the third quarter as steps were taken to manage inventory levels and working capital.

Specialty markets experienced some softening of prices, but this impact was mitigated by a change in product mix which allowed continued profitability for specialty operations through the third quarter, 2008.

In the third quarter of 2008 the Company experienced significant mill curtailments for all manufacturing sites, impacting sales, cost structures and comparisons to the prior year. The third quarter of 2007 was also impacted by significant mill curtailments in Canada due to the United Steelworks Union's ("USW") strike action at the Company's B.C. coastal manufacturing operations which commenced in late July, 2007.

Sales

Lumber shipments were down 63.8 million board feet, or 32.5%, for the third quarter of 2008 compared to the same quarter of 2007, and down 339.1 million board feet, or 47.8% for the first nine months of 2008 compared to the first nine months of 2007, reflecting lower operating rates and the permanent closure of Queensboro. Unit lumber sales values increased by \$80 per mfbm, or 16.7%, for the quarter and \$113 per mfbm, or 22.1%, for the first nine months of 2008 relative to the same periods in 2007, as a result of a change in the sales mix to a higher percentage of higher-value specialty product. The Canadian dollar was virtually unchanged on average, relative to its U.S. counterpart in the third quarter, 2008 as compared to the third quarter of 2007, and up 9 cents on average, or 7.9%, for the first nine months of 2008 as compared to the same period in 2007. The latter half of September, 2008 started to see some significant weakening in the Canadian dollar and it closed at \$US : \$1.0642 CAD on September 30, 2008.

In comparison to the same periods of 2007, log sales were down \$1.6 million, or 5.2%, for the third quarter, but up slightly by \$2.4 million, or 2.8%, in the first nine months of 2008, with higher sales volumes of lower quality logs to meet demand for pulp logs and manage inventories. The continued mill curtailments and falling markets impacted the demand for logs and log prices declined throughout the third quarter, 2008. On the B.C. Coast, the average sales price declined by \$24 per cubic metre in the third quarter of 2008, as compared to the third quarter of 2007 and \$20 per cubic metre in the first nine months of 2008, as compared to the same period for 2007.

Pulp chip and other by-product revenues for the third quarter of 2008 were down \$1.1 million, or 11.4%, compared to the third quarter of 2007, and down \$21.3 million, or 49.5%, for the first nine months of 2008 compared to the first nine months of 2007, with sales volumes down significantly due to the mill curtailments. Relative to the same periods in 2007, average chip prices increased \$5 per mfbm, or 11.6%, for the third quarter of 2008, and decreased \$6 per mfbm, or 12.3%, for the first nine months of 2008.

Operating Costs

Third quarter, 2008, production costs were down \$17.8 million, or 14.0% compared to the same period in 2007 primarily as a result of the more extensive curtailments and the permanently closed Queensboro operation. Production costs for the first nine months of 2008 were down \$123.1 million, or 27.7% compared to the same period in 2007 primarily as a result of decreased production.

Lumber production was down 39 million board feet, or 21.2% for the third quarter, 2008 compared to the third quarter, 2007, and down 326 million board feet, or 46.2% for the first nine months of 2008, compared to the same periods in 2007, substantially as a result of market curtailments and the permanently closed Queensboro operation.

Compared to the same periods in 2007, B.C. log production increased by 99,500 cubic metres, or 25.0%, in the third quarter of 2008 and 197,200 cubic metres, or 14.1%, in the first nine months of 2008, with a substantial portion harvested through heli-logging which resulted in higher logging costs. Export taxes totalled \$1.0 million for the third quarter, 2008, compared to \$1.8 million for the third quarter, 2007 and \$3.1 million for the first nine months of 2008, compared to \$7.9 million for the first nine months of 2007. These declines were due to a drop of 18 million board feet in shipments to the U.S. for the third quarter, 2008, and 97 million board feet for the first nine months of 2008 compared to the same periods of the previous year. The Canada/U.S. lumber export tax remained at 15% through the first nine months of 2008.

Selling and administrative costs for the third quarter of 2008 remained constant compared to the third quarter of 2007, as did the costs for the first nine months of 2008 compared to the same period of 2007. The Company recorded long term incentive compensation ("LTIC") recovery of \$0.7 million for the third quarter of 2008, reflecting a decline in the Company's share price over the period, as compared to a recovery of \$4.2 million for the third quarter of 2007. For the first nine months of 2008, a year-to-date decline in the share price resulted in an LTIC recovery of \$1.1 million, compared to an expense of \$0.5 million for the first nine months of 2007.

Amortization and depletion expense for the third quarter of 2008 was similar to the same quarter of 2007 as both periods experienced mill curtailments – 2008 due to severe market conditions and 2007 due to USW strike action. Amortization and depletion expense were down \$6.5 million, or 16.3% for the first nine months of 2008, compared to the same period of 2007, primarily as a result of lower operating rates for the mills and the permanent shutdown of the Queensboro sawmill.

Restructuring costs totalled \$1.3 million in the third quarter of 2008, compared to no restructuring costs recorded in the third quarter of 2007. In light of the drastic decline in lumber prices, the old Adams Lake sawmill was indefinitely curtailed and an

impairment charge was taken on the remaining assets.

