International Forest Products Limited
First Quarter Report
For the three months ended March 31, 2012

Management's Discussion and Analysis

Dated as of May 3, 2012

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three months ended March 31, 2012 relative to 2011, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the interim Condensed Consolidated Financial Statements for the three months ended March 31, 2012 and 2011, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2011 and 2010 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with IAS 34 *Interim Financial Reporting* and International Financial Reporting Standards ("IFRS") except as noted herein. In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for other income (expense) and other income of an associate company. 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 not a defined term under IFRS, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

Forward-Looking Statements

This report contains forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included in the description of areas which are likely to be impacted by the description of future cash flows and liquidity under the headings "Overview", "Income Taxes" and "Cash Flow and Financial Position"; changes in accounting policy under the heading "Accounting Policy Changes"; in the description of economic conditions under the headings "Sales" and "Outlook"; and in the description of risks and uncertainties under the headings "Softwood Lumber Agreement Disputes" and "WorkSafeBC Orders Safety Reviews". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumptions as to general business and economic conditions in the U.S. and Canada, as well as other factors management believes are appropriate in the circumstances including, among others: product selling prices, raw material and operating costs, changes in foreign currency exchange rates, and other factors referenced herein. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described herein and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstance, except as required by law.

Review of Operating Results

Overview

The Company recorded a net loss of $6.5 million, or $0.12 per share for the first quarter of 2012 as compared to a net loss of $1.7 million, or $0.04 per share for the first quarter of 2011. EBITDA and Adjusted EBITDA for the first quarter of 2012 declined to $6.0 million and $5.8 million, compared to $11.6 million for both for the same quarter of 2011.

Before restructuring costs, certain foreign exchange gains (losses), certain other one-time items and the effect of unrecognized tax assets, the Company's net loss for the first quarter of 2012 amounted to $5.2 million or $0.09 per share as compared to a net loss of $1.7 million, or $0.03 per share for the first quarter of 2011. Share-based incentive compensation charges totalled $1.3 million or $0.02 per share in the first quarter, 2012 as compared to $3.5 million or $0.07 per share for the same quarter, 2011.

The first quarter of 2012 saw modest increases in domestic demand partially as a result of milder weather across North America. Industry-wide, domestic lumber supply was impacted by two North American mills destroyed by fire and by several large competitor mills being exclusively dedicated to export market production late in the quarter. As a result, prices reported by Random Lengths for Western SPF 2x4 #2&Btr ended the first quarter, 2012 at US$279 per mfbm, up by US$31 per mfbm over December, 2011 average prices.

Cooling Chinese demand through the second half of 2011 stabilized in the first quarter, 2012, as Chinese distributors reduced the backlog of lumber inventories that existed in the fourth quarter, 2011. Towards the end of the first quarter, 2012, Chinese lumber demand and prices began to show moderate improvement over the fourth quarter, 2011 sales and sales realizations. Log inventories in China, however, remained relatively high through most of the first quarter, 2012 which resulted in a decline in log export sales from the Company's B.C. Coastal logging operations, but also provided less competition for log purchases in the U.S. Pacific Northwest. China remains a price-sensitive market, tending to move largely in step with trends in the U.S.

The Japan markets were affected by an unusually harsh winter in the first quarter, 2012 which resulted in a delay in the spring buying. Towards the end of the first quarter, 2012 there also has been significant downward pressure on selling prices as Japanese purchasers try to mitigate the impacts of a depreciating yen against North American currencies.

The mild winter across much of the U.S. resulted in stronger than expected demand in the cedar markets in the first quarter, 2012 and generated higher sales realizations. Cedar production was curtailed for two weeks in early January, 2012 due to limited log availability.

Results quarter-over-quarter have also been impacted by the slightly weakened Canadian dollar which, relative to its U.S. counterpart depreciated by two percent on average for the first quarter, 2012 compared to the same period of 2011.

