



International Forest Products Limited

Second Quarter Report

For the three and six months ended June 30, 2005



Management Discussion and Analysis

Dated as of July 27, 2005

This Management Discussion and Analysis (“MD&A”) provides a review of Interfor’s financial performance for the three and six months ended June 30, 2005 relative to 2004, 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 six months ended June 30, 2005 and Interfor’s Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2004 and 2003 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.

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.

OPERATING RESULTS

Interfor recorded net earnings of \$9.0 million or \$0.18 per share in the 2nd Quarter of 2005 and net earnings of \$19.9 million or \$0.41 per share for the six months ended June 30, 2005. This compares to net earnings of \$11.6 million or \$0.24 per share in the 2nd Quarter of 2004, and net earnings of \$12.5 million or \$0.26 per share for the six months ended June 30, 2004.

The 2005 results reflect reductions in earnings from the Company’s B.C. Coast and Interior operations compared to both the 2nd Quarter and 1st Half of 2004. The Company’s U.S. operations, which were acquired in September 2004, have made a strong contribution to results in 2005. The Molalla sawmill, which was acquired at the end of May 2005 (see “ACQUISITION OF ASSETS OF FLORAGON FOREST PRODUCTS MOLALLA INC.” below), also made a strong contribution in the month since acquisition.

Lumber shipments totalled 263 and 519 million board feet in the 2nd Quarter and 1st Half of 2005 respectively compared to 195 and 384 million board feet in the 2nd Quarter and 1st Half of 2004. The increases in 2005 reflect higher production from the B.C. Interior operation as well as the addition of the Company’s U.S. sawmills, which were acquired in September 2004 and May 2005. B.C. Coastal operations lumber shipments were significantly lower in the 2nd Quarter and 1st Half of 2005 than in the corresponding periods in 2004 as a result of the continued curtailment of the Field sawmill and the rebuild of the Queensboro sawmill. Log production in the Company’s B.C. operations was 765,000m³ and 1,213,000m³ in the 2nd Quarter and 1st Half of 2005 compared to 924,000m³ in the 2nd Quarter and 1,500,000m³ in the 1st Half of 2004. The bulk of the reduction in harvest was in the B.C. Coastal operations and was a result of lower consumption in the Company’s sawmills and reduced prices for logs.

Sales revenue was \$213.4 million in the 2nd Quarter and \$406.3 million in the 1st Half of 2005. Sales revenue was \$211.6 million and \$381.8 million in the corresponding periods of 2004. Declines in average unit selling prices of lumber, logs and pulp chips were offset by the significantly higher lumber sales volumes referred to above.

Long-term incentive compensation costs in the 2nd Quarter of 2005 were \$1.4 million lower than the 2nd Quarter of 2004. The reduction was due to a reversal of accruals for long-term incentive compensation based on the value of the Company’s shares. Interfor’s shares declined from a closing value of \$7.20 per share on March 31, 2005 to \$6.63 per share on June 30, 2005.

EBITDA excluding Other Income was \$23.5 million in the 2nd Quarter and \$44.6 million in the 1st Half of 2005 compared to \$30.1 million in the 2nd Quarter and \$41.8 million in the 1st Half of 2004.

During the 2nd Quarter Interfor paid \$8.0 million (\$5.1 million after tax or \$0.10 per share) in deposits for countervailing and antidumping duties on shipments of 80 million board feet from Canada to the U.S. In the 1st Quarter Interfor paid \$6.9 million (\$4.4 million after tax or \$0.09 per share) in duty deposits, while in the 2nd Quarter of 2004 duties totalled \$10.2 million (\$6.5 million after tax or \$0.13 per share). At the end of the 2nd Quarter of 2005, Interfor had paid total deposits of US\$79.3 million (CAD\$97.2 million utilizing June 30, 2005 exchange rates) since the deposit requirement came into effect in May 2002.

In keeping with its focus on its core manufacturing businesses, the Company continued its program of rationalizing operations to improve its competitive cost structure and announced that it was selling certain assets that it considers to be non-core. In conducting its review, the Company determined that the carrying values of the Field sawmill in Courtenay, B.C. and certain other coastal assets exceeded their fair values and consequently has recorded property, plant and equipment write-downs of \$28.0 million. The Company also received \$1.5 million from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia, as reimbursement for the severance costs of workers who were displaced by the reductions in harvesting rights taken under the Forestry Revitalization Act. The associated costs had been expensed in prior periods. 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 received. As a result of these activities Interfor recorded restructuring costs and capital asset write-downs of \$26.5 million in the 2nd Quarter of 2005.

Other Income for the 2nd Quarter of 2005 included a gain of \$19.5 million after-tax related to the sale by Seaboard Shipping Company Limited ("Seaboard") of its 50% interest in Western Stevedoring Company Limited. The Company has recorded this portion of its equity income in Other Income due to the one-time nature of the transaction. Interfor received proceeds from this transaction of \$27.8 million by way of a short-term, interest free loan from Seaboard. A cash distribution from Seaboard scheduled for early 2006 will be used to repay the loan.