Restructuring costs for the first nine months of 2008 total \$36.5 million, compared to \$1.6 million for the same period of 2007. The permanent closure of the Queensboro sawmill located in New Westminster, B.C., following more than a year of continuous curtailment, resulted in severance costs of \$3.9 million, site remediation costs of \$1.0 million and a write-down of \$29.8 million to adjust the carrying value of plant and equipment at the site to expected recovery amounts for total restructuring expense related to Queensboro of \$34.7 million. Equipment at the site is in process of being redeployed to other Company sites or sold. The site is being actively cleared, with all equipment and buildings to be removed or demolished by early in 2009.

The Queensboro site is being actively marketed by Cushman & Wakefield LePage, and proceeds are expected to more than offset the writedown taken for the permanent closure. The Queensboro assets have been classified as held for sale on the Balance Sheet as the expectation is that the property will sell shortly after the site has been cleared.

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

For the third quarter of 2008, net interest expense was \$1.5 million, compared to the net interest income of \$0.2 million in the same quarter of 2007. For the first nine months of 2008, net interest expense was \$2.7 million, compared to the net interest income of \$1.5 million for the corresponding period in 2007. Investment of significant cash balances retained from the U.S. duty refunds received in late 2006, generated interest income in the first three quarters of 2007. These cash balances have since been drawn down and in 2008 the Company had net borrowings of \$95.1 million on its Revolving Line as it financed the P&T and Portac asset acquisitions and construction of the new Adams Lake sawmill. Other foreign exchange gains were negligible for the three months ended September 30, 2008 and for the first nine months of 2008. This compares to a loss of \$0.6 million for the third quarter of 2007, and a loss for the first nine months of 2007 of \$7.1 million, which arose from the impact of the stronger CAD\$ on \$U.S. cash balances held after receipt of the U.S. duty refund.

The Company reported \$0.6 million in Other income from the disposal of a timber licence and surplus property, plant and equipment for the third quarter of 2008 compared to \$0.5 million generated from the disposal of surplus property, plant and equipment and \$1.4 million as additional compensation for timber takeback under the *Forest Revitalization Act* for the third quarter of 2007. For the first nine months of 2008, the Company reported Other income of \$1.2 million, as compared to \$5.8 million for the first nine months of 2007.

Cash Flow and Financial Position

During the third quarter the Company used \$13.9 million in cash to fund operations, after changes in working capital, compared to cash used of \$0.6 million for the third quarter of 2007, which was impacted by cash generated on the drawdown of accounts receivable due to the USW strike.

For the nine months ended September 30, 2008 the Company generated \$16.3 million cash from operations compared to cash used of \$35.2 million in the first nine months 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 \$23.3 million and, in 2008, the working capital required by the addition of the Kootenay mills, and significantly lower earnings. This was offset in part by the drawdown of accounts receivable due to the USW strike in 2007, and, in 2008, less working capital utilization due to curtailments and receipt of income tax refunds of \$13.3 million in the first nine months of 2008.

Capital expenditures for the third quarter of 2008 were \$28.3 million, excluding changes in amounts accrued, and \$63.0 million year-to-date (Quarter 3, 2007 - \$25.2 million; first nine months, 2007 - \$58.4 million). Spending in the current quarter consisted of \$17.8 million on the new Adams Lake sawmill, \$2.8 million on other high-return discretionary projects, \$0.6 million on maintenance projects, \$0.9 on land development at Queensboro to prepare the site for sale and \$6.2 million on roads. Construction of the new sawmill at Adams Lake remains on budget and on schedule for start-up in the fourth quarter of 2008.

On September 30, 2008, the Company concluded the acquisition of the Beaver sawmill, Forks planer mill and related inventories. To acquire these assets, the Company paid US\$32.2 million. See "Acquisition of Portac, Inc. Assets" below for further discussion.

At September 30, 2008, net drawings under the Revolving Line totalled \$95.1 million, including \$17.7 million utilized to fund the acquisition of the Kootenay mills (see "Acquisition of Pope and Talbot, Inc. Sawmill Assets" below), \$45.4 million to fund the new sawmill construction at Adams Lake and US\$30.2 million to fund the Beaver and Forks acquisition. At September 30, 2007 there were no drawings under this Revolving Line.

There were no shares purchased under the Company's Normal course Issuer Bid in the third quarter of 2008 or the first nine months of 2008 (Quarter 3, 2007 - 505,500 Class A shares at a cost of \$3.8 million; first nine months of 2007 - 1,220,100 Class A shares at a cost of \$9.8 million), and 12,400 Class A shares issued for \$0.1 million under the Company's share option plan (Quarter 3, 2007 - 10,000 Class A shares for negligible proceeds; first nine months of 2007 - 189,280 Class A shares for proceeds of \$0.9 million).

The Company's net debt increased to \$137.8 million or 25.4% of invested capital at September 30, 2008, as compared to a net cash balance of \$18.7 million or (4.4%) of invested capital at September 30, 2007. The increase in net debt in the third quarter of 2008 was mainly due to the acquisition of the Portac assets discussed below and the funding of the Adams Lake project. At September 30, 2008, the Company's available credit under its various operating lines and term lines totalled approximately \$78.4 million.