Sales

Lumber shipments totalled 320 million board feet for the first quarter, 2012, up marginally from 313 million board feet in the same quarter, 2011. Milder weather resulted in stronger North American demand as compared to the first quarter, 2011 which saw shipments challenged by weather related logistical issues as well as delays associated with railcar, truck and container availability, particularly in the B.C. Interior.

Excluding wholesale programs, first quarter, 2012 shipments to China declined 30% as compared to the first quarter, 2011. Export shipments and prices in the latter half of 2011 fell as Chinese buyers sought to reduce a large backlog of inventories. As North American prices for structural and dimension lumber products strengthened the Company redirected sales to North American markets to benefit from higher realizations in the first quarter, 2012 as compared to the fourth quarter, 2011. China volumes were supplanted by shipments to the North American market, which saw a 13% increase in lumber sales volumes, quarter-over-quarter, and increased to 71% of total lumber shipments in the first quarter, 2012 from 64% of shipments in the first quarter, 2011.

Average unit lumber sales values remained virtually unchanged for the first quarter, 2012 relative to the same period in 2011, reflecting weaker North American structural lumber product and export prices compared to the same period in 2011 offset by improved cedar prices. Sales prices in Japan also experienced downward pressure as purchasers struggled to maintain Japanese yen prices in response to the depreciation of the Japanese yen against the U.S. dollar towards the end of the first quarter, 2012. A slightly weaker Canadian dollar on average in the first quarter, 2012 as compared to the same quarter, 2011, positively impacted sales returns during the period.

Compared to the same period, 2011, log sales improved by $6.1 million or 29% in the first quarter, 2012. Canadian operations, which generate the bulk of log sales, showed an increase of 20% in volumes over the same quarter, 2011, primarily due to higher inventory levels available for sale from the B.C. Coast as compared to 2011, when fall storm damage and reduced logging operations reduced log inventory levels. On the B.C. Coast, a 75% increase in log sales resulted from increased operating rates to meet higher domestic demand. The increased domestic sales volumes are reflected in the average sale price for log sales on the B.C. Coast which decreased by $11 per cubic metre to $69 per cubic metre as higher-value export log volumes fell by 31%. Overall Canadian log sales prices increased by $3 per cubic metre to $64 per cubic metre as increased volumes from the B.C. Coast reduced the impact on sales mix of smaller, lower value logs typically sold in the B.C. Interior.

Pulp chip and other by-product revenues for the first quarter of 2012 were up 11% to $18.2 million compared to the first quarter of 2011 largely driven by increased sales values in the B.C. Interior and U.S. Average chip prices improved by 19% in the first quarter, 2012 as compared to the same period, 2011. Despite declines in U.S. pulp prices in late 2011, chip prices remain buoyed from sales contracts negotiated when pulp markets were stronger. U.S. chip prices in the U.S. Pacific Northwest are also affected by the increases in export logs which reduced the availability of fibre used in whole log chipping.

<u>Operating Costs</u>

Production costs for the first quarter of 2012 increased $15.5 million, or 10% compared to the same period in 2011.

Overall lumber production fell slightly in the first quarter, 2012 as compared to the same period of 2011, down by 9.2 million board feet or 3%. Minor production gains across the B.C. and were offset by decreased operating rates in the U.S. Pacific Northwest sawmills which were impacted by lack of economic fibre.

Unit cash conversion costs increased slightly, quarter-over-quarter as compared to 2011. Per unit conversion costs declined marginally across the B.C. operations, offset by the U.S. sawmills which saw increased per unit costs resulting from reduced activity. Unit costs for the U.S. sawmills were negatively impacted by a slightly weaker Canadian dollar on average for the first quarter, 2012 as compared to the same quarter in 2011.