SELECTED QUARTERLY FINANCIAL INFORMATION

	<u>2005</u> <u>Qtr 2</u>	<u>2005</u> <u>Qtr 1</u>	<u>2004</u> <u>Qtr 4</u>	<u>2004</u> <u>Qtr 3</u>	<u>2004</u> <u>Qtr 2</u>	<u>2004</u> <u>Qtr 1</u>	<u>2003</u> <u>Qtr 4</u>	<u>2003</u> <u>Qtr 3</u>
	(millions of dollars except share and per share amounts)							
Sales	213.4	192.9	212.7	239.0	211.6	170.2	135.4	149.9
Operating earnings (loss) before restructuring costs and asset write-downs	6.6	7.1	-	12.4	12.9	(1.5)	(10.6)	(3.2)
Operating earnings (loss)	(19.9)	7.1	(5.3)	(7.7)	12.9	(2.1)	(12.2)	(3.2)
EBITDA ³	44.9	28.1	33.7	31.2	31.7	12.9	0.9	7.1
EBITDA excluding Other Income	23.5	21.2	15.0	31.2	30.1	11.8	1.1	7.1
Net earnings (loss)	9.0	10.9	15.2	(3.1)	11.6	0.9	(6.9)	(1.4)
Net earnings (loss) per share – basic and diluted	0.18	0.22	0.31	(0.06)	0.24	0.02	(0.14)	(0.04)
Cash flow from operations ¹ per share	0.43	0.36	0.19	0.44	0.54	0.20	0.05	0.10
Shares outstanding – end of period (millions) ²	48.7	48.7	48.6	48.4	48.4	48.4	48.4	48.4
– weighted average (millions)	48.7	48.7	48.5	48.4	48.4	48.4	48.4	38.3

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

2 As at July 26, 2005 the number of shares outstanding by class are: Class A – 47,673,036, Class B – 1,015,779, Total – 48,688,815.

3 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs. 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)	9.0	10.9	15.2	(3.1)	11.6	0.9	(6.9)	(1.4)
Add: Income taxes (recovery)	(6.5)	4.9	(1.4)	(2.5)	4.6	(0.3)	(3.8)	(1.2)
Interest expense	1.0	1.0	1.3	1.0	0.4	0.5	0.4	1.1
Depletion and amortization	14.9	11.3	13.3	15.7	15.1	11.2	9.7	8.6
Restructuring costs, asset write-downs and other	26.5	-	5.3	20.1	-	0.6	1.5	-
EBITDA	44.9	28.1	33.7	31.2	31.7	12.9	0.9	7.1
Deduct: Other income (loss)	21.4	6.9	18.7	-	1.6	1.1	(0.2)	-
EBITDA excluding Other Income	23.5	21.2	15.0	31.2	30.1	11.8	1.1	7.1

	<u>2005</u> <u>Qtr 2</u>	<u>2005</u> <u>Qtr 1</u>	<u>2004</u> <u>Qtr 4</u>	<u>2004</u> <u>Qtr 3</u>	<u>2004</u> <u>Qtr 2</u>	<u>2004</u> <u>Qtr 1</u>	<u>2003</u> <u>Qtr 4</u>	<u>2003</u> <u>Qtr 3</u>
--	-----------------------------	-----------------------------	-----------------------------	-----------------------------	-----------------------------	-----------------------------	-----------------------------	-----------------------------

Volume and Price Statistics

Lumber sales	(MMfbm)	263	256	272	238	195	189	138	143
Lumber production ¹	(MMfbm)	266	253	246	247	204	204	134	149
Log Sales ²	(thousand cubic metres)	379	184	350	438	457	253	252	247
Log production (B.C. operations)	(thousand cubic metres)	765	447	573	891	924	576	636	336
Average price – lumber ³	(\$/Mfbm)	\$565	\$578	\$547	\$673	\$702	\$620	\$634	\$670
Average price - logs ²	(\$/cubic metre)	\$80	\$84	\$79	\$86	\$82	\$89	\$73	\$78
Average price – pulp chips	(\$/Mfbm)	\$27	\$29	\$33	\$40	\$40	\$35	\$36	\$39

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

2 B.C. coastal operations

3 \$ Canadian, FOB British Columbia or U.S. Pacific Northwest, net of countervailing duty and antidumping duty

Quarterly trends normally reflect the seasonality of the Company's operations. Logging activities vary throughout the year 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 low sales revenues and the net losses experienced in the last two quarters of 2003 and the first quarter of 2004 were due to a combination of the U.S. duties on lumber, the rising value of the Canadian dollar versus the U.S. dollar and difficult conditions in the Japanese lumber market. During this period Interfor reduced operating rates in both woodlands and manufacturing divisions to bring production into line with market demand. 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 termination of the agreement to acquire Riverside Forest Products Limited.

CASH FLOW AND FINANCIAL POSITION

During the 2nd Quarter Interfor generated \$21.0 million (2nd Quarter 2004 - \$26.3million) in cash from operations before changes in working capital, and \$13.5 million (2nd Quarter 2004 - (\$18.4) million) after changes in working capital were considered. For the 1st Half of 2005 Interfor generated \$38.3 million (1st Half 2004 - \$35.8 million) in cash from operations before changes in working capital, and \$31.8 million (1st Half 2004 - (\$1.4) million) after changes in working capital were considered.

