



International Forest Products Limited

First Quarter Report

For the three months ended March 31, 2006

Management Discussion and Analysis

Dated as of April 25, 2006 except “CANADA – U.S. SOFTWOOD LUMBER DISPUTE” below which is dated as of April 27, 2006.

This Management Discussion and Analysis (“MD&A”) provides a review of Interfor’s financial performance for the three months ended March 31, 2006 relative to 2005, 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, 2006 and 2005 and Interfor’s Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2005 and 2004 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 the MD&A reference is made to EBITDA and EBITDA excluding Other Income. EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of property, plant and equipment. EBITDA excluding Other Income represents EBITDA less other income. The Company discloses EBITDA as it is a measure used by analysts and Interfor’s management to evaluate the Company’s performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company’s performance.

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.

OPERATING RESULTS

Interfor recorded net earnings of \$8.7 million or \$0.18 per share in the 1st Quarter of 2006 compared to net earnings of \$10.9 million or \$0.22 per share in the 1st Quarter of 2005. EBITDA excluding Other Income was \$19.7 million in the 1st Quarter of 2006 compared to \$21.2 million in the 1st Quarter of 2005.

Although the average prices of the Company’s products (as shown in the table “Volume and Price Statistics” below) were lower than in the 1st Quarter of 2005, higher lumber production and sales volumes combined with lower conversion costs and log costs contributed to improved operating earnings. The Queensboro sawmill, which had been curtailed late in 2005, resumed operation on January 17, 2006 with improved results, making a small positive contribution to operating earnings since that date. Operating earnings included a \$2.1 million recovery of prior years’ stumpage payments discussed below.

Lumber shipments totalled 328 million board feet in the 1st Quarter of 2006 compared to 256 million board feet in the 1st Quarter of 2005. The increase in 2006 reflects the addition of the Molalla mill (acquired May 31, 2005) and increased shipments from the Queensboro mill which was rebuilt in the 1st Quarter of 2005. Log production in the Company’s B.C. operations was 391,000 cubic metres in the 1st Quarter of 2006 compared to 447,000 cubic metres in the 1st Quarter of 2005. The reduction in log production was largely due to winter weather related shutdowns on the B.C. Coast.

Sales revenue was \$213.6 million in the 1st Quarter of 2006. Sales revenue was \$192.9 million in the corresponding period of 2005. Declines in average unit selling prices of lumber, logs and pulp chips were more than offset by the significantly higher lumber sales volumes referred to above.

During the 1st Quarter of 2006 Interfor paid \$5.2 million (\$3.4 million after tax or \$0.07 per share) in deposits for countervailing duty (“CVD”) and antidumping duty (“ADD”) on shipments of 107 million board feet from Canada to the U.S. In the 1st Quarter of 2005 duties totalled \$6.9 million (\$4.5 million after tax or \$0.09 per share). At the end of the 1st Quarter of 2006, Interfor had paid total deposits of US\$96.7 million (CAD\$113.0 million utilizing March 31, 2006 exchange rates) since the deposit requirement came into effect in May 2002.

Long-term incentive compensation costs in the 1st Quarter of 2006 were \$0.8 million compared to \$1.7 million in the 1st Quarter of 2005. The accruals for long-term incentive compensation are amortized over the vesting period of the awards and are based on the quoted value of the Company’s shares. \$0.7 million of the expense in the 1st Quarter of 2005 related to the first Total Shareholder Return Plan (described in note 10(d) to the Company’s Consolidated Financial Statements for the years ended December 31, 2005 and 2004) which terminated December 31, 2005.

On February 10, 2006 the Company won a court decision related to stumpage assessments from late 2000 and early 2001. The stumpage recovery of \$2.1 million was recorded as a reduction of production costs in the 1st Quarter of 2006. Interest on the award of \$0.3 million was recorded as other income.

In the 1st Quarter of 2006 the Company recorded restructuring cost recoveries, net of severance costs, of \$0.4 million as severances expensed in the current and prior periods were reimbursed by the B.C. Forestry Revitalization Trust.

Equity earnings from Seaboard Shipping Company Limited (“Seaboard”) declined to \$0.8 million in the 1st Quarter of 2006 due to reduced

earnings by Seaboard and lower lumber shipments to overseas markets by Interfor.

