



International Forest Products Limited

Third Quarter Report

For the three and nine months ended September 30, 2006

Management Discussion and Analysis

Dated as of October 24, 2006.

This Management Discussion and Analysis (“MD&A”) provides a review of Interfor’s financial performance for the three and nine months ended September 30, 2006 relative to 2005, the Company’s financial condition and future prospects. The MD&A should be read in conjunction with the interim Consolidated Financial Statements for the three and nine months ended September 30, 2006 and 2005 and Interfor’s Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2005 and 2004 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”). In the MD&A reference is made to EBITDA and EBITDA excluding Other Income. EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of property, plant, equipment and timber. 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 \$1.6 million or \$0.03 per share in the 3rd Quarter of 2006 and net earnings of \$18.3 million or \$0.38 per share (diluted \$0.37 per share) for the nine months ended September 30, 2006. This compares to net earnings of \$4.7 million or \$0.10 per share in the 3rd Quarter of 2005 and net earnings of \$24.6 million or \$0.51 per share (diluted \$0.50 per share) for the nine months ended September 30, 2005. EBITDA excluding Other Income was \$13.9 million in the 3rd Quarter and \$57.2 million for the nine months ended September 30, 2006 compared to \$13.8 million in the 3rd Quarter and \$58.5 million in the 1st nine months of 2005.

Despite the significant drop in the Company’s average lumber price realizations (as shown in the table “Volume and Price Statistics” below) the level of operating earnings before considering the impact of restructuring charges and asset write-downs improved in 2006 over 2005 levels for both the 3rd Quarter and the nine months ended September 30. Increases in prices for pulp chips and logs sold to third parties, and lower duty rates helped to offset the impact of falling lumber prices. Operating earnings for the 1st nine months of 2006 also includes a \$2.1 million recovery of prior years’ stumpage payments which was received in the 1st Quarter of 2006.

Lumber shipments totalled 304 and 960 million board feet in the 3rd Quarter and 1st nine months of 2006 respectively compared to 308 and 828 million board feet in the 3rd Quarter and 1st nine months of 2005. The increase in year-to-date shipments in 2006 reflects increased production and sales from the Adams Lake and Queensboro sawmills and the addition of the Molalla mill (acquired May 31, 2005). Log production in the Company’s B.C. operations was 707,000 and 1,765,000 cubic metres in the 3rd Quarter and 1st nine months of 2006 compared to 712,000 and 1,924,000 cubic metres in the 3rd Quarter and 1st nine months of 2005. Log production in 2006 got off to a slow start due to 1st Quarter winter weather related shutdowns on the B.C. Coast.

Sales revenue was \$205.9 million in the 3rd Quarter and \$643.4 million in the 1st nine months of 2006. Sales revenue was \$214.2 million and \$620.6 million in the corresponding periods of 2005. The lower average sales return for lumber was the most significant factor in the drop in sales revenue in the 3rd Quarter of 2006 (see “Volume and Price Statistics” below)

During the 3rd Quarter of 2006 Interfor paid \$4.2 million (\$2.7 million after tax or \$0.06 per share) in deposits for countervailing duty (“CVD”) and antidumping duty (“ADD”) on shipments of 82 million board feet from Canada to the U.S. In the 3rd Quarter of 2005 duties totalled \$8.0 million (\$5.3 million after tax or \$0.11 per share) on lumber shipments of 92 million board feet. At the end of the 3rd Quarter of 2006, Interfor had paid total deposits of US\$105.9 million (CAD\$118.3 million utilizing September 30, 2006 exchange rates) since the deposit requirement came into effect in May 2002. Total CVD and ADD duties paid for the 1st nine months of 2006 were \$14.7 million (1st nine months of 2005 - \$22.9 million) on shipments of 292 million board feet (2005 - 234 million board feet). Although volumes shipped to the U.S. for the nine months ended September 30, 2006 are up from 2005 levels the amount of duty is down due to reductions in duty deposit rates and the strengthening of the CAD\$ versus the US\$. On October 12, 2006 the Governments of Canada and the United States implemented the terms of the Softwood Lumber Agreement (“SLA” – see “CANADA – U.S. SOFTWOOD LUMBER AGREEMENT” below).

In the 3rd Quarter of 2006 Interfor realized a recovery of previously expensed long-term incentive compensation costs of \$0.1 million compared to an expense of \$0.2 million in the 3rd Quarter of 2005. For the nine months ended September 30, 2006 the Company recorded a recovery of long-term incentive compensation costs of \$0.8 million compared to an expense of \$0.8 million for the corresponding period in 2005.

Equity earnings are lower than 2005 levels for both the 3rd Quarter and the 1st nine months due to reduced earnings by Seaboard Shipping Company Limited.