The unit cost of logs consumed by the sawmills increased 3% in the first quarter, 2012 over the same quarter, 2011. While export markets for logs softened in the U.S. Pacific Northwest, fibre supply remained tight due to reduced timber sale activity, harvest reductions by private landowners and poor weather on the Olympic Peninsula. When compared to the same quarter, 2011 these factors resulted in increases in log costs for the U.S. sawmills who source their fibre through purchase and timber sale agreements. The impact of the increased log costs for the U.S. operations was further impacted by the weaker Canadian dollar.

Compared to the same period in 2011, B.C. log production grew by 9% to 891,600 cubic metres from 815,600 cubic metres. Despite difficult harvesting conditions due to harsh weather on the B.C. Coast during the first quarter, 2012 logging on the coast increased when compared to 2011, which saw significant reductions in logging activity as a result of major storm damage. First quarter, 2012 heli-logging production was more than double that of the same quarter, 2011 and contributed to higher logging costs.

Extended cold weather in the B.C. Interior allowed for a 13% increase in logging production prior to spring break up as compared to the first quarter, 2011.

The first quarter, 2011 saw the Company record a $2.2 million advance against its business interruption insurance claim to compensate it for lost profits resulting from the storm damage on the B.C. Coast which occurred in the late fall, 2010. The diminished ability to log in storm damaged areas reduced the logs available for external sales and resulted in downtime for the B.C. Coastal sawmills in the first quarter, 2011 and consequently, the advance was netted against production costs.

Export taxes increased by $0.2 million, or 7% in comparison to the first quarter, 2011. As prices in both years were low enough to attract the maximum rate of 15% tax, the increase results primarily from increased Canadian shipment volumes to the U.S. and a weakened average Canadian dollar.

Increases in selling and export market administration in the latter half of 2011 contributed to the $0.3 million increase in selling and administrative costs for the first quarter of 2012 compared to the first quarter of 2011.

Long-term incentive compensation ("LTIC") expense of $1.3 million reflects changes in the estimated fair value of the share-based compensation plans for the first quarter of 2012 (Quarter 1, 2011 - $3.5 million). Fair value is estimated based on a number of components including current market price of the underlying shares, strike price, expected volatility, vesting periods and the expected life of the awards. The movement in the Company's share price in has the greatest impact on expense.

First quarter, 2012, depreciation of plant and equipment at $6.8 million was 7% lower than the corresponding quarter in 2011, primarily due to lower operating rates on the Olympic Peninsula. The first quarter, 2011 also included accelerated depreciation on a number of assets with shortened useful lives which were retired in early 2011.

Road amortization and depletion expense for the first quarter of 2012 increased by only $0.1 million vis-à-vis the same quarter of 2011.

The Company incurred no restructuring costs for the first quarter, 2012 compared to $0.8 million for the same quarter in 2011, which resulted from the buyout of a logging contractor's Bill 13 entitlements and severance costs related to early retirement of hourly workers.

Finance Costs, Other Foreign Exchange Gain (loss), Other Income (Expense)

First quarter, 2012 Finance costs decreased by $0.7 million compared to the first quarter of 2011, primarily driven by a reduction in Interest expense of $0.6 million as a result of an overall decrease in average debt levels compared to the same period in the prior year.

In 2012, the Company changed its accounting policy to recognize realized trading gains and losses and changes in fair value of its derivative forward foreign exchange contracts in Other foreign exchange gain (loss). Previously these gains and losses were recognized as an adjustment to Sales. The policy was adopted in order to better align the Company's presentation on the Statement of earnings with those adopted by Interfor's peer group. The policy was adopted on a retrospective basis, and had no effect on Net earnings or the Statement of Financial Position for any of the periods presented.

Other foreign exchange gain at $0.4 million for the first quarter, 2012 and $1.1 million for the first quarter, 2011 is impacted by the volatility of the Canadian dollar and the timing and amount of derivative forward foreign exchange contracts.

Other income for the first quarter of 2012 and 2011 was negligible.