Capital spending in the 2nd Quarter amounted to \$18.6 million (2nd Quarter 2004 - \$11.6 million) including \$6.0 million in roads, \$2.4 million in maintenance capital, \$9.2 million in high return discretionary projects and \$0.9 in land development costs. The spending on discretionary projects includes approximately \$4.6 million related to the rebuild of the Company's Queensboro sawmill in New Westminster, B.C. Queensboro recommenced operations in early April and is expected to reach pro forma production levels in late 2005. In the 2nd Quarter of 2005 Interfor capitalized \$1.9 million of deferred start-up costs of the Queensboro mill.

In the 2nd Quarter of 2005 Interfor completed two acquisitions. On May 31, 2005 the Company acquired the Molalla sawmill discussed below under "ACQUISITION OF ASSETS OF FLORAGON FOREST PRODUCTS MOLALLA INC.". Also effective May 31, 2005, Interfor acquired the remaining 51% of the common shares of Mapri Developments Ltd., in which the Company previously held a 49% interest. The consideration paid for the acquisition totalled \$10.4 million and was funded through cash on hand.

In the 2nd Quarter the Company renewed its Canadian operating line of credit, with terms and conditions remained unchanged, extending the maturity date to April 27, 2006.

Interfor's net debt (excluding the short-term loan from Seaboard) increased to \$87.7 million at the end of the 2nd Quarter (\$25.0 million at June 30, 2004), representing a ratio of net debt to invested capital of 18.3% compared to 8.3% at the end of the 1st Quarter of 2005, and 6.5% at the end of the 2nd Quarter of 2004. The increase in net debt in the 2nd Quarter of 2005 was mainly due to the acquisition of the Molalla sawmill discussed below. At June 30, 2005, the Company's available credit under its various operating lines and term lines totalled approximately \$135.4 million.

ACQUISITION OF ASSETS OF FLORAGON FOREST PRODUCTS MOLALLA INC.

On May 31, 2005, the Company completed the acquisition of the sawmill assets and inventory of Floragon Forest Products Molalla Inc. and related entities, for US\$55.4 million. In addition, the vendors may qualify for an incentive payment based on the financial performance of the assets in the 12 months following the closing. To acquire these assets, the Company paid CAD\$69.5 million, of which \$31.4 million was financed through the existing Revolving Term Line, \$6.3 million was financed through an operating line of credit with a U.S. bank, and the balance through cash on hand. The acquisition was accretive to Interfor's earnings for the month of June, adding approximately \$0.01 per share.

The sawmill, which is located southeast of Portland, Oregon, has been renamed "Molalla Division" and is being operated by Interfor's U.S. subsidiary Interfor Pacific Inc. The mill produced 220 million board feet in 2004 and generated total sales of US\$91.5 million. Molalla's product lines consist of Douglas Fir and Hem-Fir studs in lengths up to 10 feet. Log supply is purchased on an ongoing basis from a number of industrial landowners and public sources in the immediate area. From a product and market standpoint, the Molalla operation is an excellent fit with Interfor's operations in Washington and Oregon. The mill has been significantly upgraded in recent years and is well positioned from a log supply standpoint.

SUBSEQUENT EVENT - SALE OF SQUAMISH LAND

On July 25, 2005, the Company completed the sale of surplus property located in Squamish, British Columbia (former location of its Squamish Lumber mill). The Company will record sale proceeds of \$13.3 million and an after-tax gain of approximately \$7.5 million or \$0.15 per share in the 3rd Quarter of 2005.

CANADA - U.S. SOFTWOOD LUMBER DISPUTE

The softwood lumber trade discussions and legal actions between the Government of Canada, the provincial governments and the U.S. Government are continuing. On August 31, 2004, a North American Free Trade Agreement ("NAFTA") Panel reaffirmed its prior rulings that the U.S. International Trade Commission ("ITC") had not demonstrated that the U.S. softwood lumber industry is threatened with material injury by reason of Canadian imports and remanded this determination back to the ITC to make a new determination consistent with the Panel's decision, which the ITC did under protest. On October 12, 2004, the NAFTA panel issued an order affirming the negative determination of the ITC. The U.S. administration has filed an appeal of the NAFTA injury decision to an Extraordinary Challenge Committee ("ECC"). The ECC decision is expected in the summer of 2005. An affirmative determination by the ECC could result in the termination of the duty cases and the refund of duties, with interest. However, further legal proceedings by the U.S. Government could delay the return of deposits.

Effective December 20, 2004, the U.S. Department of Commerce (“USDOC”) implemented new deposit rates based on the USDOC’s final rate determinations for the first Administrative review period (May 22, 2002 to March 31, 2003 for the countervailing duty case; and May 22, 2002 to April 30, 2003 for the antidumping duty case). The USDOC reduced the countervailing duty deposit rate to 17.18% from 18.79% and reduced the all others antidumping deposit rate to 4.03% from 8.43%. These rates were subsequently amended by the USDOC on January 24, 2005 (antidumping deposit rate was reduced to 3.78%) and February 24, 2005 (countervailing duty deposit rate was reduced to 16.37%). At the date of this report the Company’s combined deposit rate is 20.15%.