In the 3rd Quarter of 2006, the Company completed the sale of the MacKenzie Seizai sawmill, B.W. Creative Wood Industries Ltd., surplus land and other surplus logging and manufacturing assets for proceeds of \$17.0 million. The gain of \$1.5 million is included in Other Income for the 3rd Quarter of 2006. The following table shows the components of other income for 2006 and 2005:

	3 Months Sept.30, 2006	3 Months Sept. 30, 2005	9 Months Sept. 30, 2006	9 Months Sept. 30, 2005
	(millions of dollars)			
Gain on disposal of surplus property, plant and equipment	\$ 1.5	\$ 10.1	\$ 14.1	\$ 12.5
Gain on settlement of timber takeback	-	-	-	6.4
Equity income participation in gain on disposal of Western Stevedoring	-	-	-	19.5
Other	(0.9)	(0.3)	(0.4)	(0.3)
	\$ 0.6	\$ 9.8	\$ 13.7	\$ 38.1

SELECTED QUARTERLY FINANCIAL INFORMATION

	2006 <u>Qtr 3</u>	2006 <u>Qtr 2</u>	2006 <u>Qtr 1</u>	2005 <u>Qtr 4</u>	2005 <u>Qtr 3</u>	2005 <u>Qtr 2</u>	2005 <u>Qtr 1</u>	2004 <u>Qtr 4</u>
	(millions of dollars except share and per share amounts)							
Sales - Lumber	153.9	173.5	177.7	171.3	166.2	161.8	162.1	165.6
- Logs	28.1	21.4	14.6	23.3	26.7	30.4	17.3	29.2
- Wood chips and other by-products	11.3	9.3	9.1	8.6	9.0	8.3	8.2	9.4
- Other	12.6	19.7	12.2	11.5	12.3	12.9	5.3	8.5
Total Sales	205.9	223.9	213.6	214.7	214.2	213.4	192.9	212.7
Operating earnings (loss) before restructuring costs and asset write-downs	-	8.3	8.5	(0.6)	(2.8)	6.6	7.1	-
Operating earnings (loss)	-	0.3	8.9	(14.7)	(4.0)	(19.9)	7.1	(5.3)
Net earnings (loss)	1.6	8.0	8.7	(4.9)	4.7	9.0	10.9	15.2
Net earnings (loss) per share – basic	0.03	0.17	0.18	(0.10)	0.10	0.18	0.22	0.31
– diluted	0.03	0.16	0.18	(0.10)	0.10	0.18	0.22	0.31
EBITDA ³	14.5	33.7	22.7	19.7	23.6	44.9	28.1	33.7
EBITDA excluding Other Income	13.9	23.6	19.7	16.3	13.8	23.5	21.2	15.0
Cash flow from operations ¹ per share	0.29	0.43	0.38	0.03	0.17	0.43	0.36	0.19
Shares outstanding – end of period (millions) ²	48.3	48.4	48.7	48.7	48.7	48.7	48.7	48.6
– weighted average (millions)	48.4	48.6	48.7	48.7	48.7	48.7	48.7	48.5

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

2 As at October 24, 2006 the number of shares outstanding by class are: Class A Subordinate Voting shares – 47,324,896 Class B Common shares – 1,015,779 Total – 48,340,675.

3 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and write-downs of property, plant, equipment and timber. 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)	1.6	8.0	8.7	(4.9)	4.7	9.0	10.9	15.2
Add: Income taxes (recovery)	(1.3)	2.1	3.0	(6.3)	0.7	(6.5)	4.9	(1.4)
Interest expense	0.9	1.0	1.0	1.3	1.3	1.0	1.0	1.3
Depletion and amortization	13.4	14.6	10.4	15.5	15.8	14.9	11.3	13.3
Restructuring costs, asset write-downs and other	-	8.0	(0.4)	14.1	1.1	26.5	-	5.3
EBITDA	14.5	33.7	22.7	19.7	23.6	44.9	28.1	33.7
Deduct: Other income	(0.6)	(10.1)	(3.0)	(3.4)	(9.8)	(21.4)	(6.9)	(18.7)
EBITDA excluding Other Income	13.9	23.6	19.7	16.3	13.8	23.5	21.2	15.0

Volume and Price Statistics

	2006 <u>Qtr 3</u>	2006 <u>Qtr 2</u>	2006 <u>Qtr 1</u>	2005 <u>Qtr 4</u>	2005 <u>Qtr 3</u>	2005 <u>Qtr 2</u>	2005 <u>Qtr 1</u>	2004 <u>Qtr 4</u>
Lumber sales (million fbm)	304	328	328	333	308	263	256	272
Lumber production ¹ (million fbm)	292	326	325	316	308	266	253	246
Log Sales ² (thousand cubic metres)	315	224	178	323	363	379	184	350
Log production (B.C. operations) (thousand cubic metres)	707	667	391	634	712	765	447	573
Average price – lumber ³ (\$/thousand fbm)	\$506	\$530	\$540	\$514	\$539	\$615	\$633	\$609
Average price – logs ² (\$/cubic metre)	\$89	\$95	\$81	\$71	\$73	\$80	\$84	\$79
Average price – pulp chips (\$/thousand fbm)	\$35	\$26	\$25	\$24	\$25	\$27	\$29	\$33

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

2 B.C. coastal operations

3 Gross sales before countervailing and antidumping duties

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are impacted by a number of factors including weather, ground conditions and fire season woods closures and generally experience higher production levels in the latter half of the 1st quarter, throughout the 2nd and 3rd quarters and in the first half of the 4th 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 1st quarter due to reduced construction activity which increases during the spring, summer and fall. The significant increase in earnings in the 4th Quarter of 2004 was largely due to an increase in Other Income, consisting of gains on surplus property sales and a break fee earned on the attempted acquisition of Riverside Forest Products Limited. The declines in operating earnings and net earnings in the 3rd and 4th Quarters of 2005 was largely a result of declines in product selling prices and the continued strengthening of the Canadian dollar against the U.S. dollar. The drop in earnings in the 3rd Quarter of 2006 was primarily due to lower lumber sales volumes and prices.