Selected Quarterly Financial Information

Quarterly Earnings Summary⁴

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars except share and per share amounts)							
Sales – Lumber	73.4	82.2	76.2	70.7	93.2	143.0	127.5	120.5
– Logs	28.8	25.7	30.9	35.6	30.3	33.2	19.4	32.6
– Wood chips and other by-products	8.9	7.4	5.5	7.2	10.0	17.1	16.0	12.1
– Other	0.9	2.1	1.8	1.9	2.0	2.1	1.7	9.3
Total Sales	112.0	117.4	114.4	115.4	135.5	195.4	164.6	174.5
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	(12.8)	(11.8)	(1.3)	(15.3)	(4.6)	(3.5)	(1.8)	(2.4)
Operating earnings (loss)	(14.1)	(44.8)	(3.5)	(15.7)	(4.6)	(4.9)	(2.1)	94.5
Net earnings (loss)	(8.1)	(29.4)	(1.1)	(8.9)	(1.6)	(3.4)	0.6	77.2
Net earnings (loss) per share – basic	(0.17)	(0.62)	(0.02)	(0.19)	(0.03)	(0.07)	0.01	1.60
– diluted	(0.17)	(0.62)	(0.02)	(0.19)	(0.03)	(0.07)	0.01	1.58
EBITDA ³	0.7	2.5	8.5	(4.6)	8.9	14.5	13.0	115.0
Cash flow from operations per share ¹	0.06	(0.06)	0.22	(0.06)	0.10	0.12	0.37	1.82
Shares outstanding – end of period (millions) ²	47.1	47.1	47.1	47.1	47.1	47.6	47.8	48.1
– weighted average (millions)	47.1	47.1	47.1	47.1	47.4	47.8	48.0	48.2
Adjusted EBITDA ³	0.1	1.9	8.5	(4.7)	7.2	12.6	10.8	11.5

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

2 As at October 22, 2008, 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 U.S. duty refunds, net, and other income.

4 Amounts may not add due to rounding. EBITDA and Adjusted EBITDA can be calculated from the Statements of Operations as follows:

	2008				2007			2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars)							
Net earnings (loss)	(8.1)	(29.4)	(1.1)	(8.9)	(1.6)	(3.4)	0.6	77.2
Add: Income taxes (recovery)	(5.2)	(14.6)	(2.5)	(7.1)	(1.8)	(4.5)	(0.3)	38.5
Interest expense (income)	1.5	0.8	0.4	0.2	(0.1)	(0.5)	(0.9)	0.5
Interest income on U.S. duty refund, net of special charge	-	-	-	-	-	-	-	(12.7)
Depletion and amortization	11.3	13.1	9.1	10.7	11.7	16.2	12.2	13.6
Other foreign exchange (gains) losses	-	(0.4)	0.4	0.2	0.7	5.3	1.1	(2.1)
Restructuring costs, asset write-downs and other	1.3	33.0	2.2	0.3	-	1.4	0.3	-
EBITDA	0.7	2.5	8.5	(4.6)	8.9	14.5	13.0	115.0
Deduct:								
U.S. duty refunds, net	-	-	-	-	-	-	-	96.9
Other income	0.6	0.6	-	0.2	1.7	1.9	2.2	6.6
Adjusted EBITDA	0.1	1.9	8.5	(4.7)	7.2	12.6	10.8	11.5

Volume and Price Statistics

		2008				2007			2006	
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Lumber sales	(million fbm)	132	125	113	161	196	270	244	225	
Lumber production ¹	(million fbm)	148	128	104	150	187	269	249	222	
Log sales ²	(thousand cubic metres)	372	312	399	382	315	319	207	381	
Log production ²	(thousand cubic metres)	501	679	411	373	401	626	366	616	
Average selling price – lumber ³	(\$/thousand fbm)	\$555	\$658	\$672	\$441	\$476	\$530	\$522	\$534	
Average selling price – logs ²	(\$/cubic metre)	\$70	\$79	\$75	\$91	\$95	\$101	\$91	\$85	
Average selling price – pulp chips	(\$/thousand fbm)	\$48	\$47	\$41	\$37	\$43	\$54	\$56	\$49	

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 fourth quarter of 2006 through the second quarter of 2008 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. For the second quarter of 2008, the permanent closure of the Queensboro sawmill site had a significant impact on operating results, and the acquisition of the curtailed Grand Forks and Castlegar mills and seasonal build-up of log inventories had a lesser impact.

The third quarter of 2008 started with a slight improvement in prices as North American mill curtailments in previous quarters impacted the supply of lumber. Prices declined over the quarter, and sharply in September with continuing deterioration in U.S. housing markets contributing to lower operating rates and lumber sales realizations for whitewood products. A shift in sales mix towards higher value cedar and specialty products served to lessen the impact of declining markets.

Acquisition of Pope and Talbot, Inc. Sawmill Assets

On April 30, 2008, the Company concluded the acquisition of the Castlegar, B.C. and Grand Forks, B.C. sawmills, related timber harvesting rights and other related assets from Pope and Talbot, Inc. ("P&T") for \$49.7 million, including transaction costs. At acquisition, a portion of the purchase price paid had been placed in escrow, pending final determination of the purchase adjustments and the obtaining of certain authorizations in accordance with the P&T Asset Purchase Agreement. Because the amount to be released to the Company from escrow funds could not be determined until the Company had reached an agreement with P&T, no amounts were recorded at acquisition. Any release of escrow funds to the Company would result in a decrease to the purchase price recorded.

On October 20, 2008, the Company reached an agreement with Pricewaterhouse Coopers Inc., in its capacity as the Receiver of P&T, to settle all outstanding claims. This agreement is subject to U.S. Bankruptcy Court approval. Upon receipt of Court approval, the Company will adjust the purchase price to reflect the net amount to be received from escrow funds, estimated to be US\$6.6 million. These adjustments will be reflected in the financial statements as a refinement of the purchase price allocation. There may be further refinement of fair value allocations over the fourth quarter, 2008, as final determinations of fair values of the assets acquired and liabilities assumed are made.