Income Taxes

In the first quarter of 2012, the Company recorded a small income tax expense (Quarter 1, 2011 - $0.4 million recovery) which excludes the benefit of $1.8 million of certain deferred income tax assets arising from loss carry-forwards available to reduce future taxable income which were not recognized (Quarter 1, 2011 - $0.3 million). Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities.

Cash Flow and Financial Position

Cash generated by the Company from operations, before changes in non-cash working capital items, was $8.7 million in the first quarter, 2012 compared with $13.0 million a year ago. The decrease in cash flow quarter-over-quarter was due primarily to lower overall sales values and higher cash conversion and log costs in the U.S. Pacific Northwest operations.

Including changes in non-cash working capital items resulted in cash used by operations of $3.3 million for the first quarter of 2012, compared to cash generated of $3.9 million for the first quarter of 2011. A build-up of log inventories in the B.C. Interior before spring break-up, lumber production in excess of shipment volumes over the quarter and increased shipment volumes in March 2012 were reflected in cash utilization of $7.9 million for accounts receivable and $3.2 million for inventories during the first quarter, 2012.

In the first quarter, 2011, significant increases in logging activity in the B.C. Interior before spring break-up, increased lumber production as well as weather-related logistical issues causing shipping delays resulted in an inventory build-up of $12.7 million. The increase in accounts receivable of $7.2 million, offset by a $10.4 million rise in accounts payable was the result of the higher operating rates and export shipments in the first quarter, 2011.

Cash capital expenditures for the first quarter of 2012 totalled $10.9 million (Quarter 1, 2011 - $8.0 million) with $4.5 million spent on the capital upgrades for the Grand Forks and Castlegar mills, $0.4 million on other high-return discretionary projects, $1.5 million on business maintenance expenditures and $4.5 million on road construction. These expenditures were funded by net drawings of $10.9 million on the Company's Revolving Term Line during the first quarter, 2012. A further $4.1 million was drawn on the Revolving Term Line to fund operations.

On January 3, 2011 the Seaboard General Partnership ("SGP") declared an income distribution to its partners of which Interfor's share was $15.7 million and was paid to the Company by way of setoff against the promissory note payable to the SGP. On January 5, 2011 by virtue of the withdrawal of all other partners in the SGP, Interfor acquired control of its net assets. Cash generated from investments in the first quarter, 2011 includes cash received on acquisition of the SGP of $4.8 million.

In the first quarter, 2011 several stock option holders exercised their options generating $0.9 million in cash.

As at March 31, 2012, the Revolving Term Line was drawn by US$30.2 million (revalued at the quarter-end exchange rate to $30.1 million) and $95.0 million for total drawings of $125.1 million, leaving an unused available line of $74.9 million. The Company's Operating Line of $65.0 million had no borrowings other than outstanding letters of credit of $5.3 million, leaving an unused available line of $59.7 million. Including cash of $10.0 million, the Company had available resources of $144.6 million as at March 31, 2012.

These resources, together with cash generated from operations, will be used to support our working capital requirements, capital expenditures including the Kootenay optimization projects, and debt servicing commitments.

As global market conditions improve, Interfor continues to monitor discretionary capital expenditures. Based on current pricing and cash flow projections and existing credit lines the Company believes it has sufficient liquidity to meet all of its financial obligations.

At March 31, 2012, the Company had cash of $10.0 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the quarter with net debt of $115.1 million or 23% of invested capital as compared to 30% as at March 31, 2011, primarily as a result of a share issuance in April, 2011 which allowed the reduction of debt levels.