CASH FLOW AND FINANCIAL POSITION

During the 3rd Quarter of 2006 Interfor generated \$13.9 million (3rd Quarter of 2005 - \$8.4 million) in cash from operations before changes in working capital, and \$0.1 million (3rd Quarter of 2005 - \$22.7 million) after changes in working capital were considered. Effective July 17, 2006, the Company reduced its sales of receivables under its accounts receivable securitization program from \$20.0 million to nil. This resulted in an increase in cash used in the accounts receivable component of working capital which was offset in part by lower sales prices and volumes related to lumber. Cash generated from working capital in the 3rd Quarter of 2006 included \$10.9 million from inventories which was attributable to lower volumes and values of both log and lumber inventories.

Cash flow from operations including working capital changes for the 1st nine months of 2006 was \$36.2 million (1st nine months of 2005 - \$54.5 million). The reduction in the accounts receivable securitization program was again a major factor in the reduction in cash flow as the program at September 30, 2005 was \$20.0 million compared to nil at September 30, 2006.

Capital spending in the 3rd Quarter of 2006 amounted to \$27.4 million (3rd Quarter of 2005 - \$16.2 million) including \$5.6 million in roads and timber, \$4.4 million in maintenance capital and \$17.4 million in discretionary projects. Capital spending for the 1st nine months of 2006 totalled \$69.5 million (1st nine months of 2005 - \$58.7 million).

Proceeds from disposals of property, plant and equipment in the 3rd Quarter of 2006 totalled \$17.0 million and included the sale of the MacKenzie Seizai sawmill, B.W. Creative Wood Industries Ltd., surplus land and other surplus logging and manufacturing assets. In the 3rd Quarter of 2005, Interfor received \$14.2 million of proceeds from the sale of surplus property in Squamish, B.C. and surplus logging and manufacturing equipment.

Proceeds from disposals of property, plant and equipment in the 1st nine months of 2006 totalled \$38.1 million (1st nine months of 2005 - \$38.4 million). The 1st nine months of 2005 included \$22.1 million of proceeds from settlement of the Province of B.C. timber takeback.

In the 2nd Quarter of 2006, the Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain the same, except both the maximum operating line of credit and the interest rate premiums were reduced. The maximum available credit as at September 30, 2006 was \$60.0 million (September 30, 2005 - \$75.0 million). The line matures on April 26, 2007.

Effective July 12, 2006, the Company reduced the maximum available credit under the Canadian revolving term line ("Revolving Line") to \$40.0 million (September 30, 2005 - \$90.0 million). As at September 30, 2006, the Revolving Line was undrawn (September 30, 2005 - US\$25.0 million revalued to CAD\$29.1 million). The Revolving Line matures on April 27, 2007. As at September 30, 2006, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35.0 million (September 30, 2005 - US\$35.0 million) and was revalued at the month-end exchange rate to CAD\$39.1 million (September 30, 2005 - CAD\$40.7 million). The Non-Revolving Line matures on September 1, 2009.

Interfor's net debt was \$24.6 million at September 30, 2006 (December 31, 2005 - \$29.7 million and September 30, 2005 - \$66.7 million), representing a ratio of net debt to invested capital of 5.8% compared to 14.5% at the end of the 3rd Quarter of 2005, and 7.1% at December 31, 2005. The net debt amounts and ratios for 2005 exclude short term advances from the Seaboard Limited Partnership of \$27.8 million at September 30, 2005 and \$54.4 million at December 31, 2005. These advances were repaid January 3, 2006 by way of setoff against an income distribution from the Seaboard Limited Partnership. At September 30, 2006 the Company's available credit under its various operating lines and term lines totalled approximately \$109.5 million. In addition, at September 30, 2006 the Company had cash balances of \$15.2 million.

CENTRAL AND NORTH COAST LAND USE DECISIONS

On February 7, 2006, the Government of B.C. ("Crown") announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The land use decisions protect vast areas of temperate rain forest, and a commitment to Ecosystem Based Management ("EBM"). The purpose of EBM is to ensure the well being of ecosystems, people and their communities. The combined Central Coast and North Coast Land and Resource Management Plan areas are approximately 6.4 million hectares. The total combined protected areas for these regions are approximately 1.8 million hectares.

On September 29, 2006 the Chief Forester of the Crown announced temporary reductions in the allowable annual cut ("AAC") in the plan areas by 572,000 cubic metres, effective immediately. Interfor's portion of this reduction is estimated to be 127,000 cubic metres, approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years to account for anticipated reductions for areas set aside during the planning process, and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure once a permanent removal of AAC has been made in accordance with the Forest Act. The amount and timing of any compensation as a result of these reductions is not yet determinable. The Company will record any compensation at the time the amounts to be received can be confidently estimated.

