



**International Forest Products Limited**  
**Third Quarter Report**  
**For the three and nine months ended September 30, 2005**



## *Management Discussion and Analysis*

Dated as of October 25, 2005

This Management Discussion and Analysis (“MD&A”) provides a review of Interfor’s financial performance for the three and nine months ended September 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 nine months ended September 30, 2005 and 2004 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](http://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 \$4.7 million or \$0.10 per share in the 3<sup>rd</sup> Quarter of 2005 and net earnings of \$24.6 million or \$0.51 per share for the nine months ended September 30, 2005. This compares to a net loss of \$3.1 million or \$0.06 per share in the 3<sup>rd</sup> Quarter of 2004, and net earnings of \$9.5 million or \$0.20 per share for the nine months ended September 30, 2004.

EBITDA excluding Other Income was \$13.8 million in the 3<sup>rd</sup> Quarter and \$58.5 million for the nine months ended September 30, 2005 compared to \$31.2 million in the 3<sup>rd</sup> Quarter and \$73.0 million for the 1<sup>st</sup> nine months of 2004.

Declines in average prices of the Company’s products (as shown in the table “Volume and Price Statistics” below) had a significant impact on Operating Earnings in 2005. In particular, lumber prices denominated in U.S. dollars declined while the Canadian dollar strengthened against the U.S. dollar, compounding the impact of the price declines. Interfor’s B.C. Coastal operations were also negatively impacted by the curtailment related to the rebuild of the Queensboro sawmill and the economic curtailment of the Field sawmill. The Company’s U.S. operations, which were acquired in September 2004 and May 2005, have made a strong contribution to results in 2005.

In the 3<sup>rd</sup> Quarter of 2005 the Company recorded restructuring costs of \$1.1 million for severance payments made in the B.C. Coastal operations. This compares to restructuring costs and asset write-downs of \$20.1 million in the 3<sup>rd</sup> Quarter of 2004 primarily related to the closure of the Squamish sawmill. Restructuring costs for the 1<sup>st</sup> nine months of 2005 (which include the write-downs of the Field sawmill and other coastal assets in the 2<sup>nd</sup> Quarter) total \$27.6 million (2004 - \$20.7 million).

Lumber shipments totalled 308 and 828 million board feet in the 3<sup>rd</sup> Quarter and 1<sup>st</sup> nine months of 2005 respectively compared to 238 and 622 million board feet in the 3<sup>rd</sup> Quarter and 1<sup>st</sup> nine months of 2004. The increases in 2005 reflect higher production from the Adams Lake operation as well as the addition of the Company’s U.S. sawmills. B.C. Coastal operations lumber shipments were significantly lower in 2005 than in 2004 as a result of the curtailment of the Field sawmill and the rebuild of the Queensboro sawmill. Log production in the Company’s B.C. operations was 712,000m<sup>3</sup> and 1,924,000m<sup>3</sup> in the 3<sup>rd</sup> Quarter and 1<sup>st</sup> nine months of 2005 compared to 891,000m<sup>3</sup> in the 3<sup>rd</sup> Quarter and 2,391,000m<sup>3</sup> in the 1<sup>st</sup> nine months of 2004. The reduction in harvest was in the B.C. Coastal operations and was a result of the reduction in allowable annual cut under the Government of B.C.’s Forestry Revitalization Plan, lower production levels in the Company’s B.C. Coastal sawmills and reduced prices for logs.

Sales revenue was \$214.2 million in the 3<sup>rd</sup> Quarter and \$620.6 million in the 1<sup>st</sup> nine months of 2005. Sales revenue was \$239.0 million and \$620.8 million in the corresponding periods of 2004. Declines in average unit selling prices of lumber, logs and pulp chips were largely offset by the significantly higher lumber sales volumes referred to above.