The Government of Canada, with the support of provincial governments and industry, has been exploring the prospects for a negotiated resolution since April 2001. A number of negotiation sessions have been held with the most recent in mid-June 2005. Significant differences still exist between the parties with regard to the duration and type of interim measures (such as export taxes), exit provisions from the agreement and potential sharing of the cash deposits paid.

The final amount of countervailing and antidumping 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 World Trade Organization panels.

OUTLOOK

In spite of strong housing starts and consumption levels, the price of structural products fell by 8% in the 2nd Quarter from an average of US\$398 per thousand board feet to US\$365 per thousand board feet, and is currently trading in the range of US\$340 to US\$350 per thousand board feet. Absent supply disruptions or a deterioration in demand, prices are expected to remain in or near the same range throughout the 3rd Quarter.

The North American cedar market remains challenging with pressure on low grade and merch product lines. Prices in the offshore market have dropped by upwards of 10% since the beginning of the year but appear to be firming at current levels.

Prices in Japan have come off 2-3% since the end of the 1st Quarter, with 105mm hemlock squares currently trading at the US\$600 – US\$610 per thousand board feet. Inventory levels have dropped considerably in recent months in response to reduced supply, and demand is steady.

Interfor expects to operate its B.C. Interior and U.S. sawmills on a normal schedule in the 3rd Quarter and will benefit to the extent that the Molalla facility will operate under Interfor’s ownership for the full quarter. The Company’s Coastal sawmills will operate on a reduced basis – with the Field mill to remain curtailed until a decision is made regarding that operation’s ultimate future. The Company’s remaining Coastal facilities will operate on a normal schedule in the 3rd Quarter. The Queensboro mill is progressing in its start-up and is expected to reach pro forma production levels by the end of this year. Logging operations will operate on a normal seasonal schedule pending unanticipated weather-related closures.

Interfor is continuing to review its strategic alternatives relating to a number of its assets and investments in order to determine whether shareholder value is being maximized under the current configuration. In addition, Interfor will continue to investigate opportunities for growth in the B.C. Interior and U.S. Pacific Northwest and in attractive product lines.

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations, including Interfor’s Annual Statutory Information for 2004, 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



International Forest Products Limited
P.O. Box 49114, Four Bentall Centre
3500 – 1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1H7
Telephone: (604) 689-6800 Fax: (604) 688-0313
Contact: G.J. Friesen, Vice President and Corporate Secretary
Web Site: www.interfor.com



CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months and six months ended June 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months June 30, 2005	3 Months June 30, 2004	6 Months June 30, 2005	6 Months June 30, 2004
Sales	\$ 213,408	\$ 211,644	\$ 406,334	\$ 381,838
Costs and expenses:				
Production	179,857	168,385	340,373	314,354
Selling and administration	5,130	4,818	10,590	9,696
Long term incentive compensation	(1,122)	248	606	1,401
U.S. countervailing and antidumping duty deposits (note 11(a))	8,013	10,188	14,899	18,755
Amortization of plant and equipment	6,372	5,150	12,518	10,435
Depletion and amortization of timber, roads and other	8,567	9,951	13,673	15,830
	206,817	198,740	392,659	370,471
Operating earnings before restructuring costs and write-downs of property, plant and equipment	6,591	12,904	13,675	11,367
Restructuring costs and write-downs of property, plant and equipment (note 8)	26,461	-	26,461	600
Operating earnings (loss)	(19,870)	12,904	(12,786)	10,767
Interest expense on long-term debt	(820)	(94)	(1,584)	(234)
Other interest expense	(216)	(283)	(490)	(698)
Other income (note 7)	21,417	1,662	28,359	2,783
Equity in earnings of investee companies	1,948	2,062	4,780	4,216
	22,329	3,347	31,065	6,067
Earnings before income taxes	2,459	16,251	18,279	16,834
Income taxes (recovery):				
Current	249	450	2,334	850
Future	(6,750)	4,170	(3,936)	3,450
	(6,501)	4,620	(1,602)	4,300
Net earnings	\$ 8,960	\$ 11,631	\$ 19,881	\$ 12,534
Net earnings per share (note 9)				
Basic	\$ 0.18	\$ 0.24	\$ 0.41	\$ 0.26
Diluted	\$ 0.18	\$ 0.24	\$ 0.40	\$ 0.26

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the 6 months ended June 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars)

	6 Months June 30, 2005	6 Months June 30, 2004
Retained earnings, beginning of year	\$ 66,218	\$ 41,505
Net earnings	19,881	12,534
Retained earnings, end of period	\$ 86,099	\$ 54,039

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars)