Acquisition of Portac, Inc. Assets

On September 30, 2008, the Company completed the acquisition of a sawmill, planer mill and inventories from Portac, Inc. ("Portac"), a subsidiary of Mitsui U.S., Inc. To acquire these assets, the Company paid US\$32.2 million, of which US\$1.5 million was funded through a deposit held in escrow, and US\$30.2 million was financed through its Revolving Line and the balance of US\$0.5 million through cash on hand.

Amounts paid in US\$ were translated to CAD\$ at the September 30, 2008 rate of CAD\$1.0642: US\$1.00. The total consideration and purchase price allocation are preliminary and subject to adjustment in accordance with the Portac Asset Purchase Agreement and further refinement of fair value allocations. The Company does not expect any significant change to the initial purchase price allocation.

The assets, which are located on the Olympic Peninsula in Washington State, have been renamed "Beaver Division" and are being operated by Interfor's U.S. subsidiary, Interfor Pacific Inc.

The Portac acquisition is in keeping with the Company's strategy of diversifying its geographic base and is an excellent fit with existing Interfor operations at Port Angeles, producing dimension products and small timbers in lengths up to 20 feet to complement Interfor's product mix and presence in the Puget Sound market. The Portac acquisition brings Interfor's production capacity in the U.S. Pacific Northwest to 615 million board feet on an annual basis.

Agreement to Purchase Kamloops Timber Tenure

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

The Company continues to await regulatory approval on this transaction, but expects it to close before the end 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' investment in Seaboard.

As the investment in Seaboard is accounted for using the equity method, the Company has recorded its \$2.4 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.

Future Accounting Policy Changes

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 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 September 30, 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 September 30, 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

The outlook for wood products demand in the U.S. is deteriorating rapidly from an already weak level as a result of turmoil in global financial markets, and its effect on credit availability for businesses and loan availability for housing. Lumber prices have collapsed in recent weeks, with limited activity.

The inventory of unsold homes in the U.S. currently represents an estimated eleven month supply, and is expected to increase in coming months due to an increase in anticipated foreclosures and reduced sales activity resulting from credit restrictions and stricter lending standards.

Concerns over the health of the global economy continue to impact currency markets, and the CAD\$ versus the US\$ has experienced a significant weakening since September 30, declining by 13 cents relative to the US\$ by mid October.

The Company's focus is on cash management, as operations curtail production as necessary to manage working capital and significantly reduce capital spending with the exception of completion of the new sawmill at Adams Lake.

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 and nine months ended September 30, 2008 and 2007 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Sales	\$ 111,953	\$ 135,560	\$ 343,731	\$ 495,618
Costs and expenses:				
Production	108,882	126,645	320,733	443,820
Selling and administration	4,309	4,203	13,313	13,139
Long term incentive compensation expense (recovery)	(720)	(4,231)	(1,081)	522
Export taxes	998	1,776	3,114	7,947
Amortization of plant and equipment	5,910	7,504	17,362	23,355
Depletion and amortization of timber, roads and other	5,419	4,232	16,207	16,757
	124,798	140,129	369,648	505,540
Operating loss before restructuring costs	(12,845)	(4,569)	(25,917)	(9,922)
Restructuring costs (note 10)	(1,269)	-	(36,518)	(1,640)
Operating loss	(14,114)	(4,569)	(62,435)	(11,562)
Interest expense on long-term debt	(1,324)	(694)	(2,542)	(2,218)
Other interest income (expense)	(156)	879	(125)	3,763
Other foreign exchange gain (loss)	34	(638)	28	(7,115)
Other income (note 9)	604	1,680	1,163	5,811
Equity in earnings of investee companies	1,625	10	2,900	377
	783	1,237	1,424	618
Loss before income taxes	(13,331)	(3,332)	(61,011)	(10,944)
Income taxes (recovery):				
Current	(5,416)	(1,980)	(12,856)	(3,605)
Future	231	200	(9,494)	(2,955)
	(5,185)	(1,780)	(22,350)	(6,560)
Net loss	\$ (8,146)	\$ (1,552)	\$ (38,661)	\$ (4,384)
Net earnings (loss) per share, basic and diluted (note 11)	\$ (0.17)	\$ (0.03)	\$ (0.82)	\$ (0.09)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Retained earnings, beginning of year, as restated (note 2(d))	\$ 170,584	\$ 183,905
Net loss	(38,661)	(4,384)
Retained earnings, end of period	\$ 131,923	\$ 179,521