Long-term incentive compensation costs in the 3<sup>rd</sup> Quarter of 2005 were \$0.2 million compared to \$2.4 million in the 3<sup>rd</sup> Quarter of 2004. 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. Interfor’s shares increased only slightly in the 3<sup>rd</sup> Quarter of 2005 from \$6.63 per share on June 30, 2005 to \$6.65 per share on September 30, 2005. Conversely, in the 3<sup>rd</sup> Quarter of 2004 the Company’s shares increased from \$6.80 per share to \$8.05 per share. Long-term incentive compensation costs for the 1<sup>st</sup> nine months of 2005 were \$0.8 million compared to \$3.8 million for the 1<sup>st</sup> nine months of 2004.

During the 3<sup>rd</sup> Quarter Interfor paid \$8.0 million (\$5.3 million after tax or \$0.11 per share) in deposits for countervailing and antidumping duties on shipments of 74 million board feet from Canada to the U.S. In the 3<sup>rd</sup> Quarter of 2004 duties totalled \$11.4 million (\$7.3 million after tax or \$0.15 per share). In the 1<sup>st</sup> nine months of 2005 the Company paid \$22.9 million (2004 - \$30.2 million) in duty deposits. At the end of the 3<sup>rd</sup> Quarter of 2005, Interfor had paid total deposits of US\$85.8 million (CAD\$99.8 million utilizing September 30, 2005 exchange rates) since the deposit requirement came into effect in May 2002.

Equity earnings from Seaboard Shipping Company Limited declined in the 3<sup>rd</sup> Quarter of 2005 due to reduced lumber shipments to overseas markets by Interfor.

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 gain of \$9.3 million (\$0.16 per share after tax) is included in Other Income for the 3<sup>rd</sup> Quarter of 2005. Other Income for the nine months ended September 30, 2005 also includes Interfor's gain of \$19.5 million related to the sale by Seaboard Shipping Company Limited ("Seaboard") of its 50% interest in Western Stevedoring Company Limited, a \$6.4 million gain on the settlement of timber takeback and \$2.7 million related to the disposal of surplus property, plant and equipment.

Effective July 1, 2005, the Province of B.C. reduced the general corporate income tax rate to 12.0% from 13.5%. The application of the reduced rate to the Company's Future Income Tax assets and liabilities resulted in a charge to Future Income Taxes in the Statement of Earnings of approximately \$0.2 million in the 3<sup>rd</sup> Quarter of 2005.

### SELECTED QUARTERLY FINANCIAL INFORMATION

	<u>2005</u> <u>Qtr 3</u>	<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>
	(millions of dollars except share and per share amounts)							
Sales	214.2	213.4	192.9	212.7	239.0	211.6	170.2	135.4
Operating earnings (loss) before restructuring costs and asset write-downs	(2.8)	6.6	7.1	-	12.4	12.9	(1.5)	(10.6)
Operating earnings (loss)	(4.0)	(19.9)	7.1	(5.3)	(7.7)	12.9	(2.1)	(12.2)
EBITDA <sup>3</sup>	23.6	44.9	28.1	33.7	31.2	31.7	12.9	0.9
EBITDA excluding Other Income	13.8	23.5	21.2	15.0	31.2	30.1	11.8	1.1
Net earnings (loss)	4.7	9.0	10.9	15.2	(3.1)	11.6	0.9	(6.9)
Net earnings (loss) per share – basic and diluted	0.10	0.18	0.22	0.31	(0.06)	0.24	0.02	(0.14)
Cash flow from operations <sup>1</sup> per share	0.17	0.43	0.36	0.19	0.44	0.54	0.20	0.05
Shares outstanding – end of period (millions) <sup>2</sup>	48.7	48.7	48.7	48.6	48.4	48.4	48.4	48.4
– weighted average (millions)	48.7	48.7	48.7	48.5	48.4	48.4	48.4	48.4

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

2 As at October 25, 2005 the number of shares outstanding by class are: Class A – 47,688,576, Class B – 1,015,779, Total – 48,704,355.