	3 Months June 30, 2005	3 Months June 30, 2004	6 Months June 30, 2005	6 Months June 30, 2004
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 8,960	\$ 11,631	\$ 19,881	\$ 12,534
Items not involving cash:				
Amortization of plant and equipment	6,372	5,150	12,518	10,435
Depletion and amortization of timber, roads and other	8,567	9,951	13,673	15,830
Future income taxes	(6,750)	4,170	(3,936)	3,450
Reforestation liability	6	1,016	979	2,404
Other long-term liabilities	(804)	(2,136)	(1,963)	(2,011)
Equity in earnings of investee companies	(1,948)	(2,062)	(4,780)	(4,216)
Writedown of property, plant and equipment	28,007	195	30,277	195
Other	(21,413)	(1,662)	(28,342)	(2,783)
	20,997	26,253	38,307	35,838
Cash generated from (used in) operating working capital:				
Accounts receivable	(11,809)	(12,973)	(9,306)	(22,667)
Inventories	7,066	(31,232)	6,000	(37,503)
Prepaid expenses	202	(2,486)	2,102	(1,704)
Accounts payable and accrued liabilities	(199)	1,983	(4,507)	24,407
Income taxes	(2,722)	41	(777)	231
	13,535	(18,414)	31,819	(1,398)
Investing activities:				
Additions to property, plant and equipment	(12,578)	(2,688)	(31,488)	(6,082)
Additions to logging roads and timber	(5,987)	(8,933)	(10,988)	(15,056)
Additions to deferred start-up costs (note 1(b))	(1,115)	-	(1,115)	-
Proceeds on disposal of property, plant and equipment	2,298	3,435	24,258	6,109
Acquisitions (note 3)	(79,905)	-	(79,905)	-
Cash received on acquisition of subsidiary (note 3)	2,650	-	2,650	-
Investments and other assets	(107)	107	5,698	4,270
	(94,744)	(8,079)	(90,890)	(10,759)
Financing activities:				
Issuance of share capital, net of expenses	37	-	190	81
Increase in bank indebtedness	14,150	25,027	14,150	12,076
Funds from promissory note payable to investee company (note 5)	27,757	-	27,757	-
Additions to long-term debt (note 6(b))	31,405	-	31,405	-
Repayments of long-term debt (note 6(b))	(12,396)	-	(32,910)	-
	60,953	25,027	40,592	12,157
Foreign exchange gain on cash and cash equivalents held in a foreign currency:	146	-	220	-
Increase (decrease) in cash	(20,110)	(1,466)	(18,259)	-
Cash on deposit, beginning of period	20,110	1,466	18,259	-
Cash on deposit, end of period	\$ -	\$ -	\$ -	\$ -

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

June 30, 2005 and 2004 (unaudited) and December 31, 2004 (audited)

(thousands of Canadian dollars)

	June 30, 2005	December 31, 2004	June 30, 2004
Assets			
Current assets:			
Cash	\$ -	\$ 18,259	\$ -
Accounts receivable (note 13(b))	55,808	42,228	48,945
Income taxes receivable	263	-	-
Inventories	113,107	108,763	130,548
Prepaid expenses	8,254	10,231	8,384
Future income taxes	5,060	7,281	4,589
	182,492	186,762	192,466
Investments and other assets:			
Investments and advances	55,990	47,236	41,193
Deferred financing fee, net of accumulated amortization	526	509	-
	56,516	47,745	41,193
Property, plant and equipment, net of accumulated amortization (note 1(b))	299,548	235,449	186,622
Timber and logging roads, net of accumulated depletion and amortization	63,476	82,556	85,955
Goodwill and other intangible assets	15,733	14,062	13,862
	\$ 617,765	\$ 566,574	\$ 520,098
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 6(a))	\$ 14,150	\$ -	\$ 25,027
Accounts payable and accrued liabilities	82,408	85,802	93,723
Income taxes payable	-	579	589
Promissory note payable to investee company (note 5)	27,757	-	-
	124,315	86,381	119,339
Reforestation liability, net of current portion	17,961	16,982	18,574
Long-term debt (note 6(b))	73,524	74,163	-
Other long-term liabilities	7,470	9,968	11,953
Future income taxes	2,592	6,332	10,369
Shareholders' equity:			
Share capital			
Class A subordinate voting shares	294,771	294,581	293,543
Class B common shares	4,080	4,080	4,080
Contributed surplus	8,201	8,201	8,201
Cumulative translation adjustment	(1,248)	(332)	-
Retained earnings	86,099	66,218	54,039
	391,903	372,748	359,863
	\$ 617,765	\$ 566,574	\$ 520,098

Contingencies (note 11)

Subsequent event (note 14)

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 and six months and ended June 30, 2005 and 2004 (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, 2004 except for the new accounting policy adopted subsequent to that date and the disclosure of an existing policy that is now significant, as detailed below.

(a) Variable interest entities

Effective January 1, 2005, the Company adopted the Canadian Institute of Chartered Accountants ("CICA") Accounting Guideline 15, *Consolidation of Variable Interest Entities* on a prospective basis. The guideline prescribes the application of consolidation principles for entities that meet the definition of a variable interest entity ("VIE"). An enterprise holding other than a voting interest in a VIE could, subject to certain conditions, be required to consolidate the VIE if it is considered its primary beneficiary whereby it would absorb the majority of the VIE's expected losses, receive the majority of its expected residual returns, or both. The adoption of this new standard had no effect on the consolidated financial statements as the Company does not have any VIEs.