Selected Quarterly Financial Information[1]

Quarterly Earnings Summary	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars except share and per share amounts)							
Sales – Lumber[2]	133.6	133.6	139.6	133.7	131.4	136.3	112.2	124.9
– Logs	27.0	22.9	36.0	28.6	20.8	20.6	21.9	19.8
– Wood chips and other residual products	18.2	17.5	17.6	16.8	16.4	15.7	14.0	13.3
– Other	7.9	14.6	9.9	8.7	10.0	2.4	2.4	1.0
Total Sales	186.7	188.7	203.1	187.9	178.6	175.0	150.6	159.1
Operating earnings (loss) before restructuring costs and asset impairments[2]	(5.5)	(6.2)	3.9	(2.3)	(0.1)	0.3	(3.0)	0.3
Operating earnings (loss) [2]	(5.5)	(6.1)	4.2	(2.4)	(1.0)	0.3	(3.4)	(0.8)
Net earnings (loss)	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8	1.4	(3.5)
Net earnings (loss) per share – basic and diluted	(0.12)	(0.12)	0.00	(0.10)	(0.04)	0.02	0.03	(0.07)
Net earnings (loss), adjusted for certain one-time and other items [2,4,6]	(5.2)	(3.7)	2.4	(3.2)	(1.7)	(0.8)	(2.0)	0.6
Net earnings (loss), adjusted for certain one-time and other items – per share [2,4]	(0.09)	(0.07)	0.04	(0.06)	(0.03)	(0.02)	(0.04)	0.01
EBITDA[7]	6.0	6.7	17.6	11.3	11.6	13.3	14.4	14.9
Adjusted EBITDA[7]	5.8	6.7	17.3	11.3	11.6	13.2	9.7	14.5
Cash flow from operations per share[5]	0.15	0.08	0.26	0.22	0.27	0.22	0.18	0.25
Shares outstanding – end of period (millions)[3]	55.9	55.9	55.9	55.9	47.5	47.4	47.1	47.1
– weighted average (millions)	55.9	55.9	55.9	55.2	47.4	47.2	47.1	47.1
Average foreign exchange rate per US$1.00	1.0010	1.0230	0.9808	0.9680	0.9856	1.0131	1.0395	1.0283
Closing foreign exchange rate per US$1.00	0.9975	1.0170	1.0482	0.9645	0.9696	0.9946	1.0290	1.0646

1 Tables may not add due to rounding.

2 The Company uses derivative forward foreign exchange contracts which are designated as held for trading and are carried on the Statement of Financial Position at fair value. Previously changes in fair value were recorded as an adjustment to Sales in Net earnings. Effective January 1, 2012 the Company changed its accounting policy to align with the presentation adopted by companies in its peer group and changes in fair value are now recorded in Other foreign exchange gain (loss) in Net earnings.

The policy has been applied on a retrospective basis and comparative information has been restated. There is no change to Net earnings as a result of the adoption of this new policy.

3 As at May 3, 2012, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176 Class B Common shares – 1,015,779, Total – 55,862,955.

4 Net earnings (loss), adjusted for certain one-time and other items represents net earnings (loss) before restructuring costs, certain foreign exchange gains and losses, other income (expense), certain one-time items and the effect of unrecognized tax assets.

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

6 Net earnings (loss), adjusted for certain one-time and other items is not a defined term under IFRS, and may not be comparable to adjusted earnings (loss) calculated by others. Net earnings (loss), adjusted for certain one-time and other items may be calculated as follows[3]:

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars)							
Net earnings (loss)	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8	1.4	(3.5)
Add (deduct):								
Other (income) expense	(0.1)	-	(0.4)	-	-	0.3	0.1	(0.4)
Other (income) expense of associate company	-	-	-	-	-	(0.4)	(4.8)	-
Other foreign exchange (gains) losses	(0.4)	(1.1)	2.5	(0.2)	(1.1)	(1.1)	(0.8)	1.2
Restructuring costs, asset write-downs and other (recovery)	-	(0.1)	(0.3)	0.1	0.8	-	0.5	1.1
Deferred tax assets not recognized (recognized)	1.8	3.9	0.6	2.2	0.3	(0.3)	1.6	2.2
Net earnings (loss) adjusted for certain one-time and other items[3]	(5.2)	(3.7)	2.4	(3.2)	(1.7)	(0.8)	(2.0)	0.6

7 EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is not a defined term under IFRS, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for other income and other income of the associate company.