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ (8,146)	\$ (1,552)	\$ (38,661)	\$ (4,384)
Items not involving cash:				
Amortization of plant and equipment	5,910	7,504	17,362	23,355
Depletion and amortization of timber, roads and other	5,419	4,232	16,207	16,757
Future income taxes (recovery)	231	200	(9,494)	(2,955)
Other assets	339	135	42	1,330
Reforestation liability	(1,161)	(344)	(3,752)	920
Other long-term liabilities	(576)	(880)	(692)	827
Share of earnings net (in excess) of cash distributions of investee company	(1,625)	(10)	(2,900)	3,992
Write-down of plant and equipment	1,243	-	30,993	-
Foreign exchange loss (gain) on translation of long term debt	1,876	(2,471)	2,551	(5,971)
Other	(627)	(1,837)	(1,249)	(6,009)
	2,883	4,977	10,407	27,862
Cash generated from (used in) operating working capital:				
Accounts receivable	4,808	24,049	6,001	14,942
Inventories	(3,531)	(7,065)	(281)	(9,656)
Prepaid expenses	(140)	(609)	(1,308)	(3,250)
Accounts payable and accrued liabilities	(12,394)	(14,635)	2,370	(32,428)
Income taxes	(5,481)	(7,294)	(854)	(32,699)
	(13,855)	(577)	16,335	(35,229)
Investing activities:				
Additions to property, plant and equipment	(20,199)	(14,847)	(45,810)	(33,293)
Additions to deferred start-up costs	-	-	-	(959)
Additions to logging roads and timber	(6,167)	(10,321)	(14,064)	(24,140)
Proceeds on disposal of property, plant, equipment, timber and roads	1,110	1,598	1,975	7,984
Acquisitions (note 5)	(34,511)	-	(83,929)	-
Deposit held in escrow for acquisition	-	-	8,943	-
Investments and other assets	(1,795)	(309)	(1,732)	(875)
	(61,562)	(23,879)	(134,617)	(51,283)
Financing activities:				
Repurchase of share capital (note 8)	-	(3,849)	-	(9,846)
Issuance of share capital (note 8)	56	43	56	892
Increase (decrease) in bank indebtedness	4,716	-	5,398	(582)
Additions to long-term debt	67,139	-	134,064	-
Repayments of long-term debt	-	-	(38,925)	-
	71,911	(3,806)	100,593	(9,536)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(44)	(70)	(106)	383
Decrease in cash and cash equivalents	(3,550)	(28,332)	(17,795)	(95,665)
Cash and cash equivalents, beginning of period	3,550	81,838	17,795	149,171
Cash and cash equivalents, end of period	\$ -	\$ 53,506	\$ -	\$ 53,506
Supplementary disclosures				
Cash interest paid (received)	\$ 1,480	\$ (185)	\$ 2,667	\$ (1,545)
Cash income taxes paid (received)	1,129	5,484	(12,207)	28,734

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

Sept. 30, 2008 and 2007 and December 31, 2007 (unaudited)

(thousands of Canadian dollars)

	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
		restated - note 2(d)	restated - note 2(d)
Assets			
Current assets:			
Cash and cash equivalents	\$ -	\$ 17,795	\$ 53,506
Deposit (note 5)	-	8,761	-
Accounts receivable	31,576	37,172	34,357
Income taxes recoverable	10,680	8,838	5,073
Inventories (note 6)	89,636	76,429	88,339
Prepaid expenses	8,595	6,267	7,186
Future income taxes	4,521	3,083	2,727
	145,008	158,345	191,188
Investments and other assets (note 2(d))	16,449	12,270	11,013
Property, plant and equipment, net of accumulated amortization	354,229	300,150	293,666
Timber and logging roads, net of accumulated depletion and amortization	96,253	55,050	54,800
Goodwill and other intangible assets	13,078	13,078	13,128
Future income taxes	12,831	7,000	5,233
Long-lived assets held for sale	13,430	3,239	3,239
	\$ 651,278	\$ 549,132	\$ 572,267
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 7(a))	\$ 5,398	\$ -	\$ -
Accounts payable and accrued liabilities	68,630	49,999	61,608
Future income taxes	-	-	3
	74,028	49,999	61,611
Reforestation liability, net of current portion	16,354	11,874	14,130
Long-term debt (note 7(b))	132,386	34,696	34,818
Other long-term liabilities	12,415	8,859	9,429
Future income taxes	11,568	13,080	11,546
Shareholders' equity:			
Share capital (note 8)			
Class A subordinate voting shares	284,500	284,444	284,444
Class B common shares	4,080	4,080	4,080
Contributed surplus	5,408	5,408	5,408
Accumulated other comprehensive income (loss)	(21,384)	(33,892)	(32,720)
Retained earnings (note 2(d))	131,923	170,584	179,521
	404,527	430,624	440,733
	\$ 651,278	\$ 549,132	\$ 572,267

Commitment and Contingencies (notes 16 and 17)

Subsequent event (note 5(a))

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder
Chairman

H.C. Kalke
Director



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and nine months ended September 30, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Net loss	\$ (8,146)	\$ (1,552)	\$ (38,661)	\$ (4,384)
Other comprehensive income (loss), net of income taxes (recovery):				
Net change in unrealized foreign currency translation gains (losses)	8,270	(11,321)	12,508	(26,359)
Other comprehensive income (loss)	8,270	(11,321)	12,508	(26,359)
Comprehensive income (loss)	\$ 124	\$ (12,873)	\$ (26,153)	\$ (30,743)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
For the nine months ended September 30, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Accumulated other comprehensive loss, beginning of year	\$ (33,892)	\$ (6,361)
Other comprehensive income (loss)	12,508	(26,359)
Accumulated other comprehensive loss, end of period	\$ (21,384)	\$ (32,720)

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, 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 audited 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 adoption on the comparative 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 nine months ended September 30, 2007:			
Retained earnings, beginning	\$ 181,477	\$ 2,428	\$ 183,905
Consolidated Balance Sheet as at September 30, 2007:			
Investments and other assets	8,585	2,428	11,013
Retained earnings, ending	177,093	2,428	179,521
Consolidated Balance Sheet as at December 31, 2007:			
Investments and other assets	9,842	2,428	12,270
Retained earnings, ending	168,156	2,428	170,584

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

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2008 and 2007 (unaudited)

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. Acquisitions:

In the second and third quarters of 2008, the Company completed two acquisitions, the details of which are more fully described in notes 5(a) and 5(b) below.