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)	4.7	9.0	10.9	15.2	(3.1)	11.6	0.9	(6.9)
Add: Income taxes (recovery)	0.7	(6.5)	4.9	(1.4)	(2.5)	4.6	(0.3)	(3.8)
Interest expense	1.3	1.0	1.0	1.3	1.0	0.4	0.5	0.4
Depletion and amortization	15.8	14.9	11.3	13.3	15.7	15.1	11.2	9.7
Restructuring costs, asset write-downs and other	1.1	26.5	-	5.3	20.1	-	0.6	1.5
EBITDA	23.6	44.9	28.1	33.7	31.2	31.7	12.9	0.9
Deduct: Other income (loss)	9.8	21.4	6.9	18.7	-	1.6	1.1	(0.2)
EBITDA excluding Other Income	13.8	23.5	21.2	15.0	31.2	30.1	11.8	1.1

	<u>2005</u> <u>Qtr 3</u>	<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>
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### **Volume and Price Statistics**

Lumber sales	(MMfbm)	308	263	256	272	238	195	189	138
Lumber production <sup>1</sup>	(MMfbm)	308	266	253	246	247	204	204	134
Log Sales <sup>2</sup>	(thousand cubic metres)	339	379	184	350	438	457	253	252
Log production (B.C. operations)	(thousand cubic metres)	712	765	447	573	891	924	576	636
Average price – lumber <sup>3</sup>	(\$/Mfbm)	\$494	\$565	\$578	\$547	\$673	\$702	\$620	\$634
Average price – logs <sup>2</sup>	(\$/cubic metre)	\$73	\$80	\$84	\$79	\$86	\$82	\$89	\$73
Average price – pulp chips	(\$/Mfbm)	\$25	\$27	\$29	\$33	\$40	\$40	\$35	\$36

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. Manufacturing operations are less seasonal than logging operations but the Company's sawmills 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 operating losses experienced in the last quarter 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 3<sup>rd</sup> Quarter Interfor generated \$8.4 million (3<sup>rd</sup> Quarter 2004 - \$21.1 million) in cash from operations before changes in working capital, and \$22.7 million (3<sup>rd</sup> Quarter 2004 - \$32.1 million) after changes in working capital were considered. For the 1<sup>st</sup> nine months of 2005 Interfor generated \$47.7 million (1<sup>st</sup> nine months 2004 - \$57.0 million) in cash from operations before changes in working capital, and \$54.5 million (1<sup>st</sup> nine months 2004 - \$30.7 million) after changes in working capital were considered. Cash generated from working capital in the 1<sup>st</sup> nine months of 2005 included \$14.9 million from inventory primarily related to reductions in B.C. Interior log inventory volumes and carrying values of B.C. Coast log and lumber inventories. Conversely, in the 1<sup>st</sup> nine months of 2004 Interfor increased its investment in inventories by \$39.4 million related to significantly higher log and lumber inventory volumes.

Capital spending in the 3<sup>rd</sup> Quarter amounted to \$16.2 million (3<sup>rd</sup> Quarter 2004 - \$16.5 million) including \$5.1 million in roads, \$2.9 million in maintenance capital, \$7.9 million in high return discretionary projects and \$0.3 in land development costs. For the 1<sup>st</sup> nine months of 2005 capital spending totalled \$58.7 million (2004 - \$37.7 million). The increase in 2005 is due to an additional \$23.7 million in capital spending on high return discretionary projects compared to the 1<sup>st</sup> nine months of 2004. The rebuild of the Queensboro sawmill accounted for \$14.2 million of this increase. In addition, the year to date amounts include \$12.3 million for kiln and planer projects at the Port Angeles, Molalla and Gilchrist sawmills in the U.S. Pacific Northwest. In the 3<sup>rd</sup> Quarter of 2005 Interfor also capitalized \$3.1 million (1<sup>st</sup> nine months of 2005 - \$5.0 million) of deferred start-up costs of the Queensboro mill. The Queensboro mill reached commercial production levels in the 3<sup>rd</sup> Quarter and the Company ceased capitalizing deferred start-up costs.

Proceeds from disposals of property, plant and equipment in the 3<sup>rd</sup> Quarter of 2005 includes \$13.0 million from the sale of the surplus property in Squamish. Year-to-date proceeds include \$22.1 million in compensation for the loss of logging rights on the B.C. Coast which was received by Interfor in the 1<sup>st</sup> Quarter of 2005.