On March 31, 2006, the Company completed the sale of the previously closed Marysville sawmill for proceeds of \$2.5 million. The gain of \$0.9 million is included in Other Income for the 1st Quarter of 2006. In addition, Interfor disposed of other surplus property, plant and equipment in the 1st Quarter of 2006. The following table shows the components of other income for 2006 and 2005:

	3 Months Mar. 31, 2006	3 Months Mar. 31, 2005
	(millions of dollars)	
Gain on disposal of surplus property, plant and equipment	\$ 2.5	\$ 0.5
Gain on settlement of timber takeback	-	6.4
Other	0.5	-
	\$ 3.0	\$ 6.9

SELECTED QUARTERLY FINANCIAL INFORMATION

	2006 <u>Qtr 1</u>	2005 <u>Qtr 4</u>	2005 <u>Qtr 3</u>	2005 <u>Qtr 2</u>	2005 <u>Qtr 1</u>	2004 <u>Qtr 4</u>	2004 <u>Qtr 3</u>	2004 <u>Qtr 2</u>
	(millions of dollars except share and per share amounts)							
Sales - Lumber	177.7	171.3	166.2	161.8	162.1	165.6	181.0	152.0
- Logs	14.6	23.3	26.7	30.4	17.3	29.2	37.6	37.4
- Wood chips and other by-products	9.1	8.6	9.0	8.3	8.2	9.4	11.1	9.7
- Other	12.2	11.5	12.3	12.9	5.3	8.5	9.3	12.5
Total Sales	213.6	214.7	214.2	213.4	192.9	212.7	239.0	211.6
Operating earnings (loss) before restructuring costs and asset write-downs	8.5	(0.6)	(2.8)	6.6	7.1	-	12.5	12.9
Operating earnings (loss)	8.9	(14.7)	(4.0)	(19.9)	7.1	(5.3)	(7.7)	12.9
Net earnings (loss)	8.7	(4.9)	4.7	9.0	10.9	15.2	(3.1)	11.6
Net earnings (loss) per share – basic and diluted	0.18	(0.10)	0.10	0.18	0.22	0.31	(0.06)	0.24
EBITDA ³	22.7	19.7	23.6	44.9	28.1	33.7	31.2	31.7
EBITDA excluding Other Income	19.7	16.3	13.8	23.5	21.2	15.0	31.2	30.1
Cash flow from operations ¹ per share	0.38	0.03	0.17	0.43	0.36	0.19	0.44	0.54
Shares outstanding – end of period (millions) ²	48.7	48.7	48.7	48.7	48.7	48.6	48.4	48.4
– weighted average (millions)	48.7	48.7	48.7	48.7	48.7	48.5	48.4	48.4

1 Cash generated from operations before considering changes in operating working capital.

2 As at April 25, 2006 the number of shares outstanding by class are: Class A Subordinate Voting shares – 47,692,876, Class B Common shares – 1,015,779, Total – 48,708,655.

3 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of plant and equipment. 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. EBITDA and EBITDA excluding Other Income can be calculated from the statement of operations as follows:

Net earnings (loss)	8.7	(4.9)	4.7	9.0	10.9	15.2	(3.1)	11.6
Add: Income taxes (recovery)	3.0	(6.3)	0.7	(6.5)	4.9	(1.4)	(2.5)	4.6
Interest expense	1.0	1.3	1.3	1.0	1.0	1.3	1.0	0.4
Depletion and amortization	10.4	15.5	15.8	14.9	11.3	13.3	15.7	15.1
Restructuring costs, asset write-downs and other	(0.4)	14.1	1.1	26.5	-	5.3	20.1	-
EBITDA	22.7	19.7	23.6	44.9	28.1	33.7	31.2	31.7
Deduct: Other income	(3.0)	(3.4)	(9.8)	(21.4)	(6.9)	(18.7)	-	(1.6)
EBITDA excluding Other Income	19.7	16.3	13.8	23.5	21.2	15.0	31.2	30.1