The purchase price of each of these acquisitions has been allocated on a preliminary basis to the fair value of assets acquired and related liabilities arising from the transactions, based on management's best estimates and taking into account all available information to September 30, 2008. As updated information is available, further analysis may result in a further refinement and revision to the values attributable to assets and liabilities arising on these acquisitions.

These acquisitions have been accounted for using the purchase method and the purchase price is allocated as follows:

	Kootenay acquisition (note 5(a))	Beaver and Forks acquisition (note 5(b))	Total
Net assets acquired:			
Current assets	\$ 9,253	\$ 3,611	\$ 12,864
Property, plant and equipment	23,567	30,629	54,196
Timber and logging roads	43,554	-	43,554
	76,374	34,240	110,614
Liabilities assumed:			
Current liabilities	(12,738)	-	(12,738)
Reforestation and other long-term obligations	(12,481)	-	(12,481)
Future income taxes	(1,466)	-	(1,466)
	\$ 49,689	\$ 34,240	\$ 83,929
Cash consideration funded by:			
Cash on hand	\$ 22,973	\$ 500	\$ 23,473
Deposit held in escrow	9,007	1,601	10,608
Revolving Line	17,709	32,139	49,848
	\$ 49,689	\$ 34,240	\$ 83,929

(a) Kootenay operations acquisition from Pope and Talbot, Inc.:

On November 19, 2007, the Company and Pope and Talbot, Inc. ("P&T") entered into an Asset Purchase Agreement ("P&T APA"), as amended, for the acquisition of two southern B.C. interior sawmills and their related timber tenures and one sawmill in Spearfish, South Dakota. Subsequently, the Company assigned the right to purchase the Spearfish, South Dakota sawmill to Neiman Enterprises, Inc. ("Neiman"), a company based in Wyoming. The Company paid a US\$8,800,000 interest-bearing deposit held in escrow in respect of the transaction.

On April 30, 2008, the Company concluded the acquisition of the Castlegar, B.C. and Grand Forks, B.C. ("Kootenay operations") sawmills, related timber harvesting rights and other related assets and assumption of liabilities and Neiman concluded their acquisition of the Spearfish sawmill and related assets.

To acquire these assets, the Company paid \$49,689,000, of which \$9,007,000 was funded through the deposit held in escrow, \$17,709,000 was financed through the Revolving Line, and the balance of \$22,973,000 through cash on hand. Amounts paid in US\$ were translated to CAD\$ at the April 29, 2008 rate of CAD\$1.0119 : US\$1.00.

The total consideration and purchase price allocation are preliminary and subject to adjustment in accordance with the P&T APA and further refinement of fair value allocations. A portion of the consideration paid has been placed in escrow, pending final determination of the purchase price adjustments and obtaining of certain authorizations in accordance with the P&T APA. Because the amount to be released to the Company from escrow funds could not be determined until the Company had reached an agreement with P&T, no amounts were recorded at acquisition. Any release of escrow funds to the Company would result in a decrease to the purchase price recorded.

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, 2008 and 2007 (unaudited)

5. Acquisitions (continued):

(a) Kootenay operations acquisition from Pope and Talbot, Inc. (continued):

On October 20, 2008, the Company reached an agreement with Pricewaterhouse Coopers Inc., in its capacity as the Receiver of P&T, to settle all outstanding claims. This agreement is subject to U.S. Bankruptcy Court approval. Upon receipt of Court approval, the Company will adjust the purchase price to reflect the net amount to be received from escrow funds, estimated to be US\$6.6 million. These adjustments will be reflected in the financial statements as a refinement of the purchase price allocation. There may be further refinement of fair value allocations over the fourth quarter, 2008, as final determinations of fair values of the assets acquired and liabilities assumed are made.

The assets acquired include manufacturing facilities, timber harvesting rights and working capital. The Company assumed certain liabilities of P&T including pension and other employee related liabilities. P&T compensated the Company for the future management of certain of these liabilities, including forestry related obligations, resulting in the transfer of portions of these liabilities to the Company at acquisition closing. Results of the operations of the acquired facilities have been included in the Statement of Operations of the Company commencing May 1, 2008.

(b) Beaver and Forks operations acquisition from Portac, Inc.:

On July 24, 2008, the Company entered into an Asset Purchase Agreement ("Portac APA") with Portac, Inc., a subsidiary of Mitsui U.S., Inc., to acquire its operations on the Olympic Peninsula in Washington State. The assets include a sawmill and planer mill and working capital. This acquisition completed on September 30, 2008.

To acquire these assets, the Company paid US\$32,179,000, of which US\$1,505,000 was funded through the deposit held in escrow, and US\$30,200,000 was financed through the Revolving Line, and the balance of US\$474,000 through cash on hand. Amounts paid in US\$ were translated to CAD\$ at the September 30, 2008 rate of CAD\$1.0642 : US\$1.00.

The total consideration and purchase price allocation are preliminary and subject to adjustment in accordance with the Portac APA and further refinement of fair value allocations, but the Company does not expect any significant change to the initial purchase price allocation.

The assets, which are located on the Olympic Peninsula in Washington State, have been renamed "Beaver Division" and are being operated by Interfor's U.S. subsidiary, Interfor Pacific Inc. Results of operations of the acquired facility will be included in the Statement of Operations of the Company commencing October 1, 2008.