As a result of reduced accounts receivable in Interfor's Canadian operations, in the 3<sup>rd</sup> Quarter of 2005 the Company's securitization program was reduced from \$25.0 million to \$20.0 million.

Interfor's net debt (excluding the short-term loan from Seaboard) decreased to \$66.7 million at the end of the 3<sup>rd</sup> Quarter (\$106.1 million at September 30, 2004), representing a ratio of net debt to invested capital of 14.5% compared to 18.3% at the end of the 2<sup>nd</sup> Quarter of 2005, and 22.9% at the end of the 3<sup>rd</sup> Quarter of 2004. At September 30, 2005, the Company's available credit under its various operating lines and term lines totalled approximately \$142.4 million.

### **CANADA – U.S. SOFTWOOD LUMBER DISPUTE**

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 ("CVD") 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 USDOC is scheduled to announce in early December 2005 final assessment rates for the first Administrative review period and new deposit rates for the second Administrative review period.

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 on September 10, 2004, under protest. On October 12, 2004, the NAFTA panel issued an order affirming the negative determination of the ITC. The U.S. administration filed an appeal of the NAFTA injury decision to an Extraordinary Challenge Committee ("ECC"). On August 10, 2005 the ECC unanimously dismissed the U.S. Extraordinary Challenge in its entirety. The ECC upheld the NAFTA Panel decisions overturning the ITC rulings that Canadian softwood lumber imports threatened to injure the U.S. industry. The determination by the ECC could result in the termination of the duty cases and the refund of duties, with interest. However, the U.S. Coalition for Fair Lumber Imports has announced plans to initiate a constitutional challenge of the entire NAFTA dispute settlement system as a result of the ECC ruling. In addition, the U.S. administration takes the position that an ITC decision, issued on November 24, 2004, to bring the U.S. into compliance with an earlier adverse WTO decision, supersedes the September 10, 2004, ITC decision, thereby mooted the NAFTA appeals and ECC decision.

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 percent. In a unanimous decision for Canada, the Panel overturned the USDOC's last decision. If the USDOC fully implements the Panel decision, we understand that the CVD rate will be less than 1.0 percent meaning the duty must be revoked entirely. The USDOC has been ordered to comply with the remand by October 28, 2005. However, the USDOC could pursue further legal proceedings to delay the implementation of the decision and the return of deposits.

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 or volume quotas), exit provisions from the agreement and potential sharing of the cash deposits paid. Canada aborted the latest round of talks scheduled for August after the USDOC failed to comply with the NAFTA and ECC final rulings that found Canadian lumber exports present no threat of injury to U.S. producers.

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**

The price of structural lumber in the U.S. market has moved lower in recent weeks with SPF 2X4 currently trading in the range of US\$315 - \$325 per thousand board feet. Expectations are that prices will remain at or near current levels for the balance of the year. On the other hand, cedar prices have improved in recent weeks on the back of steady consumption and tight supply. In Japan, prices are expected to remain steady.

Log prices in most regions are beginning to adjust to new product price levels.

Interfor intends to operate its B.C. Interior and U.S. sawmills on a normal schedule in the 4<sup>th</sup> Quarter. The Company's Coastal sawmills will operate on a reduced basis with schedules reviewed on a regular basis to ensure the best possible financial results. The start-up of the Queensboro plant is proving to be more difficult than expected and a concerted effort is being directed towards resolving the deficiencies and improving performance.

Initiatives to streamline the Company's Coastal operations are ongoing and are expected to result in a number of changes in the 4<sup>th</sup> Quarter. At the same time, with its strong balance sheet, Interfor continues to look for growth opportunities in regions and in product lines 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 2004, can be found on its website at [www.interfor.com](http://www.interfor.com) and on SEDAR at [www.sedar.com](http://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