	2006 <u>Qtr 1</u>	2005 <u>Qtr 4</u>	2005 <u>Qtr 3</u>	2005 <u>Qtr 2</u>	2005 <u>Qtr 1</u>	2004 <u>Qtr 4</u>	2004 <u>Qtr 3</u>	2004 <u>Qtr 2</u>
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Volume and Price Statistics

Lumber sales	(million fbm)	328	333	308	263	256	272	238	195
Lumber production ¹	(million fbm)	325	316	308	266	253	246	247	204
Log Sales ²	(thousand cubic metres)	178	323	363	379	184	350	438	457
Log production (B.C. operations)	(thousand cubic metres)	391	634	712	765	447	573	891	924
Average price – lumber ³	(\$/thousand fbm)	\$540	\$514	\$539	\$615	\$633	\$609	\$759	\$780
Average price – logs ²	(\$/cubic metre)	\$81	\$71	\$73	\$80	\$84	\$79	\$86	\$82
Average price – pulp chips	(\$/thousand fbm)	\$25	\$24	\$25	\$27	\$29	\$33	\$40	\$40

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

2 B.C. coastal operations

3 Gross sales before countervailing and antidumping duties

Quarterly trends normally reflect seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Sawmill operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall. The significant increase in earnings in the fourth quarter of 2004 was largely due to an increase in Other Income, consisting of gains on surplus property sales and a break fee earned on the attempted acquisition of Riverside Forest Products Limited. The declines in operating earnings and net earnings in the last two quarters of 2005 was largely a result of declines in product selling prices and the continued strengthening of the Canadian dollar against the U.S. dollar.

CASH FLOW AND FINANCIAL POSITION

During the 1st Quarter of 2006 Interfor generated \$18.7 million (1st Quarter of 2005 - \$17.3 million) in cash from operations before changes in working capital, and \$15.4 million (1st Quarter of 2005 - \$18.3 million) after changes in working capital were considered. Cash generated from working capital in the 1st Quarter of 2006 included \$6.9 million from inventory. This reduction reflects lower log inventory volumes related to the winter weather curtailments on the B.C. Coast referred to above under "OPERATING RESULTS". Cash used in working capital in the 1st Quarter of 2006 included \$3.7 million related to increased accounts receivable balances and \$5.2 million from reduced accounts payable balances.

Capital spending in the 1st Quarter of 2006 amounted to \$15.9 million (1st Quarter of 2005 - \$23.9 million) including \$3.0 million in roads, \$3.6 million in maintenance capital, \$8.3 million in high return discretionary projects and \$1.0 million in land development costs. Proceeds from disposals of property, plant and equipment in the 1st Quarter of 2006 totalled \$5.0 million and included \$2.2 million from the sale of surplus properties near Squamish, B.C. and \$2.5 million from the sale of the Marysville, Washington sawmill site. In the 1st Quarter of 2005, Interfor received \$22.1 million in compensation for the loss of logging rights on the B.C. Coast, of which \$1.3 million was recorded as a recovery of production costs and the balance of \$20.8 million as proceeds.

On January 3, 2006, the Seaboard Limited Partnership declared an income distribution to its partners. Interfor's share was \$54.4 million and was paid to the Company by way of setoff against the advance and the promissory note payable to the Seaboard Limited Partnership. In the 1st Quarter of 2005 the Company received cash distributions from the Seaboard Limited Partnership of \$6.3 million.

In the 1st Quarter of 2006, the Company renewed its existing U.S. operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totalling US\$15.0 million. The line matures on March 1, 2007. In the 2nd Quarter of 2006, the Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain unchanged until April 27, 2006, with a maximum operating line of credit totalling \$75.0 million (March 31, 2005 - \$75.0 million). Effective April 27, 2006, the only changes to the line include the reduction of the maximum operating line of credit to \$60.0 million and a reduction in the interest rate premiums. The line matures on April 26, 2007.

The maximum borrowing available under the Company's Canadian revolving term line ("Revolving Line") is \$90.0 million (March 31, 2005 - \$90.0 million). As at March 31, 2006, the Revolving Line was undrawn (March 31, 2005 - US\$10.0 million revalued to CAD\$12.2 million). The Revolving Line matures on April 27, 2007. As at March 31, 2006, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35.0 million (March 31, 2005 - US\$35.0 million) and was revalued at the month-end exchange rate to CAD\$40.9 million (March 31, 2005 - CAD\$42.5 million). The Non-Revolving Line matures on September 1, 2009.