CANADA – U.S. SOFTWOOD LUMBER AGREEMENT

On April 27, 2006 the federal governments of Canada and the United States reached a framework softwood lumber agreement (“SLA”) to resolve the softwood lumber dispute. On July 1, 2006 Canada and the United States agreed on the legal text of the SLA. On October 12, 2006 the terms of the SLA were implemented although the SLA requires formal approval by the Canadian Parliament. Also on October 12, 2006, the U.S. Department of Commerce (“USDOC”) revoked the antidumping and countervailing duty orders effective May 22, 2002 without the possibility of reinstatement. In addition, the USDOC indicated that it would instruct U.S. Customs and Border Protection (“CBP”) to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The timing of receipt of the duty refunds is uncertain at this time, but the terms of the SLA contemplate that the refunds will occur within six months of October 12, 2006 (the effective date of the SLA). The refunded duties plus interest will be reduced by approximately 19% to fund amounts to be paid to U.S. interests. Interfor estimates that our pre-tax recovery will be approximately US\$95.0 million (CAD\$106.2 million at September 30, 2006 exchange rates) after considering interest and the 19% charge. The Company expects to record the recovery of duties once substantially all of the conditions of the SLA have been met.

The SLA has a term of seven years and provides for an extension of two years and for early termination by either government after two years. Canadian softwood lumber exporters will pay an export charge when the price of lumber is at or below US\$355 per thousand board feet, as determined by the Random Lengths Framing Lumber Composite Price (“CP”). The Province of B.C. has the right to choose between an export charge only (“Option A”) or a lower export charge with a quota (“Option B”). This choice is made separately for the B.C. Coast and B.C. Interior regions. The Province of B.C. has chosen Option A for both the B.C. Coast and the B.C. Interior. The Province of B.C. will have the opportunity to change options on January 1, 2010 and January 1, 2013. The Option A export charge effective for October 2006 is 15% as the prevailing CP for September 2006 was below US\$355.

NORMAL COURSE ISSUER BID

On November 9, 2005, the Company commenced a normal course issuer bid (“NCIB”) to acquire up to 2,384,000 Class A Subordinate Voting shares (“Class A Shares”) (approximately 5% of the outstanding Class A Shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of 2% of the outstanding Class A Shares being purchased in any 30-day period. During the 3rd Quarter of 2006 71,600 Class A Shares were purchased at an average price of \$6.60 per share. Since November 9, 2005 the Company has purchased 497,300 Class A Shares at an average price of \$6.87 per share. The NCIB will terminate no later than November 8, 2006.

OUTLOOK

Structural lumber prices in the North American market continued to decline in the 3rd Quarter and, in early October 2006, the Random Lengths Framing Lumber Composite Price reached its lowest level since January 2001. The implementation of the SLA in October with the initial 15% export tax on B.C. lumber, combined with numerous announcements of production curtailments in both Canada and the U.S. is expected to exert some upward pressure on structural lumber prices. However, the Company expects that the reduction in building activity and increased mortgage rates in the U.S. together with high levels of inventory in distribution channels should keep the increases to modest levels. Overall, we expect North American structural lumber prices to remain weak for the remainder of 2006 and into 2007.

Lumber prices in Japan remain reasonably firm but the potential for a slow down in Japan’s economic expansion combined with lower prices in North America could place downward pressure on prices. Strong demand for Cedar lumber has carried over into the 4th Quarter. Cedar prices are expected to remain reasonably firm in the coming months due to the lack of available supply.

As discussed above under “CANADA – U.S. SOFTWOOD LUMBER AGREEMENT” the timing of the receipt of the anticipated duty refund is uncertain at this time.

The Company plans to operate production for the Japan market at capacity in the 4th Quarter of 2006. Cedar production will be curtailed to some extent due to log availability. The Queensboro mill is scheduled to operate on one shift throughout the 4th Quarter and the U.S. mills will operate at approximately 75% of capacity. The Adams Lake mill is expected to operate on a normal schedule in the 4th Quarter.

In the 1st Quarter of 2006 the Company announced an agreement to sell its helicopter logging operations for \$4.0 million plus an amount for working capital and additional amounts of up to \$1.5 million dependent upon future helicopter logging services. The transaction has not yet received Canadian regulatory approval and is now expected to close in the 4th Quarter of 2006. Interfor will continue its program to monetize non-core and non-performing assets in the 4th Quarter of 2006.