(b) Deferred start-up costs

The Company has a historical accounting policy of deferring start-up costs on major plant construction to the extent these costs meet the criteria under CICA Emerging Issues Communication 27. During the quarter, the Company completed major plant construction on its Queensboro mill and has applied this accounting policy in the quarter for start-up costs incurred. The Company will defer start-up costs until the mill reaches commercial production levels which have been defined as the earlier of:

- (i) Seventy percent of production capacity for two consecutive months; or
- (ii) Six months.

Deferred start-up costs are amortized over five years on a straight-line basis and are included in property, plant and equipment.

2. Comparative figures:

Certain of the prior year's figures have been reclassified to conform to the presentation adopted in the current year.

3. Acquisitions:

On May 31, 2005, the Company acquired the sawmill assets and inventory of Floragon Forest Products Molalla Inc. and Floragon Manufacturing LLC (together, "Floragon"), a sawmill in the U.S. Pacific Northwest for US\$55,363,000. In addition, the vendors may qualify for an incentive payment based on the financial performance of the Floragon operation in the 12 months following the closing. To acquire these assets, the Company paid CAD\$69,546,000, of which \$31,405,000 was financed through the existing Revolving Line, \$6,281,000 was financed through an operating line of credit with a U.S. bank, and the balance through cash on hand.

In late 2004, the majority shareholders of an investee company exercised their option under a shareholders' agreement to put their shares to the Company. Consequently, effective May 31, 2005, Interfor acquired the remaining 51% of the common shares of Mapri Developments Ltd. ("Mapri"), in which the Company previously held a 49% interest. The consideration paid for the acquisition totalled \$10,359,000 and was funded through cash on hand.

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

Net assets acquired:	
Cash	\$ 2,650
Other current assets	9,092
Property, plant and equipment	70,857
	<hr/> 82,599
Liabilities assumed:	
Current liabilities	664
Future income taxes	2,030
	<hr/> 2,694
	<hr/> \$ 79,905
<hr/>	
Consideration funded out of:	
Cash on hand	\$ 42,219
Operating Lines	6,281
Revolving Line	31,405
	<hr/> \$ 79,905
	<hr/>

Any further consideration that may be payable as a result of the incentive payment represents contingent consideration which will be recorded when the outcome is likely and the amount reasonably determinable.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months and ended June 30, 2005 and 2004 (unaudited)

4. Seasonality of operating results:

The Company operates in the solid wood business which includes logging and sawmill 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. 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.

5. Promissory note payable to investee company:

On April 21, 2005, Seaboard Shipping Company Limited ("Seaboard"), in which the Company holds an equity interest, sold its 50% interest in Western Stevedoring Limited for \$40,000,000 plus a \$2,500,000 dividend. The after-tax proceeds of this transaction were loaned to Seaboard's shareholders at that time based on a formula related to each shareholder's share of shipments over a two year period. Interfor's share of the net after-tax cash proceeds on the sale totalled \$27,757,000. The Company signed an unsecured promissory note which is payable on demand on or before January 31, 2006 and is non-interest bearing until January 31, 2006 and bears interest at the rate of 5% per annum thereafter.

6. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

In the 1st Quarter of 2005, the Company secured a new operating line of credit with a U.S. bank in the amount of 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. As at June 30, 2005, the maximum borrowing available was US\$15,000,000, of which US\$12,140,000 was unused. The line utilization includes outstanding letters of credit of US\$360,000. The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1 $\frac{3}{4}$ %. 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, 2006.

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 $\frac{1}{4}$ %, is secured by a general charge over all assets of Mapri and a specific charge against the inventories of B.W. Creative Wood Industries Ltd., a wholly-owned subsidiary of Mapri, with the agreement maturing on August 1, 2006. This line is not utilized at June 30, 2005.

The Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totaling \$75,000,000 (2004 - \$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. The line now matures on April 27, 2006. As at June 30, 2005, the maximum borrowing available was \$70,066,000 (2004 - \$75,000,000), with outstanding letters of credit of \$4,283,000 (2004 - \$4,611,000) and bank indebtedness bringing the unused portion of the line to \$51,600,000 (2003 - \$45,362,000).

(b) Long-term debt:

By April 30, 2005, the Company had repaid US\$26,700,000 (CAD\$32,910,000) on its Canadian revolving term line (the "Revolving Line") to eliminate the outstanding balance.