Interfor's net debt was \$23.3 million at the end of the 1st Quarter of 2006 (1st Quarter of 2005 - \$34.6 million), representing a ratio of net debt to invested capital of 5.6% compared to 8.3% at the end of the 1st Quarter of 2005, and 17.9% at December 31, 2005. At March 31, 2006, the Company's available credit under its various operating lines and term lines totalled approximately \$141.7 million.

NORMAL COURSE ISSUER BID

On November 9, 2005, the Company commenced a normal course issuer bid to acquire up to 2,384,000 Class A Subordinate Voting shares (representing approximately 5% of the outstanding Class A Subordinate Voting shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of 2% of the outstanding shares being purchased in any 30-day period. No shares were purchased under the normal course issuer bid during the 1st Quarter of 2006. The normal course issuer bid will terminate no later than November 8, 2006. A copy of the Notice of Intention to Make a Normal Course Issuer Bid is available from the Company without charge.

SALE OF HELICOPTER LOGGING OPERATION

On February 10, 2006, the Company signed an agreement to sell its helicopter logging operations, conducted by its wholly-owned subsidiary, Helifor Industries Limited, to a Canadian company associated with Columbia Helicopters Inc. of Aurora, Oregon for \$4.0 million plus an amount for working capital and additional amounts of up to \$1.5 million tied to future helicopter logging services. The transaction is subject to Government of Canada Ministry of Transport approval and is expected to close in the second quarter of 2006.

CONTRACTING OF CONVENTIONAL LOGGING OPERATIONS

In early March 2006, Interfor reached agreements to contract out the balance of its conventional logging operations. These agreements will help to create more economic logging operations in terms of size and scale, which should result in longer operating seasons and lower costs. As a result of the contracting of these operations the Company will be selling a significant amount of surplus logging equipment over the coming months.

CENTRAL AND NORTH COAST LAND USE DECISIONS

On February 7, 2006, the Government of B.C. ("Crown") announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The decisions are the outcome of negotiations over several years between the Crown, First Nations, the forest industry, environmental groups, local governments and many other stakeholders.

The land use decisions protect vast areas of temperate rain forest, while providing a unique framework for the forest industry called Ecosystem Based Management ("EBM"). These agreements set the stage for a collaborative model to fully implement EBM in these areas by 2009. The combined Central Coast and North Coast Land and Resource Management Plan areas are approximately 6.4 million hectares. The total combined protected areas for these regions are approximately 1.8 million hectares.

The Company's current AAC in the Central and North Coast region is approximately 1.2 million cubic metres and Interfor anticipates that its AAC will be reduced when the protected areas are established and EBM is fully implemented. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure. The amount and timing of any compensation as a result of these reductions is not yet determinable. The Company will record any compensation at the time the amounts to be received can be estimated.

B.C. INTERIOR STUMPAGE CHANGE

On April 6, 2006 the Crown announced a new market-based timber pricing system for the B.C. Interior, to be effective September 1, 2006. The new market-based timber pricing system will use B.C. Timber Sales auction data to set stumpage prices. It will replace the present system which uses Statistics Canada lumber and chip price indices. The Crown anticipates the new pricing system will be more responsive to market changes and will better reflect global markets and local harvesting costs.

CANADA – U.S. SOFTWOOD LUMBER DISPUTE

On November 23, 2005 Interfor was selected by the U.S. Department of Commerce ("USDOC") as a respondent under the Third ADD Administrative Review. This review is expected to be completed in late 2006 at which time Interfor will be assigned a Company-specific ADD rate for the review period May 1, 2004 to April 30, 2005. This rate will also remain effective as a deposit rate for the Company until the release of the results of the Fourth Administrative Review in late 2007.

Effective December 12, 2005, the USDOC implemented new deposit rates based on the USDOC's final rate determinations for the Second Administrative Review period (April 1, 2003 to March 31, 2004 for the CVD case; and May 1, 2003 to April 30, 2004 for the ADD case). The USDOC reduced the CVD deposit rate to 8.70% from 16.37% and reduced the all others ADD deposit rate to 2.11% from 3.78%. The ADD rate was subsequently amended by the USDOC effective January 23, 2006, reducing the rate to 2.10%. At the date of this report the Company's combined CVD and ADD deposit rate is 10.80%.