6. Inventories:

	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Logs	\$ 56,321	\$ 53,631	\$ 65,325
Lumber	26,290	18,588	17,976
Other	7,025	4,210	5,038
	\$ 89,636	\$ 76,429	\$ 88,339

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, 2008 was \$18,130,000 (December 31, 2007 - \$16,019,000; September 30, 2007 - \$14,388,000).

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

(a) Bank indebtedness:

	Canadian Operating Facility	U.S. Operating Facility	Total
September 30, 2008			
Available line of credit	\$ 100,000	\$ 10,642	\$ 110,642
Maximum borrowing available	63,674	7,728	71,402
Unused portion of line	55,211	3,343	58,554
Outstanding letters of credit included in line utilization	5,160	128	5,288
September 30, 2007			
Available line of credit	\$ 40,000	\$ 9,948	\$ 49,948
Maximum borrowing available	40,000	9,948	49,948
Unused portion of line	34,707	9,829	44,536
Outstanding letters of credit included in line utilization	5,293	119	5,412

In the second quarter of 2008, the Company renewed its existing Canadian operating line of credit ("Operating Line"). The terms and conditions of this line remain unchanged except for the maximum operating credit available which was increased from \$40,000,000 to \$100,000,000 and an increase in the interest rate margins. The Operating Line matures on April 24, 2009.

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, 2008 and 2007 (unaudited)

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

(a) Bank indebtedness (continued):

The Operating Line can be drawn in CAD\$ or US\$, and 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.

In the second quarter of 2008, there was an increase to the interest rate margins in the U.S. operating line of credit ("U.S. Line") and in the third quarter, 2008, the maturity was extended to April 24, 2009. The Company has provided a parent guarantee on the line. The U.S. Line is secured by a security interest in the accounts receivable and inventories of the U.S. operating subsidiary.

(b) Long-term debt:

On April 25, 2008, the Company renewed its existing Canadian revolving term line of credit ("Revolving Line"), increasing it from \$10,000,000 to \$115,000,000. The terms and conditions of this line remain unchanged except for an increase in the interest rate margins and an extension of the maturity date to April 24, 2011. The Revolving Line can be drawn in CAD\$ or US\$ and 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.

To fund the Kootenay and Beaver acquisitions and the Adams Lake sawmill capital project, the Company utilized the Revolving Line and as at September 30, 2008, the Line was drawn by US\$30,200,000 revalued at the September 30, 2008 exchange rate to \$32,139,000, and \$63,000,000 for total drawings of \$95,139,000 (December 31, 2007 - \$nil; September 30, 2007 - \$nil).

The U.S. dollar non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (December 31, 2007 - US\$35,000,000; September 30, 2007 - US\$35,000,000) and was revalued at the quarter-end exchange rate to \$37,247,000 (December 31, 2007 - \$34,696,000; September 30, 2007 - \$34,818,000). Effective September 1, 2008, the maturity date of the Non-Revolving Line was extended to September 1, 2010. 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. The foreign exchange loss of \$2,552,000 (September 30, 2007 - \$5,593,000 gain) arising on revaluation of the Non-Revolving Line for the nine months ended September 30, 2008 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 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 as follows:

2009	\$	-
2010		37,247
2011		95,139
2012		-
2013		-
	\$	132,386

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 Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Acquisitions under normal course issuer bid				
Number of shares purchased and cancelled	-	505,500	-	1,220,100
Cost	-	\$ 3,849	\$ -	\$ 9,846
Excess of cost of shares over assigned value charged to contributed surplus	-	729	-	2,312
Shares issued on exercise of options				
Number of shares	12,400	10,000	12,400	189,280
Proceeds	\$ 56	\$ 43	\$ 56	\$ 892

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, 2008 and 2007 (unaudited)

9. Other income:

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Gain on disposal of surplus plant and equipment, timber, and other	\$ 627	\$ 478	\$ 663	\$ 4,650
Gain on settlement of timber takeback	-	1,350	531	1,350
Other (expense)	(23)	(148)	(31)	(189)
	\$ 604	\$ 1,680	\$ 1,163	\$ 5,811

In the first quarter of 2008, the Company disposed of surplus equipment, generating a gain of \$28,000. 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 additional sales of surplus equipment generated a gain of \$595,000 and sales proceeds of \$837,000. Additional surplus equipment, and a timber licence were sold in the third quarter, 2008, for sales proceeds of \$1,110,000 and a gain of \$627,000.

In the first, second and third quarters 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 \$6,625,000 and a gain of \$4,650,000. Under the terms of the *Forest Revitalization Act*, the company received \$1,350,000 in additional compensation for lost infrastructure and road construction costs resulting from the 2003 legislated takeback of certain logging rights on the B.C. Coast, recorded as proceeds on the disposal of roads in the third quarter of 2007.

10. Restructuring costs and write-downs of plant and equipment:

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 months Sept. 30, 2008	9 months Sept. 30, 2007
Plant and equipment write-downs	\$ 1,243	\$ -	\$ 30,993	\$ -
Severance and other restructuring costs	26	-	4,499	1,263
Other	-	-	1,026	377
	\$ 1,269	\$ -	\$ 36,518	\$ 1,640

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 voluntary and permanent shutdown severance and remediation costs totalling \$3,259,000 were recorded, together with an impairment charge of \$29,750,000 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.

During the second quarter of 2007, the Company recorded net severance costs of \$1,013,000, bringing total severance costs to \$1,263,000 for the nine months ended September 30, 2007. In addition, the Company recorded \$377,000 for logging phase contractor buyouts and other restructuring.