EBITDA and Adjusted EBITDA can be calculated from the Statements of Operations as follows[3]:

	2012	2011				2010		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars)							
Net earnings (loss)	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8	1.4	(3.5)
Add: Income taxes (recovery)	-	0.2	0.5	1.2	(0.4)	(0.5)	(0.2)	1.0
Finance costs	1.5	1.3	1.7	1.9	2.3	2.5	2.6	2.8
Depreciation, depletion and amortization	11.3	13.0	13.3	13.6	11.7	11.7	11.0	12.3
Other foreign exchange (gains) losses	(0.4)	(1.1)	2.5	(0.2)	(1.1)	(1.1)	(0.8)	1.2
Restructuring costs, asset write-downs and other (recovery)	-	(0.1)	(0.3)	0.1	0.8	-	0.5	1.1
EBITDA	6.0	6.7	17.6	11.3	11.6	13.3	14.4	14.9
Deduct:								
Other income (expense)	0.1	-	0.4	-	-	(0.3)	(0.1)	0.4
Other income of associate company	-	-	-	-	-	0.4	4.8	-
Adjusted EBITDA	5.8	6.7	17.3	11.3	11.6	13.2	9.7	14.5

Volume and Price Statistics

		2012	2011				2010		
		Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Lumber sales	(million fbm)	320	318	336	334	313	321	277	270
Lumber production	(million fbm)	323	294	313	325	332	303	272	277
Log sales[1]	(thousand cubic metres)	361	310	430	314	301	292	289	262
Log production[1]	(thousand cubic metres)	892	795	1,002	796	816	794	595	624
Average selling price – lumber[2]	($/thousand fbm)	$418	$420	$415	$400	$419	$424	$405	$463
Average selling price – logs[1]	($/cubic metre)	$64	$69	$74	$82	$61	$64	$73	$68
Average selling price – pulp chips	($/thousand fbm)	$48	$51	$48	$44	$40	$42	$40	$37

1 B.C. operations
2 Gross sales before export taxes
3 Tables may not add due to rounding

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, the Company's B.C. Coastal 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. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring thaw and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

Operating rates increased in early 2010, as lumber prices rose in response to increased North American demand and a temporary supply/demand imbalance. During the same period off-shore demand increased, particularly from China, with rapid export market growth through the remaining quarters of 2010 and the first half, 2011, levelling off for the balance of 2011 and slowing further in the first quarter, 2012.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to export markets and priced in U.S. dollars. A strong Canadian dollar reduces the lumber sales realizations in Canada, but reduces the impact of losses in U.S. operations when converted to Canadian dollars. No deferred tax assets arising from loss carry-forwards were recognized during 2010 through the first quarter of 2012.

In the first quarter, 2011 the Company acquired complete control of SGP. It was wound up in early January, 2011 but continued operations as Seaboard and its accounts were consolidated from the date of change in control on January 5, 2011. Other sales revenues include the ocean freight revenues of Seaboard.

Softwood Lumber Agreement Disputes

On January 18, 2011 the U.S. Trade Representative's ("USTR") office filed for arbitration under the provisions of the Softwood Lumber Agreement ("SLA") over its concern that the Province of British Columbia ("B.C.") is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The arbitration is being conducted by the London Court of International Arbitration ("LCIA"). The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the USTR filed a detailed statement of claim with the LCIA and Canada delivered its initial response in November, 2011. Final submissions to the arbitration panel are due on May 24, 2012 with a final decision expected by the end of 2012. Since its initial submissions the USTR has reduced its alleged claim by 40%.

As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at March 31, 2012.

In April, 2012 the U.S. Lumber Coalition approached the USTR alleging that the B.C. government is undercharging B.C. Coastal forest companies for timber harvested on Crown lands. As this second complaint is in the very preliminary stages of investigation and the existence of any potential claim has not been determined, no provision has been recorded in the financial statements as at March 31, 2012.