Interfor and other Canadian forest product companies, the Federal Government and Canadian provincial governments (together, "Canadian Interests") categorically deny U.S. allegations which result in the imposition of the CVD and ADD. While exploring the possibility of a negotiated settlement to the dispute, Canadian Interests continue to pursue appeals of the final CVD and ADD determinations with the appropriate courts, NAFTA panels and the World Trade Organization. As such, the actual amount of duties for softwood lumber products shipped will depend upon the outcome of these various appeals or upon a negotiated settlement.

On April 27, 2006 the federal governments of Canada and the United States reached a framework agreement to resolve the softwood lumber dispute. However, many details will need to be resolved before this agreement is ratified.

OUTLOOK

Interfor expects North American structural lumber prices to experience downward pressure in the second half of 2006, due to the cumulative impact of 2005 interest rate increases on North American housing starts and the possibility of a slowdown in the U.S. economy. The Company expects Cedar prices to remain flat or improve slightly as the impact of market promotions begin to deliver increased product demand.

In Japan, improved economic conditions and growing consumer confidence are expected to result in increased housing starts, while the yen is expected to strengthen against the US\$. While prices have improved in recent quarters, the prospect of additional supply from Europe, North America and other regions will likely keep prices at or near current levels in the months ahead.

The Company anticipates the change to the B.C. Interior stumpage formula (see "B.C. INTERIOR STUMPAGE CHANGE", above) could result in an increase in stumpage rates.

Interfor intends to operate its sawmills on a normal schedule in the 2nd Quarter. The Queensboro plant has delivered positive results since it resumed operations in mid-January and the Company will continue to make a concerted effort to resolve the remaining deficiencies and further improve performance.

Interfor will continue its initiative to streamline its B.C. Coastal operations in order to improve operating performance. The Company will also continue to address the future of a number of assets which are not capable of generating acceptable returns or do not fit the Company's long-term strategy. At the same time, Interfor will continue to look for growth opportunities in regions and products with attractive fundamentals.

FORWARD LOOKING STATEMENTS

This report contains statements that are forward-looking in nature. Such statements involve known and unknown risks and uncertainties that may cause the actual results of the Company to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign-currency exchange rates and other factors referenced herein and in the Company's annual statutory report.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations, including Interfor's Annual Statutory Information for 2005, can be found on its website at www.interfor.com and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange ("TSX") is IFP.SV.A.



William L. Sauder
Chairman



Duncan K. Davies
President and Chief Executive Officer



CONSOLIDATED STATEMENTS OF OPERATIONS
For the three months ended March 31, 2006 and 2005 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Mar. 31, 2006	3 Months Mar. 31, 2005
Sales	\$ 213,603	\$ 192,926
Costs and expenses:		
Production	183,772	160,516
Selling and administration	5,002	5,460
Long term incentive compensation	755	1,728
U.S. countervailing and antidumping duty deposits (note 10)	5,177	6,886
Amortization of plant and equipment	7,631	6,146
Depletion and amortization of timber, roads and other	2,788	5,106
	205,125	185,842
Operating earnings before restructuring costs	8,478	7,084
Restructuring costs (recoveries) (note 7)	(413)	-
Operating earnings	8,891	7,084
Interest expense on long-term debt	(762)	(764)
Other interest expense	(242)	(274)
Other income (note 6)	2,967	6,942
Equity in earnings of investee companies	844	2,832
	2,807	8,736
Earnings before income taxes	11,698	15,820
Income taxes:		
Current	633	2,085
Future	2,337	2,814
	2,970	4,899
Net earnings	\$ 8,728	\$ 10,921
Net earnings per share, basic and diluted (note 8)	\$ 0.18	\$ 0.22

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the three months ended March 31, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2006	3 Months Mar. 31, 2005
Retained earnings, beginning of year	\$ 85,943	\$ 66,218
Net earnings	8,728	10,921
Retained earnings, end of period	\$ 94,671	\$ 77,139