11. Net earnings (loss) per share:

	3 Months Sept. 30, 2008			3 Months Sept. 30, 2007		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ (8,146)	47,109	\$ (0.17)	\$ (1,552)	47,415	\$ (0.03)
Share options	-	121*	-	-	817*	-
Diluted earnings (loss) per share	\$ (8,146)	47,109	\$ (0.17)	\$ (1,552)	47,415	\$ (0.03)
	9 Months Sept. 30, 2008			9 Months Sept. 30, 2007		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	\$ (38,661)	47,106	\$ (0.82)	\$ (4,384)	47,734	\$ (0.09)
Share options	-	183*	-	-	780*	-
Diluted earnings (loss) per share	\$ (38,661)	47,106	\$ (0.82)	\$ (4,384)	47,734	\$ (0.09)

*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.

INTERNATIONAL FOREST PRODUCTS LIMITED

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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.

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

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Canada	\$ 44,131	\$ 47,163	\$ 136,484	\$ 169,323
United States	40,191	64,540	121,944	225,558
Japan	8,641	14,920	28,198	47,557
Other export	18,990	8,937	57,105	53,180
	\$ 111,953	\$ 135,560	\$ 343,731	\$ 495,618

Sales by product line are as follows:

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Lumber	\$ 73,404	\$ 93,225	\$ 231,875	\$ 363,714
Logs	28,754	30,345	85,309	82,954
Wood chips and other by products	8,852	9,993	21,741	43,091
Other	943	1,997	4,806	5,859
	\$ 111,953	\$ 135,560	\$ 343,731	\$ 495,618

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

	Sept. 30, 2008	Dec. 31, 2007	Sept. 30, 2007
Canada		\$ 301,937	\$ 225,463
United States		175,053	139,370
	\$ 476,990	\$ 371,517	\$ 364,833

13. Employee future benefits:

The total benefits cost under its various pension plans, including those acquired through the P&T acquisition, are as follows:

	3 Months Sept. 30, 2008	3 Months Sept. 30, 2007	9 Months Sept. 30, 2008	9 Months Sept. 30, 2007
Defined contribution plan	\$ 316	\$ 419	\$ 987	\$ 1,176
Defined benefit plan	43	152	94	360
Unionized employees' pension plan	440	138	1,243	1,316
U.S. employees benefit plan	120	140	357	461
Senior management supplementary pension plan	125	106	375	313
Total pension expense	\$ 1,044	\$ 955	\$ 3,056	\$ 3,626

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.

INTERNATIONAL FOREST PRODUCTS LIMITED

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15. Financial instruments:

(a) Fair value of financial instruments:

At September 30, 2008, the fair value of the Company's long-term debt approximated its carrying value of \$132,386,000 (September 30, 2007 - \$34,818,000) 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 or due to the financial instruments being carried at fair value.

(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 September 30, 2008, the Company has outstanding obligations to buy US\$15,000,000 at an average rate of US\$1.03535 to CAD\$1.00 and sell a maximum of US\$4,500,000 at an average rate of US\$1.0596 to CAD\$1.00 and sell Japanese ¥70,000,000 at an average rate of ¥103.18 to the CAD\$1.00. All foreign currency gains or losses to September 30, 2008 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts of \$418,000 has been recorded in accounts receivable.

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 \$2,465,000 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 September 30, 2008, there were no trade accounts receivable past due which were considered uncollectible (September 30, 2007 - \$nil), and no reserve in respect of doubtful accounts was set up (September 30, 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

In the third quarter of 2008, the Company provided a parent guarantee on the U.S. Line utilized by its U.S. operating subsidiary. This is in compliance with the Company's policy to provide financial guarantees only with respect to wholly-owned subsidiary companies.

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15. Financial instruments:

(c) Financial risk management (continued):

(i) Credit risk (continued):

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.

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

	Sept. 30, 2008
Canada	\$ 16,800
United States	9,640
Japan	1,448
Other	3,688
	<u>\$ 31,576</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 September 30, 2008, the Company has US\$ drawings under its Revolving Line of US\$30,200,000 (September 30, 2007 - \$US nil). The US\$ drawings under this Line have been designated as a hedge against the investment in the Company's self-sustaining U.S. operations.

At September 30, 2008, the Non-Revolving Line remains fully drawn at US\$35,000,000 (September 30, 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 September 30, 2008, the Company's accounts receivable were denominated in the following currencies:

	CAD	USD	Japanese ¥	Euro €
Accounts receivable	16,502	5,570	51,278	-
Accounts receivable held by self-sustaining foreign subsidiaries	-	5,361	-	-
	<u>16,502</u>	<u>10,931</u>	<u>51,278</u>	<u>-</u>

As at September 30, 2008, the Company held cash and cash equivalents of US\$1,026,000, offset by bank indebtedness of CAD\$3,302,000. Bank indebtedness of self-sustaining and other foreign subsidiaries totalled US\$2,429,000.

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.

16. Commitments and contingencies:

(a) Contractual obligations for Adams Lake sawmill construction:

The Company has undertaken commitments under various contracts totalling \$21,641,000 as at September 30, 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.

(c) Contingency

The P&T assets acquired may have pipe insulation and board in the kiln decks that contain asbestos. There are no plans to disturb or remove this material and the Company is unable to determine the amount of asbestos that may be present. As such, there is insufficient information to apply expected present value techniques to these conditional asset retirement obligations and no liability has been recorded.

17. Purchase agreement:

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

18. Future Accounting Changes:

(a) International Financial Reporting Standards

The CICA has announced that it 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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