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## CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months and nine months ended September 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 Months Sept. 30, 2005	9 Months Sept. 30, 2004
<b>Sales</b>	\$ 214,236	\$ 238,952	\$ 620,570	\$ 620,790
<b>Costs and expenses:</b>				
Production	188,485	192,497	528,858	506,851
Selling and administration	4,552	4,451	15,142	14,147
Long term incentive compensation	200	2,445	806	3,846
U.S. countervailing and antidumping duty deposits (note 11(a))	8,022	11,427	22,921	30,182
Amortization of plant and equipment	7,409	6,022	19,927	16,457
Depletion and amortization of timber, roads and other	8,404	9,659	22,077	25,489
	217,072	226,501	609,731	596,972
<b>Operating earnings (loss) before restructuring costs and write-downs of property, plant and equipment</b>	(2,836)	12,451	10,839	23,818
Restructuring costs and write-downs of property, plant and equipment (note 8)	1,136	20,143	27,597	20,743
<b>Operating earnings (loss)</b>	(3,972)	(7,692)	(16,758)	3,075
Interest expense on long-term debt	(1,035)	(441)	(2,619)	(675)
Other interest expense	(254)	(543)	(744)	(1,241)
Other income (note 7)	9,771	69	38,130	2,852
Equity in earnings of investee companies	846	3,042	5,626	7,258
	9,328	2,127	40,393	8,194
<b>Earnings (loss) before income taxes</b>	5,356	(5,565)	23,635	11,269
<b>Income taxes (recovery):</b>				
Current	1,366	1,250	3,700	2,100
Future	(714)	(3,760)	(4,650)	(310)
	652	(2,510)	(950)	1,790
<b>Net earnings (loss)</b>	\$ 4,704	\$ (3,055)	\$ 24,585	\$ 9,479
<b>Net earnings (loss) per share (note 9)</b>				
Basic	\$ 0.10	\$ (0.06)	\$ 0.51	\$ 0.20
Diluted	\$ 0.10	\$ (0.06)	\$ 0.50	\$ 0.19

See accompanying notes to consolidated financial statements

## CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars)

	9 Months Sept. 30, 2005	9 Months Sept. 30, 2004
<b>Retained earnings, beginning of year</b>	\$ 66,218	\$ 41,505
<b>Net earnings</b>	24,585	9,479
<b>Retained earnings, end of period</b>	\$ 90,803	\$ 50,984

See accompanying notes to consolidated financial statements



## CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2005 and 2004 (unaudited)

(thousands of Canadian dollars)

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 Months Sept. 30, 2005	9 Months Sept. 30, 2004
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings (loss)	\$ 4,704	\$ (3,055)	\$ 24,585	\$ 9,479
<b>Items not involving cash:</b>				
Amortization of plant and equipment	7,409	6,022	19,927	16,457
Depletion and amortization of timber, roads and other	8,404	9,659	22,077	25,489
Future income taxes	(714)	(3,760)	(4,650)	(310)
Reforestation liability	(425)	(69)	554	2,335
Other long-term liabilities	(107)	510	(2,070)	(1,501)
Equity in earnings of investee companies	(846)	(3,042)	(5,626)	(7,258)
Writedown of property, plant and equipment	-	14,926	30,277	15,121
Other	(10,072)	(69)	(38,414)	(2,852)
	8,353	21,122	46,660	56,960
<b>Cash generated from (used in) operating working capital:</b>				
Accounts receivable	2,553	(2,068)	(6,753)	(24,735)
Inventories	8,948	(1,895)	14,948	(39,398)
Prepaid expenses	(2,679)	67	(577)	(1,637)
Accounts payable and accrued liabilities	4,117	13,811	(390)	38,218
Income taxes	1,427	1,039	650	1,270
	22,719	32,076	54,538	30,678
<b>Investing activities:</b>				
Additions to property, plant and equipment	(11,076)	(9,257)	(42,564)	(15,339)
Additions to logging roads and timber	(5,132)	(7,284)	(16,120)	(22,340)
Additions to deferred start-up costs (note 1(b))	(2,100)	-	(3,215)	-
Proceeds on disposal of property, plant and equipment	14,174	70	38,432	6,179
Acquisitions (note 3)	-	(98,955)	(79,905)	(98,955)
Cash received on acquisition of subsidiary (note 3)	-	-	2,650	-
Investments and other assets	(281)	(626)	5,417	3,644
	(4,415)	(116,052)	(95,305)	(126,811)
<b>Financing activities:</b>				
Issuance of share capital	97	-	287	81
Increase (decrease) in bank indebtedness	(14,150)	(3,094)	-	8,982
Funds from promissory note payable to investee company (note 5)	-	-	27,757	-
Additions to long-term debt (note 6(b))	-	87,577	31,405	87,577
Repayments of long-term debt (note 6(b))	-	-	(32,910)	-
	(14,053)	84,483	26,539	96,640
<b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency:</b>	(1,180)	(507)	(960)	(507)
<b>Increase (decrease) in cash</b>	<b>3,071</b>	<b>-</b>	<b>(15,188)</b>	<b>-</b>
<b>Cash on deposit, beginning of period</b>	<b>-</b>	<b>-</b>	<b>18,259</b>	<b>-</b>
<b>Cash on deposit, end of period</b>	<b>\$ 3,071</b>	<b>\$ -</b>	<b>\$ 3,071</b>	<b>\$ -</b>