FORWARD LOOKING STATEMENTS

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

ADDITIONAL INFORMATION

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



William L. Sauder
Chairman



Duncan K. Davies
President and Chief Executive Officer



CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended September 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Sept. 30, 2006	3 Months Sept. 30, 2005	9 Months Sept. 30, 2006	9 Months Sept. 30, 2005
Sales	\$ 205,932	\$ 214,236	\$ 643,442	\$ 620,570
Costs and expenses:				
Production	183,617	188,485	559,756	528,858
Selling and administration	4,700	4,552	14,595	15,142
Long term incentive compensation	56	200	(785)	806
U.S. countervailing and antidumping duty deposits (note 11)	4,151	8,022	14,725	22,921
Amortization of plant and equipment	7,222	7,409	22,271	19,927
Depletion and amortization of timber, roads and other	6,171	8,404	16,112	22,077
	205,917	217,072	626,674	609,731
Operating earnings (loss) before restructuring costs	15	(2,836)	16,768	10,839
Restructuring costs and write-downs of property, plant, equipment and timber (note 7)	-	1,136	7,577	27,597
Operating earnings (loss)	15	(3,972)	9,191	(16,758)
Interest expense on long-term debt	(821)	(1,035)	(2,383)	(2,619)
Other interest expense	(42)	(254)	(514)	(744)
Other income (note 6)	647	9,771	13,739	38,130
Equity in earnings of investee companies	442	846	2,001	5,626
	226	9,328	12,843	40,393
Earnings before income taxes	241	5,356	22,034	23,635
Income tax expense (recovery):				
Current	(2,757)	1,366	(2,810)	3,700
Future	1,440	(714)	6,524	(4,650)
	(1,317)	652	3,714	(950)
Net earnings	\$ 1,558	\$ 4,704	\$ 18,320	\$ 24,585
Net earnings per share (note 9)				
Basic	\$ 0.03	\$ 0.10	\$ 0.38	\$ 0.51
Diluted	\$ 0.03	\$ 0.10	\$ 0.37	\$ 0.50

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the nine months ended September 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)

	9 Months Sept. 30, 2006	9 Months Sept. 30, 2005
Retained earnings, beginning of year	\$ 85,943	\$ 66,218
Net earnings	18,320	24,585
Retained earnings, end of period	\$ 104,263	\$ 90,803

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2006 and 2005 (unaudited)

(thousands of Canadian dollars)

	3 Months Sept. 30, 2006	3 Months Sept. 30, 2005	9 Months Sept. 30, 2006	9 Months Sept. 30, 2005
Cash provided by (used in):				
Operating activities:				
Net earnings	\$ 1,558	\$ 4,704	\$ 18,320	\$ 24,585
Items not involving cash:				
Amortization of plant and equipment	7,222	7,409	22,271	19,927
Depletion and amortization of timber, roads and other	6,171	8,404	16,112	22,077
Future income taxes	1,440	(714)	6,524	(4,650)
Reforestation liability	(875)	(425)	1,201	554
Other long-term liabilities	(538)	(107)	(1,352)	(2,070)
Equity in earnings of investee companies	(442)	(846)	(2,001)	(5,626)
Write-downs of property, plant, equipment and timber	-	-	5,868	30,277
Other (note 6)	(647)	(10,072)	(13,297)	(38,414)
	13,889	8,353	53,646	46,660
Cash generated from (used in) operating working capital:				
Accounts receivable	(17,506)	2,553	(25,216)	(6,753)
Inventories	10,946	8,948	18,941	14,948
Prepaid expenses	(1,357)	(2,679)	(3,754)	(577)
Accounts payable and accrued liabilities	(2,863)	4,117	(3,147)	(390)
Income taxes	(2,979)	1,427	(4,238)	650
	130	22,719	36,232	54,538
Investing activities:				
Additions to property, plant and equipment	(21,764)	(11,076)	(53,447)	(42,564)
Additions to logging roads and timber	(5,608)	(5,132)	(16,013)	(16,120)
Additions to deferred start-up costs	-	(2,100)	-	(3,215)
Proceeds on disposal of property, plant, equipment, timber and roads	17,013	14,174	38,073	38,432
Acquisitions	-	-	-	(79,905)
Cash received on acquisition of subsidiary	-	-	-	2,650
Investments and other assets	(282)	(281)	1,494	5,417
	(10,641)	(4,415)	(29,893)	(95,305)
Financing activities:				
Issuance of share capital, net of expenses	25	97	550	287
Repurchase of share capital	(474)	-	(3,169)	-
Increase (decrease) in bank indebtedness	695	(14,150)	(7,358)	-
Funds from promissory note payable to investee company	-	-	-	27,757
Additions to long-term debt	-	-	-	31,405
Repayments of long-term debt	-	-	-	(32,910)
	246	(14,053)	(9,977)	26,539
Foreign exchange (gain) loss on cash and cash equivalents held in a foreign currency:	63	(1,180)	(250)	(960)
Increase (decrease) in cash	(10,202)	3,071	(3,888)	(15,188)
Cash on deposit, beginning of period	25,375	-	19,061	18,259
Cash on deposit, end of period	\$ 15,173	\$ 3,071	\$ 15,173	\$ 3,071
Supplementary disclosures				
Cash interest paid	\$ 863	\$ 1,289	\$ 2,897	\$ 3,363
Cash income taxes paid	\$ 8	\$ 210	\$ 721	\$ 3,421

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

September 30, 2006 and 2005 (unaudited) and December 31, 2005 (audited)

(thousands of Canadian dollars)