On May 31, 2005, the Company drew US\$25,000,000 on its Revolving Line in order to facilitate the acquisition of the sawmill assets of Floragon. As at June 30, 2005, the Revolving Line was drawn by US\$25,000,000 (2004 - \$nil) and revalued at the month-end exchange rate to CAD\$30,635,000 (2004 - \$nil). 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 June 30, 2005, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (2004 - \$nil) and revalued at the month-end exchange rate to CAD\$42,889,000 (2004 - \$nil). 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		30,635
2008		-
2009		42,889
2010		-

	\$	73,524
--	----	--------

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months and ended June 30, 2005 and 2004 (unaudited)

7. Other income:

	3 Months June 30, 2005	3 Months June 30, 2004	6 months June 30, 2005	6 months June 30, 2004
Gain on settlement of timber takeback	\$ -	\$ -	\$ 6,373	\$ -
Gain on disposal of surplus property, plant and equipment	1,916	1,662	2,485	2,783
Equity income participation in gain on disposal of Western Stevedoring	19,501	-	19,501	-
	\$ 21,417	\$ 1,662	\$ 28,359	\$ 2,783

Under the terms of the *Forest Revitalization Act*, the Company received \$22,111,000 in compensation for the loss of logging rights on the B.C. Coast, including \$17,611,000 related to the 20% reduction in harvest volumes and a \$4,500,000 advance payment against lost infrastructure and road construction costs. \$1,300,000 was recorded as a recovery of production costs and \$20,811,000 was recorded as proceeds on the disposal of timber and roads and resulted in a net gain on settlement of timber takeback of \$6,373,000 in the 1st Quarter.

On April 21, 2005, Seaboard Shipping Company Limited ("Seaboard"), in which the Company holds an equity interest, sold its 50% interest in Western Stevedoring Limited for \$40,000,000 plus a \$2,500,000 dividend. As net earnings of Seaboard are distributed based on a percentage of shipments of product by the shareholders, Interfor participated in 71.2% of the net after-tax gain on the sale, with its share totalling \$19,501,000, which was recorded in the 2nd Quarter.

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

In the quarter, following an extensive evaluation of its operations, the Company identified certain B.C. coastal assets which it did not consider to be part of its future core operations and reviewed the valuation of these non-core assets. An impairment charge of \$28,007,000 was recorded in the quarter to reduce the carrying values of these assets to estimated fair values.

During the quarter, the Company also received \$1,546,000 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. The associated costs had been expensed in prior years as restructuring costs. Interfor also recorded additional severances for hourly woodlands employees of \$4,196,000 which were fully recovered from the B.C. Forestry Revitalization Trust. The recovery was recorded as an offset to the severance costs in restructuring. 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 received.

Restructuring costs and write-downs of property, plant and equipment are as follows:

	3 Months June 30, 2005	3 Months June 30, 2004	6 months June 30, 2005	6 months June 30, 2004
Property, plant, equipment and timber write-downs	\$ 28,007	\$ -	\$ 30,277	\$ -
Severance and other restructuring costs (recoveries)	(1,546)	-	(1,546)	600
Other (recoveries)	-	-	(2,270)	-
	\$ 26,461	\$ -	\$ 26,461	\$ 600

9. Net earnings per share

	3 months June 30, 2005			3 months June 30, 2004		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 8,960	48,678	\$ 0.18	\$ 11,631	48,409	\$ 0.24
Share options	-	629	-	-	736	-
Diluted earnings per share	\$ 8,960	49,307	\$ 0.18	\$ 11,631	49,145	\$ 0.24
	6 months June 30, 2005			6 months June 30, 2004		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 19,881	48,667	\$ 0.41	\$ 12,534	48,406	\$ 0.26
Share options	-	653	-	-	659	-
Diluted earnings per share	\$ 19,881	49,320	\$ 0.40	\$ 12,534	49,065	\$ 0.26

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months and ended June 30, 2005 and 2004 (unaudited)

10. Segmented information:

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

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

	3 months June 30, 2005	3 months June 30, 2004	6 months June 30, 2005	6 months June 30, 2004
Canada	\$ 64,163	\$ 88,557	\$ 116,716	\$ 146,698
United States	113,568	56,275	205,089	104,184
Japan	16,857	44,483	43,896	83,413
Other export	18,820	22,329	40,633	47,543
	\$ 213,408	\$ 211,644	\$ 406,334	\$ 381,838

Sales by product line are as follows:

	3 months June 30, 2005	3 months June 30, 2004	6 months June 30, 2005	6 months June 30, 2004
Lumber	\$ 161,812	\$ 152,068	\$ 323,906	\$ 287,241
Logs	30,425	37,391	47,783	59,813
Wood chips and other by products	8,282	9,705	16,494	17,844
Other	12,889	12,480	18,151	16,940
	\$ 213,408	\$ 211,644	\$ 406,334	\$ 381,838

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

	June 30, 2005	June 30, 2004
Canada	\$ 238,160	\$ 278,655
United States	140,597	7,784
	\$ 378,757	\$ 286,439

11. Contingencies:

(a) U.S. Softwood Lumber dispute:

The softwood lumber trade discussions and legal actions between the Government of Canada, the provincial governments and the U.S. Government are continuing. On August 31, 2004, a North American Free Trade Agreement ("NAFTA") Panel reaffirmed its prior rulings that the U.S. International Trade Commission ("ITC") had not demonstrated that the U.S. softwood lumber industry is threatened with material injury by reason of Canadian imports and remanded this determination back to the ITC to make a new determination consistent with the Panel's decision, which the ITC did under protest. On October 12, 2004, the NAFTA panel issued an order affirming the negative determination of the ITC. The U.S. administration has filed an appeal of the NAFTA injury decision to an Extraordinary Challenge Committee.