See accompanying notes to consolidated financial statements



**CONSOLIDATED BALANCE SHEETS**

**September 30, 2005 and 2004 (unaudited) and December 31, 2004 (audited)**

(thousands of Canadian dollars)

	Sept. 30, 2005	Dec. 31, 2004	Sept. 30, 2004
<b>Assets</b>			
<b>Current assets:</b>			
Cash	\$ 3,071	\$ 18,259	\$ -
Accounts receivable (note 13(b))	53,255	42,228	57,518
Inventories	104,159	108,763	146,609
Prepaid expenses	10,933	10,231	11,360
Future income taxes	6,030	7,281	5,613
	177,448	186,762	221,100
<b>Investments and other assets:</b>			
Investments and advances	56,833	47,236	44,245
Deferred financing fee, net of accumulated amortization	449	509	560
	57,282	47,745	44,805
<b>Property, plant and equipment, net of accumulated amortization (note 1(b))</b>	<b>294,350</b>	<b>235,449</b>	<b>248,215</b>
<b>Timber and logging roads, net of accumulated depletion and amortization</b>	<b>60,286</b>	<b>82,556</b>	<b>82,444</b>
<b>Goodwill and other intangible assets</b>	<b>15,694</b>	<b>14,062</b>	<b>14,146</b>
	<b>\$ 605,060</b>	<b>\$ 566,574</b>	<b>\$ 610,710</b>
<b>Liabilities and Shareholders' Equity</b>			
<b>Current liabilities:</b>			
Bank indebtedness (note 6(a))	\$ -	\$ -	\$ 21,933
Accounts payable and accrued liabilities	86,525	85,802	107,567
Income taxes payable	1,115	579	1,628
Promissory note payable to investee company (note 5)	27,757	-	-
	115,397	86,381	131,128
<b>Reforestation liability, net of current portion</b>	<b>17,536</b>	<b>16,982</b>	<b>18,505</b>
<b>Long-term debt (note 6(b))</b>	<b>69,762</b>	<b>74,163</b>	<b>84,202</b>
<b>Other long-term liabilities</b>	<b>7,103</b>	<b>9,968</b>	<b>12,463</b>
<b>Future income taxes</b>	<b>2,886</b>	<b>6,332</b>	<b>7,633</b>
<b>Shareholders' equity:</b>			
Share capital			
Class A subordinate voting shares	294,868	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	(5,576)	(332)	(29)
Retained earnings	90,803	66,218	50,984
	392,376	372,748	356,779
	<b>\$ 605,060</b>	<b>\$ 566,574</b>	<b>\$ 610,710</b>

**Contingencies (note 11)**

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 nine months ended September 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 2<sup>nd</sup> Quarter, the Company completed major plant construction on its Queensboro mill and applied this accounting policy in the second and third quarters for start-up costs incurred. The Company deferred start-up costs until the mill reached sustainable production levels which had been defined as the earlier of:

- (i) Seventy percent of production capacity for two consecutive months; or
  - (ii) Six months
- and to a maximum of 20% of the total project cost.