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)	3 Months Mar. 31, 2006	3 Months Mar. 31, 2005
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 8,728	\$ 10,921
Items not involving cash:		
Amortization of plant and equipment	7,631	6,146
Depletion and amortization of timber, roads and other	2,788	5,106
Future income taxes	2,337	2,814
Reforestation liability	1,219	973
Other long-term liabilities	(648)	(1,159)
Equity in earnings of investee companies	(844)	(2,832)
Writedown of property, plant, equipment and timber	-	2,283
Other	(2,525)	(6,942)
	18,686	17,310
Cash generated from (used in) operating working capital:		
Accounts receivable	(3,674)	2,503
Inventories	6,919	(1,066)
Prepaid expenses	(1,685)	1,900
Accounts payable and accrued liabilities	(5,186)	(4,308)
Income taxes	308	1,945
	15,368	18,284
Investing activities:		
Additions to property, plant and equipment	(12,931)	(18,910)
Additions to logging roads and timber	(2,995)	(5,001)
Proceeds on disposal of property, plant, equipment, timber and roads	5,015	21,960
Investments and other assets	1,821	5,805
	(9,090)	3,854
Financing activities:		
Issuance of share capital	140	153
Increase in bank indebtedness	2,019	-
Repayments of long-term debt	-	(20,514)
	2,159	(20,361)
Foreign exchange gain on cash and cash equivalents held in a foreign currency:	127	74
Increase in cash	8,564	1,851
Cash on deposit, beginning of period	19,061	18,259
Cash on deposit, end of period	\$ 27,625	\$ 20,110
Supplementary disclosures (see also note 3)		
Cash interest paid	\$ 1,004	\$ 1,038
Cash income taxes paid	325	144

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

March 31, 2006 and 2005 (unaudited) and December 31, 2005 (audited)

(thousands of Canadian dollars)

	Mar. 31, 2006	Dec. 31, 2005	Mar. 31, 2005
Assets			
Current assets:			
Cash	\$ 27,625	\$ 19,061	\$ 20,110
Accounts receivable (note 12(c))	41,585	37,911	39,725
Income taxes recoverable	317	625	-
Inventories	96,041	102,960	109,829
Prepaid expenses	8,124	6,439	8,331
Future income taxes	5,618	6,659	5,329
	179,310	173,655	183,324
Investments and other assets (note 3)	7,067	62,747	44,453
Property, plant and equipment, net of accumulated amortization	292,395	289,227	248,392
Timber and logging roads, net of accumulated depletion and amortization	52,898	52,375	65,798
Goodwill and other intangible assets	15,694	15,694	14,011
Future income taxes	2,468	3,980	-
	\$ 549,832	\$ 597,678	\$ 555,978
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 4(a))	\$ 10,072	\$ 8,053	\$ -
Accounts payable and accrued liabilities	77,499	82,685	81,494
Income taxes payable	-	-	2,520
Promissory note payable to investee company (note 3)	-	54,354	-
Future income taxes payable	155	351	-
	87,726	145,443	84,014
Reforestation liability, net of current portion	16,461	15,242	17,955
Long-term debt (note 4(b))	40,880	40,705	54,680
Other long-term liabilities	5,735	6,667	8,539
Future income taxes	2,934	3,100	7,201
Shareholders' equity:			
Share capital			
Class A subordinate voting shares	294,823	294,683	294,734
Class B common shares	4,080	4,080	4,080
Contributed surplus	8,186	8,186	8,201
Cumulative translation adjustment	(5,664)	(6,371)	(565)
Retained earnings	94,671	85,943	77,139
	396,096	386,521	383,589
	\$ 549,832	\$ 597,678	\$ 555,978

Contingencies (note 10)

Subsequent event (note 4(a))

See accompanying notes to consolidated financial statements

On behalf of the Board:

W. L. Sauder
Director

J. A. Milroy
Director

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements
(Tabular amounts expressed in thousands except per share amounts)
Three months ended March 31, 2006 and 2005 (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, 2005.

2. Seasonality of operating results:

The Company operates in the solid wood business which includes logging and manufacturing operations. Logging activities vary throughout the year due to a number of factors including weather, ground and fire season conditions. Generally, the Company operates its logging divisions in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Manufacturing operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations and from third party suppliers. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall.