Effective December 20, 2004, the USDOC implemented new deposit rates based on the USDOC's final rate determinations for the first Administrative review period (May 22, 2002 to March 31, 2003 for the countervailing duty case; and May 22, 2002 to April 30, 2003 for the antidumping duty case). The USDOC reduced the countervailing duty deposit rate to 17.18% from 18.79% and reduced the all others antidumping deposit rate to 4.03% from 8.43%. These rates were subsequently amended by the USDOC on January 24, 2005 (antidumping deposit rate was reduced to 3.78%) and February 24, 2005 (countervailing duty deposit rate was reduced to 16.37%). At the date of this report the Company's combined deposit rate is 20.15%.

The Company has recorded \$8,013,000 (2004 - \$10,188,000) for the quarter and \$14,899,000 (2004 - \$18,755,000) for the six months ended June 30, 2005 in respect of the countervailing and antidumping duties assessed on Canadian softwood lumber exports to the United States. Cumulative duties for the period from May 22, 2002 to June 30, 2005 charged to operations total \$107,890,000 (US\$79,298,000). These total U.S. deposits translated at quarter-end exchange rates equate to CAD\$97,172,000 at June 30, 2005.

The Company and other Canadian forest product companies, the Federal Government and Canadian provincial governments ("Canadian Interests") continue to categorically deny the U.S. allegations that sales of Canadian softwood lumber into the U.S. threatens material injury to the U.S. industry. Canadian interests continue to pursue appeals of the final countervailing and dumping determinations with the appropriate courts, NAFTA panels and the World Trade Organization ("WTO").

The final amount of countervailing and antidumping 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 countervailing and antidumping duties will not be determined until each annual administrative review process is complete, including appeals.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and six months and ended June 30, 2005 and 2004 (unaudited)

11. Contingencies (continued):

(b) B.C. Forest Revitalization Plan:

In March 2003, the Government of B.C. ("Crown") introduced the Forestry Revitalization Plan (the "Plan") that provides for significant changes to Crown forest policy and to the existing allocation of Crown timber tenures to licensees. The changes prescribed in the Plan include: the elimination of minimum cut control regulations, the elimination of existing timber processing regulations, and the elimination of restrictions limiting the transfer and subdivision of existing licenses. As well, through legislation, licensees, including the Company, will be required to return 20% of their replaceable tenure to the Crown. The Plan states that approximately half of this volume will be redistributed to open up opportunities for woodlots, community forests and First Nations and the other half will be available for public auction. The Crown has acknowledged that licensees will be fairly compensated for the return of tenure and related infrastructure costs.

In December 2004, the Crown issued Ministerial Orders to the Company specifying the timing and the volume of the take-back for replaceable tenures. Approximately 344,000 cubic metres of the Company's existing allowable annual cut on their replaceable tenures was taken in December 2004, and the balance of 235,000 cubic metres will be taken by December 31, 2005, for a total of 579,000 cubic metres. In addition, 20% of the Company's non-replaceable timber licences will also be reduced.

On March 28, 2005 the Company concluded a comprehensive agreement with the Province of British Columbia to compensate the Company for loss of forest tenure through the government's timber reallocation program. The Company received \$22,111,000 in compensation for the loss of logging rights on the B.C. Coast, including \$17,611,000 related to the 20% reduction in harvest volumes and a \$4,500,000 advance payment against lost infrastructure and road construction costs. The Company is continuing its negotiation with the Crown for further compensation for infrastructure, but the amount and timing of additional compensation is not yet determinable. The Company will record any other compensation at the time the amounts to be recorded can be estimated.

12. Employee future benefits:

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

	3 Months June 30, 2005	3 Months June 30, 2004	6 months June 30, 2005	6 months June 30, 2004
Defined contribution plan	\$ 431	\$ 467	\$ 911	\$ 942
Defined benefit plan	125	141	271	268
Unionized employees' pension plan	1,070	1,235	2,178	2,407
U.S. operations benefit plan	170	-	313	-
Senior management supplementary pension plan	157	26	235	53
Total pension expense	\$ 1,953	\$ 1,869	\$ 3,908	\$ 3,670

13. Financial instruments:

(a) Derivative financial instruments:

The Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company does not expect any credit losses in the event of non-performance by counter parties as the counter parties are the Company's bankers.

As at June 30, 2005, the Company has outstanding obligations to sell a maximum of US\$11,000,000 at an average rate of CAD\$1.2454 and Japanese ¥130,000,000 at an average rate of ¥85.72 to the CAD\$1.00 during 2005. All foreign currency gains or losses to June 30, 2005 have been recognized in the statement of operations.

There were no interest rate swaps outstanding as at June 30, 2005.

(b) 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. At June 30, 2005, the company received cash proceeds of \$25,000,000 (2004 - \$25,000,000), from the sale of receivables.

14. Subsequent event:

On July 25, 2005, the Company completed the sale of surplus property located in Squamish, British Columbia (former location of its Squamish Lumber mill). The Company will record sale proceeds of \$13,300,000 and will record an after-tax gain of approximately \$7,500,000 million in the 3rd Quarter of 2005.