	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Assets			
Current assets:			
Cash	\$ 15,173	\$ 19,061	\$ 3,071
Accounts receivable (note 13(c))	56,834	37,911	53,255
Income taxes recoverable	5,095	625	-
Inventories	79,997	102,960	104,159
Prepaid expenses	8,811	6,439	10,933
Future income taxes	4,154	6,659	6,030
Current assets held for sale (note 3)	1,338	-	-
	171,402	173,655	177,448
Investments and other assets			
Investments and advances (note 4)	7,845	62,370	56,833
Deferred financing fee, net of accumulated amortization	236	377	449
	8,081	62,747	57,282
Property, plant and equipment, net of accumulated amortization	294,358	289,227	294,350
Timber and logging roads, net of accumulated depletion and amortization	51,394	52,375	60,286
Goodwill and other intangible assets	13,135	15,694	15,694
Future income taxes	-	3,980	-
Long-lived assets held for sale (note 3)	2,265	-	-
	\$ 540,635	\$ 597,678	\$ 605,060
Liabilities and Shareholders' Equity			
Current liabilities:			
Bank indebtedness (note 5(a))	\$ 695	\$ 8,053	\$ -
Accounts payable and accrued liabilities	77,873	82,685	86,525
Income taxes payable	-	-	1,115
Promissory note payable to investee company (note 4)	-	54,354	27,757
Future income taxes payable	313	351	-
	78,881	145,443	115,397
Reforestation liability, net of current portion	16,443	15,242	17,536
Long-term debt (note 5(b))	39,120	40,705	69,762
Other long-term liabilities	5,315	6,667	7,103
Future income taxes	2,599	3,100	2,886
Shareholders' equity:			
Share capital (note 8)			
Class A subordinate voting shares	292,401	294,683	294,868
Class B common shares	4,080	4,080	4,080
Contributed surplus	7,848	8,186	8,201
Cumulative translation adjustment	(10,315)	(6,371)	(5,576)
Retained earnings	104,263	85,943	90,803
	398,277	386,521	392,376
	\$ 540,635	\$ 597,678	\$ 605,060

Contingencies and subsequent event (note 11)

See accompanying notes to consolidated financial statements

On behalf of the Board:

W. L. Sauder
Director

H. C. Kalke
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, 2006 and 2005 (unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements include the accounts of International Forest Products Limited and its subsidiaries (collectively referred to as "Interfor" or the "Company"). These interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with Interfor's most recent annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2005.

2. Seasonality of operating results:

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

3. Assets held for sale:

On February 10, 2006, the Company signed an agreement to sell its helicopter logging operations, conducted by its wholly-owned subsidiary, Helifor Industries Limited. The transaction is subject to regulatory approval and is expected to close prior to the year-end. In addition, the Company developed a formal plan to dispose of certain surplus logging equipment over the next year.

As September 30, 2006, the Company has classified these assets as assets held for sale.

4. Payable to investee company:

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

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

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

5. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

	Canadian Operating Facility	Mapri and BWC	U.S. Operating Facility	Total
September 30, 2006				
Available line of credit	\$ 60,000	\$ -	\$ 16,766	\$ 76,766
Maximum borrowing available	60,000	-	14,690	74,690
Unused portion of line	54,907	-	14,556	69,463
Outstanding letters of credit included in line utilization	4,461	-	134	4,595
September 30, 2005				
Available line of credit	\$ 75,000	\$ 4,000	\$ 17,441	\$ 96,441
Maximum borrowing available	68,579	2,740	17,441	88,760
Unused portion of line	63,724	2,740	14,975	81,439
Outstanding letters of credit included in line utilization	4,855	-	140	4,995

In the second quarter of 2006, the Company renewed its existing Canadian operating line of credit. The terms and conditions of the line remain unchanged, except for a reduction in the interest rate premiums, and a reduction in the maximum operating credit available to \$60,000,000 (June 30, 2005 - \$75,000,000). The line is 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.

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, 2006 and 2005 (unaudited)

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

(a) Bank indebtedness (continued):

In the first quarter of 2006, the Company renewed its existing U.S. operating line of credit. The terms and conditions of the line remain unchanged, with a maximum operating line of credit totalling US\$15,000,000. The line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific Inc. The loan bears interest at U.S. bank prime or, at the Company's option, at LIBOR plus 1¼%. The line of credit is secured by the accounts receivable and inventories of Interfor Pacific Inc. and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The line matures on March 1, 2007.

On acquisition of Mapri Developments Ltd. ("Mapri") on May 31, 2005, the Company renewed Mapri's existing revolving line of credit of \$4,000,000. On September 30, 2006, this line was cancelled in conjunction with the commencement of the wind-up of Mapri and the subsequent sale of all assets of B.W. Creative Wood Industries Ltd. ("BWC"), a wholly-owned subsidiary of Mapri.

(b) Long-term debt:

In the third quarter of 2006, the Company reduced the maximum borrowing available under the Company's Canadian revolving term line ("Revolving Line") to \$40,000,000 (September 30, 2005 - \$90,000,000). As at September 30, 2006, the Revolving Line was undrawn (September 30, 2005 - US\$25,000,000 revalued to CAD\$29,067,000). 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, 2006, the \$US non-revolving term line (the "Non-Revolving Line") remains fully drawn at US\$35,000,000 (September 30, 2005 - US\$35,000,000) and was revalued at the month-end exchange rate to CAD\$39,120,000 (September 30, 2005 - CAD\$40,695,000). The Non-Revolving Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans and matures on September 1, 2009.