WorkSafeBC Orders Safety Reviews

On April 24, 2012, as a result of the explosion and destruction of two sawmills in the B.C. Interior in 2012, WorkSafeBC, the workers' compensation insurer in B.C., ordered province-wide sawmill safety reviews, including full hazard identification and risk assessment with particular focus on combustible dust, dust accumulation and potential ignition sources. In May, 2012 WorkSafeBC officers will be following up on these orders to confirm that the ordered actions have been taken and sawmills are in compliance with the Workers Compensation Act and Occupational Health and Safety Regulation in regard to combustible dust and potential safety hazards.

In early 2012, the Company engaged a consultant to assist in the evaluation of safety standards at each of its sawmills and as at May 3, 2012 reviews have been completed at the Canadian sawmill sites. The Company believes that it maintains high standards of safe work practices and provides a safe work environment.

Accounting Policy Changes

The Company uses derivative forward foreign exchange contracts which are designated as held for trading and are carried on the Statement of Financial Position at fair value. Previously, changes in fair value were recorded as an adjustment to Sales in Net earnings. Effective January 1, 2012 the Company changed its accounting policy to align with the presentation adopted by companies in its peer group and changes in fair value are now recorded in Other foreign exchange gain (loss) in Net earnings.

The policy has been applied on a retrospective basis and comparative information has been restated.

IFRS Future Changes

IFRS 9, Financial Instruments, replaces the multiple classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IAS 19, Employee Benefits, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option. This standard is in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements other than the effect of the elimination of the corridor method.

The standard-setting bodies that set IFRS have significant ongoing projects that could impact the IFRS accounting policies selected. Specifically, it is anticipated that there will be additional new or revised IFRS or IFRIC standards in relation to financial instruments and leases currently on the International Accounting Standards Board agenda.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended March 31, 2012 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

There were no material changes to the Company's critical accounting estimates during the quarter ended March 31, 2012. For a full discussion of critical accounting estimates, please refer to the Company's discussion in its MD&A for the year ended December 31, 2011 as filed on SEDAR at www.sedar.com.

Outlook

In spite of promising economic news in the U.S. in recent months only modest improvements in the U.S. housing market are expected in 2012. Canadian housing markets are forecast to moderate over the balance of the year.

The economic outlook for China appears less robust in 2012 compared to recent years, with the Chinese government scaling back economic growth targets to 7.5%, although the pace of lumber imports is expected to continue to grow.

Activity levels in Japan are expected to improve as the year progresses as reconstruction in the areas impacted by the March 2011 earthquake and tsunami gets underway.

The Canadian dollar is projected to trade near parity relative to its U.S. counterpart through 2012.

Considerable attention continues to be devoted to the Grand Forks and Castlegar capital projects, with project timelines accelerated to a projected completion in the first quarter, 2013.

Interfor intends to maintain a disciplined approach to managing its business by focusing on those items that will position the Company to deliver above average returns on capital invested in the years ahead.

Additional Information

Additional information relating to the Company and its operations can be found on its website at www.interfor.com, in the Annual Information Form and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.

Lawrence Sauder	Duncan K. Davies
Chairman	President and Chief Executive Officer

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the three months ended March 31, 2012 and 2011 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Sales (note 3(a))	$ 186,660	$ 178,582
Costs and expenses:		
Production	171,670	156,124
Selling and administration	5,305	4,971
Long term incentive compensation expense	1,317	3,541
Export taxes	2,533	2,364
Depreciation of plant and equipment (note 8)	6,792	7,286
Depletion and amortization of timber, roads and other (note 8)	4,525	4,414
	192,142	178,700
Operating loss before restructuring costs	(5,482)	(118)
Restructuring costs	-	850
Operating loss	(5,482)	(968)
Finance costs (note 9)	(1,542)	(2,274)
Other foreign exchange gain (note 3(a))	432	1,088
Other income	122	29
	(988)	(1,157)
Loss before income taxes	(6,470)	(2,125)
Income taxes (recovery):		
Current	114	38
Deferred	(74)	(433)
	40	(395)
Net loss	$ (6,510)	$ (1,730)
Net loss per share, basic and diluted (note 10)	$ (0.12)	$ (0.04)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2012 and 2011 (unaudited)