3. Payable to investee company:

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

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

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

4. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

	Canadian Operating Facility	Mapri Developments	U.S. Operating Facility	Total
March 31, 2006				
Available line of credit	\$ 75,000	\$ 4,000	\$ 17,520	\$ 96,520
Maximum borrowing available	49,776	4,000	17,520	71,296
Unused portion of line	44,997	1,665	5,069	51,731
Outstanding letters of credit included in line utilization	4,779	-	187	4,966
March 31, 2005				
Available line of credit	\$ 75,000	\$ -	\$ 18,227	\$ 93,227
Maximum borrowing available	65,276	-	15,106	80,382
Unused portion of line	61,346	-	11,631	72,977
Outstanding letters of credit included in line utilization	3,930	-	437	4,367

In the 2nd Quarter of 2006, the Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain unchanged until April 27, 2006, with a maximum operating line of credit totalling \$75,000,000 (2005 - \$75,000,000), and subject to a borrowing base calculation dependent upon certain accounts receivable and inventories. The loan bears interest at bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances. The line of credit is secured and is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization. Effective April 27, 2006, the only changes to the line include the reduction of the maximum operating line of credit to \$60,000,000 and a reduction in the interest rate premiums. The line matures on April 26, 2007.

In the 1st Quarter of 2006, the Company renewed its existing U.S. operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totalling US\$15,000,000. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific Inc. The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1¾%. The line of credit is secured by the accounts receivables and inventories of Interfor Pacific Inc. and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The line matures on March 1, 2007.

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

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

(b) Long-term debt:

The maximum borrowing available under the Company's Canadian revolving term line ("Revolving Line") is \$90,000,000 (March 31, 2005 - \$90,000,000). As at March 31, 2006, the Revolving Line was undrawn (March 31, 2005 - US\$10,000,000 revalued to CAD\$12,151,000). The Revolving Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans and matures on April 27, 2007.

As at March 31, 2006, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (2005 - US\$35,000,000) and was revalued at the month-end exchange rate to CAD\$40,880,000 (March 31, 2005 - CAD\$42,529,000). The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans and matures on September 1, 2009.

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

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

2006	\$	-
2007		-
2008		-
2009		40,880
2010		-
	\$	40,880

6. Other income:

	3 months Mar. 31, 2006	3 months Mar. 31, 2005
Gain on disposal of Marysville sawmill	\$ 874	\$ -
Gain on settlement of timber takeback	-	6,373
Gain on disposal of surplus property, plant and equipment	1,651	569
Other income (expense)	442	-
	\$ 2,967	\$ 6,942

On March 31, 2006, the Company completed the sale of its sawmill located in Marysville, Washington. The Company recorded sale proceeds of \$2,542,000 and a gain of \$874,000.

7. Restructuring costs:

During the first quarter, the Company received recoveries of \$1,617,000 from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia, as reimbursement for severance costs of workers who were displaced by the reductions in harvesting rights taken under the *Forestry Revitalization Act*. As the associated costs had been expensed in the current and prior years as restructuring costs, the recovery served to offset additional severance costs for these workers recorded in the current period. The Company continues to pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any additional mitigation is not yet determinable and will be recorded when the amounts can be estimated.

8. Net earnings per share:

	3 months Mar. 31, 2006			3 months Mar. 31, 2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 8,728	48,680	\$ 0.18	\$ 10,921	48,655	\$ 0.22
Share options	-	626	-	-	675	-
Diluted earnings per share	\$ 8,728	49,306	\$ 0.18	\$ 10,921	49,330	\$ 0.22

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9. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company purchases and harvests logs which are then manufactured into lumber products at the Company's sawmills, or sold. Substantially all of the Company's operations are located in British Columbia, Canada and the Pacific Northwest, U.S.A.