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

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

2006	\$	-
2007		-
2008		-
2009		39,120
2010		-
	\$	39,120

6. Other income:

	3 months Sept. 30, 2006	3 months Sept. 30, 2005	9 months Sept. 30, 2006	9 months Sept. 30, 2005
Gain on disposal of surplus property, plant and equipment	\$ 1,499	\$ 10,072	\$ 14,132	\$ 12,557
Gain on settlement of timber takeback	-	-	-	6,373
Equity income participation in gain on disposal of Western Stevedoring	-	-	-	19,501
Other expense	(852)	(301)	(393)	(301)
	\$ 647	\$ 9,771	\$ 13,739	\$ 38,130

In the third quarter of 2006, the Company commenced the wind up of Mapri and the shares of its wholly-owned subsidiary, BWC, were sold. The land and buildings were retained and will be leased to the purchaser. The Company also has a claim to any refund of duties to which BWC is entitled to under the softwood lumber agreement (see note 11) and will record the recovery as additional proceeds when substantially all of the conditions of the softwood lumber agreement have been met. This transaction, combined with the sale of all inventories, property, plant and equipment of the Mackenzie Sawmill and further sales of surplus logging and other assets generated proceeds of \$17,013,000 and a net gain of \$1,499,000 in the quarter.

During the second quarter of 2006, the Company completed the sale of surplus properties in Squamish, B.C. for sale proceeds of \$10,533,000 and a gain of \$8,534,000. In addition, all property, plant and equipment of Saltair Timber Products Limited and surplus equipment of Field Sawmill division on Vancouver Island, B.C. as well as surplus logging and other assets were sold in the quarter for proceeds of \$4,730,000 and a gain of \$1,574,000.

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

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, 2006 and 2005 (unaudited)

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

	3 Months Sept. 30, 2006	3 Months Sept. 30, 2005	9 months Sept. 30, 2006	9 months Sept. 30, 2005
Property, plant, equipment and timber write-downs	\$ -	\$ -	\$ 5,868	\$ 30,277
Severance and other restructuring costs (recoveries)	-	1,136	1,709	(410)
Other (recoveries)	-	-	-	(2,270)
	\$ -	\$ 1,136	\$ 7,577	\$ 27,597

In the second quarter, 2006, the Company reviewed the valuation of certain B.C. coastal assets which it did not consider to be part of its future core operations. An impairment charge of \$5,868,000 was recorded in the quarter to reduce the carrying values of these assets to estimated fair values. The Company continued its programs to improve its competitive cost structure resulting in additional severance charges of \$2,193,000 for the quarter (\$3,396,000 for the nine months).

During the first and second quarters, 2006, the Company received recoveries totalling \$1,687,000 from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia, as reimbursement for severance costs of workers who were displaced by the reductions in harvesting rights taken under the *Forestry Revitalization Act*. As the associated costs had been expensed in the current and prior years as restructuring costs, the recovery served to offset additional severance costs for these workers recorded in the current year to date. The Company continues to pursue mitigation of certain restructuring costs which it feels it is entitled to under the terms of the Trust, but the amount of any additional mitigation is not yet determinable and will be recorded when the amounts can be estimated.

In 2005, 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 \$30,277,000 was recorded to reduce the carrying values of these assets to estimated fair values.

8. Share capital:

On November 9, 2005, the Company commenced a normal course issuer bid to acquire up to 2,384,000 Class A Subordinate Voting shares ("Class A Shares") (representing approximately 5% of the outstanding Class A Shares) through the facilities of the Toronto Stock Exchange. Purchases are made at market prices with a maximum of two percent of the outstanding Class A Shares being purchased in any 30-day period. During the third quarter of 2006 the Company acquired 71,600 Class A shares at a total cost of \$474,000 and the shares were cancelled as purchased. The excess of the cost of the shares over the assigned value totaled \$32,000 and has been charged to contributed surplus. Over the first nine months of 2006, the Company acquired a total of 458,200 Class A shares at a total cost of \$3,169,000 and an excess of cost over assigned value of \$338,000. The normal course issuer bid will terminate no later than November 8, 2006.