Start-up costs totalling \$5,000,000 were deferred in 2005 and will be amortized over five years on a straight-line basis starting in the 4<sup>th</sup> Quarter. These costs are included on the balance sheet 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. 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.

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

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2005 and 2004 (unaudited)

### 4. Seasonality of operating results:

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

### 5. 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 1<sup>st</sup> 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 September 30, 2005, the maximum borrowing available was US\$15,000,000, of which US\$12,879,000 was unused. The line utilization includes outstanding letters of credit of US\$120,000. 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. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories and matures on August 1, 2006. Maximum borrowing available at September 30, 2005 was \$2,740,000, which was not utilized.

In the 2<sup>nd</sup> Quarter of 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 totalling \$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 matures on April 27, 2006. As at September 30, 2005, the maximum borrowing available was \$68,579,000 (2004 - \$75,000,000), with outstanding letters of credit of \$4,855,000 (2004 - \$4,474,000) and bank indebtedness bringing the unused portion of the line to \$63,724,000 (2003 - \$40,188,000).

#### (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 September 30, 2005, the Revolving Line was drawn by US\$25,000,000 (2004 - US\$31,700,000) and revalued at the month-end exchange rate to CAD\$29,067,000 (2004 - CAD\$39,993,000). 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 September 30, 2005, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (2004 - US\$35,000,000) and revalued at the month-end exchange rate to CAD\$40,695,000 (2004 - CAD\$44,256,000). 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		29,067
2008		-
2009		40,695
2010		-
	\$	69,762

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2005 and 2004 (unaudited)

### 7. Other income:

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 months Sept. 30, 2005	9 months Sept. 30, 2004
Gain on settlement of timber takeback	\$ -	\$ -	\$ 6,373	\$ -
Gain on disposal of surplus property, plant and equipment	10,072	69	12,557	2,852
Equity income participation in gain on disposal of Western Stevedoring	-	-	19,501	-
Other income (expense)	(301)	-	(301)	-
	\$ 9,771	\$ 69	\$ 38,130	\$ 2,852

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 1<sup>st</sup> Quarter.

On April 21, 2005, 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 2<sup>nd</sup> Quarter.

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 recorded sale proceeds of \$12,975,000 and an after-tax gain of approximately \$7,700,000 million in the 3<sup>rd</sup> Quarter of 2005.

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

In the second 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 to reduce the carrying values of these assets to estimated fair values.

During the second 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.

In the third quarter, the Company recorded a further \$1,136,000 in severance costs as it started implementation of its strategic plans for non-core assets.

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

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 months Sept. 30, 2005	9 months Sept. 30, 2004
Property, plant, equipment and timber write-downs	\$ -	\$ 14,926	\$ 30,277	\$ 15,121
Severance and other restructuring costs (recoveries)	1,136	5,217	(410)	5,622
Other (recoveries)	-	-	(2,270)	-
	\$ 1,136	\$ 20,143	\$ 27,597	\$ 20,743

### 9. Net earnings (loss) per share:

	3 months Sept. 30, 2005			3 months Sept. 30, 2004		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings (loss) per share	\$ 4,704	48,693	\$ 0.10	\$ (3,055)	48,409	\$ (0.06)
Share options	-	530	-	-	824*	-
Diluted earnings (loss) per share	\$ 4,704	49,223	\$ 0.10	\$ (3,055)	48,409*	\$ (0.06)
	9 months Sept. 30, 2005			9 months Sept. 30, 2004		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 24,585	48,676	\$ 0.51	\$ 9,479	48,407	\$ 0.20
Share options	-	611	-	-	749	-
Diluted earnings per share	\$ 24,585	49,287	\$ 0.50	\$ 9,479	49,156	\$ 0.19

\*Where the addition of share options to the total shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those share options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 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 Sept. 30, 2005	3 Months Sept. 30, 2004	9 months Sept. 30, 2005	9 months Sept. 30, 2004
Canada	\$ 56,764	\$ 85,533	\$ 173,480	\$ 232,231
United States	124,314	79,265	329,403	183,449
Japan	17,929	49,714	61,825	133,127
Other export	15,229	24,440	55,862	71,983
	\$ 214,236	\$ 238,952	\$ 620,570	\$ 620,790