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

	3 months Mar. 31, 2006	3 months Mar. 31, 2005
Canada	\$ 52,793	\$ 52,553
United States	128,986	91,521
Japan	15,381	27,039
Other export	16,443	21,813
	\$ 213,603	\$ 192,926

Sales by product line are as follows:

	3 months Mar. 31, 2006	3 months Mar. 31, 2005
Lumber	\$ 177,668	\$ 162,094
Logs	14,605	17,357
Wood chips and other by products	9,094	8,212
Other	12,236	5,263
	\$ 213,603	\$ 192,926

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

	Mar. 31, 2006	Mar. 31, 2005
Canada	\$ 213,121	\$ 239,418
United States	147,866	88,783
	\$ 360,987	\$ 328,201

10. Contingencies:

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

On October 5, 2005 the NAFTA Panel on CVD issued its decision on the USDOC's fourth remand determination which had resulted in a calculated CVD rate of 1.21%. In a unanimous decision for Canada, the NAFTA Panel overturned the USDOC's last decision. The USDOC was ordered to comply with the remand and on November 22, 2005 the USDOC issued a de minimis finding which should mean that the CVD duty must be revoked entirely. Both sides appealed to the NAFTA Panel (the Canadian side for a declaration that the CVD case must be terminated and all CVD deposits refunded). On March 17, 2006 the NAFTA Panel unanimously affirmed the USDOC de minimis subsidy finding, but declined to rule on whether the CVD order should be revoked retroactively or only prospectively until the USDOC rules on the issue. The NAFTA Panel decision can be appealed to an Extraordinary Challenge Committee. The deadline for making an Extraordinary Challenge is April 27, 2006.

Effective December 12, 2005, the USDOC implemented new deposit rates based on its second Administrative review period (April 1, 2003 to March 31, 2004 for the CVD case; and May 1, 2003 to April 30, 2004 for the ADD case) and reduced the CVD deposit rate to 8.70% and the all others ADD rate to 2.11%. Effective January 23, 2006, the USDOC further amended the ADD rate to 2.10%, reducing the Company's combined CVD and ADD deposit rate to 10.80%.

On November 23, 2005 Interfor was selected by the USDOC as a respondent under the Third Antidumping Duty Administrative Review. This review is expected to be completed in late 2006 at which time Interfor will be assigned a Company-specific ADD rate for the review period May 1, 2004 to April 30, 2005. This rate will also remain effective as a deposit rate for the Company until the release of the results of the Fourth Administrative Review in late 2007.

The Company has expensed \$5,177,000 (2005 - \$6,886,000) in duties for the three months ended March 31, 2006. The Company has paid US\$96,748,000 in cash deposits since May 22, 2002. These total U.S. deposits translated at the March 31, 2006 exchange rate equate to \$113,002,000.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") categorically deny the U.S. allegations and strongly disagree with the final CVD and ADD determinations made by the USITC and USDOC. Canadian Interests continue to pursue appeals of the final CVD and ADD determinations with the appropriate courts, NAFTA panels and the World Trade Organization ("WTO").

The final amount of CVD and ADD duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on appeals of the final determinations to any reviewing courts, NAFTA or WTO panels. Notwithstanding the final rates established in the investigations, the final liability for the assessment of CVD and ADD duties will not be determined until each annual administrative review process is complete, including appeals. The Company has not recorded any receivable for prior periods related to the change in the cash deposit rate applicable to new shipments.

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11. 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, 2006	3 months Mar. 31, 2005
Defined contribution plan	\$ 474	\$ 480
Defined benefit plan	126	146
Unionized employees' pension plan	1,022	1,108
U.S. employees benefit plan	184	143
Senior management supplementary pension plan	90	78
Total pension expense	\$ 1,896	\$ 1,955

12. Financial instruments:

(a) Fair value of financial instruments:

At March 31, 2006, the fair value of the Company's long-term debt approximated its carrying value of \$40,880,000 (March 31, 2005 - \$54,680,000) as the majority of 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.

(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, 2006, the Company has outstanding obligations to sell a maximum of US\$16,000,000 at an average rate of CAD\$1.1595 and Japanese ¥260,000,000 at an average rate of ¥99.97 to the CAD\$1.00 during 2006. All foreign currency gains or losses to March 31, 2006 have been recognized in the statement of operations.

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

(c) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. In the 1st Quarter of 2006, the Company renewed this agreement and extended its termination date to March 31, 2007. At March 31, 2006, the Company received cash proceeds of \$25,000,000 (March 31, 2005 - \$25,000,000), from the sale of receivables.



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