9. Net earnings per share:

	3 months Sept. 30, 2006			3 months Sept. 30, 2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 1,558	48,397	\$ 0.03	\$ 4,704	48,693	\$ 0.10
Share options	-	540	-	-	530	-
Diluted earnings per share	\$ 1,558	48,937	\$ 0.03	\$ 4,704	49,223	\$ 0.10

	9 months Sept. 30, 2006			9 months Sept. 30, 2005		
	Net earnings	Shares	Per share	Net earnings	Shares	Per share
Basic earnings per share	\$ 18,320	48,571	\$ 0.38	\$ 24,585	48,676	\$ 0.51
Share options	-	603	-	-	611	-
Diluted earnings per share	\$ 18,320	49,174	\$ 0.37	\$ 24,585	49,287	\$ 0.50

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, 2006 and 2005 (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, 2006	3 months Sept. 30, 2005	9 months Sept. 30, 2006	9 months Sept. 30, 2005
Canada	\$ 67,392	\$ 56,764	\$ 186,015	\$ 173,480
United States	100,989	124,314	353,344	329,403
Japan	18,978	17,929	52,135	61,825
Other export	18,573	15,229	51,948	55,862
	\$ 205,932	\$ 214,236	\$ 643,442	\$ 620,570

Sales by product line are as follows:

	3 months Sept. 30, 2006	3 months Sept. 30, 2005	9 months Sept. 30, 2006	9 months Sept. 30, 2005
Lumber	\$ 153,893	\$ 166,218	\$ 505,093	\$ 490,124
Logs	28,127	26,707	64,128	74,490
Wood chips and other by products	11,288	9,052	29,722	25,546
Other	12,624	12,259	44,499	30,410
	\$ 205,932	\$ 214,236	\$ 643,442	\$ 620,570

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

	Sept. 30, 2006	Dec. 31, 2005	Sept. 30, 2005
Canada	\$ 207,010	\$ 214,211	\$ 232,136
United States	154,142	143,085	138,194
	\$ 361,152	\$ 357,296	\$ 370,330

11. Contingencies and subsequent event:

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

Effective December 12, 2005, the USDOC implemented new deposit rates based on its second Administrative review period (April 1, 2003 to March 31, 2004 for the CVD case; and May 1, 2003 to April 30, 2004 for the ADD case) and reduced the CVD deposit rate to 8.70% and the all others ADD rate to 2.11%. Effective January 23, 2006, the USDOC further amended the ADD rate to 2.10%, reducing the Company's combined CVD and ADD deposit rate to 10.80%. The Company has not recorded any receivable for prior periods related to the change in the cash deposit rate applicable to new shipments.

The Company has expensed \$14,725,000 (2005 - \$22,921,000) in duties for the nine months ended September 30, 2006. The Company has paid US\$105,857,000 in cash deposits since May 22, 2002. These total U.S. deposits translated at the September 30, 2006 exchange rate equate to \$118,316,000.

On April 27, 2006 the federal governments of Canada and the United States reached a framework softwood lumber agreement ("SLA") to resolve the softwood lumber dispute. On July 1, 2006 Canada and the United States agreed on the legal text of the SLA. On October 12, 2006 the terms of the SLA were implemented although the SLA requires formal approval by the Canadian Parliament. Also on October 12, 2006, the USDOC revoked the antidumping and countervailing duty orders effective May 22, 2002 without the possibility of reinstatement. In addition, the USDOC indicated that it would instruct U.S. Customs and Border Protection to cease collecting duties effective October 12, 2006 and to refund duties collected since May 22, 2002 together with accrued interest. The timing of receipt of the duty refunds is uncertain at this time, but the terms of the SLA contemplate that the refunds will occur within six months of October 12, 2006 (the effective date of the SLA).

The refunded duties plus interest will be reduced by approximately 19% to fund amounts to be paid to U.S. interests. Interfor estimates that the Company's pre-tax duty recovery will be approximately US\$94,978,000 (CAD\$106,157,000 at September 30, 2006 exchange rates) after considering interest and the 19% charge. The Company expects to record the recovery of duties once substantially all of the conditions of the SLA have been met.

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, 2006 and 2005 (unaudited)

12. Employee future benefits:

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

	3 months Sept. 30, 2006	3 months Sept. 30, 2005	9 months Sept. 30, 2006	9 months Sept. 30, 2005
Defined contribution plan	\$ 326	\$ 403	\$ 1,165	\$ 1,314
Defined benefit plan	116	116	359	388
Unionized employees' pension plan	801	1,278	2,923	3,456
U.S. employees benefit plan	153	110	487	423
Senior management supplementary pension plan	90	41	202	276
Total pension expense	\$ 1,486	\$ 1,948	\$ 5,136	\$ 5,857

13. Financial instruments:

(a) Fair value of financial instruments:

At September 30, 2006, the fair value of the Company's long-term debt approximated its carrying value of \$39,120,000 as the long-term debt bears interest at current market rates. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

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

As at September 30, 2006, the Company has outstanding obligations to sell a maximum of US\$6,000,000 at an average rate of CAD\$1.1249 and Japanese ¥350,000,000 at an average rate of ¥100.00 to the CAD\$1.00 during 2006. All foreign currency gains or losses to September 30, 2006 have been recognized in the Statement of Operations.

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

(c) Sale of receivables:

During 2000, the Company entered into an agreement to sell designated trade receivables, with limited recourse, to a Trust. As these trade receivables are collected, they are replaced by new receivables to maintain the aggregate outstanding balance. In the first quarter, 2006, the Company renewed this program and extended its termination date to March 31, 2007. On July 17, 2006, the Company reduced securitized receivables to nil (September 30, 2005 - \$25,000,000). The program minimum of \$20,000,000 must be reinstated by December 31, 2006 or the program will be cancelled on January 15, 2007.



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