Sales by product line are as follows:

	3 Months Sept. 30, 2005	3 Months Sept. 30, 2004	9 months Sept. 30, 2005	9 months Sept. 30, 2004
Lumber	\$ 166,218	\$ 180,979	\$ 490,124	\$ 468,220
Logs	26,707	37,586	74,490	97,399
Wood chips and other by products	9,052	11,143	25,546	28,987
Other	12,259	9,244	30,410	26,184
	\$ 214,236	\$ 238,952	\$ 620,570	\$ 620,790

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

	Sept. 30, 2005	Sept. 30, 2004
Canada	\$ 232,136	\$ 266,388
United States	138,194	78,417
	\$ 370,330	\$ 344,805

### 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 on September 10, 2004, under protest. On October 12, 2004, the NAFTA panel issued an order affirming the negative determination of the ITC. The U.S. administration filed an appeal of the NAFTA injury decision to an Extraordinary Challenge Committee ("ECC"). On August 10, 2005 the ECC unanimously dismissed the U.S. Extraordinary Challenge in its entirety. The ECC upheld the NAFTA Panel decisions overturning the ITC rulings that Canadian softwood lumber imports threatened to injure the U.S. industry. The determination by the ECC could result in the termination of the duty cases and the refund of duties, with interest. However, the U.S. Coalition for Fair Lumber Imports has announced plans to initiate a constitutional challenge of the entire NAFTA dispute settlement system as a result of the ECC ruling. In addition, the U.S. administration takes the position that an ITC decision, issued on November 24, 2004, to bring the U.S. into compliance with an earlier adverse WTO decision, supersedes the September 10, 2004, ITC decision, thereby mooting the NAFTA appeals and ECC decision.

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 ("CVD") 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 USDOC is scheduled to announce in early December 2005 final assessment rates for the first Administrative review period and new deposit rates for the second Administrative review period.

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 percent. In a unanimous decision for Canada, the Panel overturned the USDOC's last decision. If the USDOC fully implements the Panel decision, we understand that the CVD rate will be less than 1.0 percent meaning the duty must be revoked entirely. The USDOC has been ordered to comply with the remand by October 28, 2005. However, the USDOC could pursue further legal proceedings to delay the implementation of the decision and the return of deposits.

The Company has recorded \$8,022,000 (2004 - \$11,427,000) for the quarter and \$22,921,000 (2004 - \$30,182,000) for the nine months ended September 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 September 30, 2005 charged to operations total \$115,912,000 (US\$85,834,000). These total U.S. deposits translated at quarter-end exchange rates equate to CAD\$99,799,000 at September 30, 2005.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2005 and 2004 (unaudited)

### 11. Contingencies (continued):

#### (a) U.S. Softwood Lumber dispute (continued):

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.

#### (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	3 Months	9 months	9 months
	Sept. 30, 2005	Sept. 30, 2004	Sept. 30, 2005	Sept. 30, 2004
Defined contribution plan	\$ 403	\$ 454	\$ 1,314	\$ 1,396
Defined benefit plan	116	203	388	470
Unionized employees' pension plan	1,278	1,458	3,456	3,865
U.S. employees benefit plan	110	-	423	-
Senior management supplementary pension plan	41	26	276	79
Total pension expense	\$ 1,948	\$ 2,141	\$ 5,857	\$ 5,810

### 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 September 30, 2005, the Company has outstanding obligations to sell a maximum of US\$7,000,000 at an average rate of CAD\$1.1731 and Japanese ¥160,000,000 at an average rate of ¥90.21 to the CAD\$1.00 during 2005. All foreign currency gains or losses to September 30, 2005 have been recognized in the statement of operations.

During 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. All gains or loss on the swap have been recognized in the Statement of Operations.

#### (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 September 30, 2005, the company received cash proceeds of \$20,000,000 (2004 - \$25,000,000), from the sale of receivables.