	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Net loss	$ (6,510)	$ (1,730)
Other comprehensive income (loss):		
Foreign currency translation differences – foreign operations	(2,458)	(3,203)
Defined benefit plan actuarial gains (losses)	(609)	124
Gain in fair value of interest rate swaps (note 12)	566	-
Income tax expense on other comprehensive income	(74)	(125)
	(2,575)	(3,204)
Total comprehensive loss for the period	$ (9,085)	$ (4,934)

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2012 and 2011 (unaudited)

(thousands of Canadian dollars)	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Cash provided by (used in):		
Operating activities:		
Net loss	$ (6,510)	$ (1,730)
Items not involving cash:		
Depreciation of plant and equipment	6,792	7,286
Depletion and amortization of timber, roads and other	4,525	4,414
Income tax expense (recovery)	40	(395)
Finance costs	1,542	2,274
Reforestation liability	2,807	1,310
Other liabilities and provisions	(565)	43
Unrealized foreign exchange losses (gains)	120	(212)
Other	(97)	(29)
	8,654	12,961
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(7,865)	(7,172)
Inventories	(3,182)	(12,713)
Prepayments	(286)	567
Trade accounts payable and accrued liabilities	(318)	10,407
Income taxes paid	(310)	(117)
	(3,307)	3,933
Investing activities:		
Additions to property, plant and equipment	(6,365)	(4,151)
Additions to logging roads	(4,495)	(3,799)
Additions to timber and other intangible assets	-	(42)
Proceeds on disposal of property, plant, and equipment	127	29
Cash received on acquisition of subsidiary	-	4,846
Investments and other assets	(86)	(1,207)
	(10,819)	(4,324)
Financing activities:		
Issuance of capital stock	-	876
Interest payments	(1,312)	(1,828)
Additions to long-term debt (note 6(b))	30,000	25,000
Repayments of long-term debt (note 6(b))	(15,000)	(18,000)
	13,688	6,048
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(8)	(90)
Increase (decrease) in cash	(446)	5,567
Cash and cash equivalents, beginning of year	10,435	9,301
Cash and cash equivalents, end of period	$ 9,989	$ 14,868

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31, 2012 (unaudited) and December 31, 2010 and 2011 (audited)

(thousands of Canadian dollars)	Mar. 31, 2012	Dec. 31, 2011	Dec. 31, 2010
			(note 3(a))
Assets			
Current assets:			
Cash and cash equivalents	$ 9,989	$ 10,435	$ 9,301
Trade accounts receivable and other	51,615	44,000	45,961
Inventories (note 5)	100,460	97,645	71,762
Prepayments	10,980	10,757	8,334
	173,044	162,837	135,358
Investment in associate company	-	-	16,074
Employee future benefits	1,029	1,256	515
Other investments and assets	2,712	2,836	2,636
Property, plant and equipment	337,464	340,034	347,990
Logging roads and bridges	17,818	16,753	17,063
Timber licences	75,843	76,792	80,154
Other intangible assets	1,091	1,250	1,723
Goodwill	13,078	13,078	13,078
	$ 622,079	$ 614,836	$ 614,591
Liabilities and Equity			
Current liabilities:			
Trade accounts payable and accrued liabilities	$ 60,054	$ 60,692	$ 50,053
Reforestation liability	14,208	14,121	9,785
Income taxes payable	863	1,058	230
Payable to associate	-	-	15,738
	75,125	75,871	75,806
Reforestation liability	20,670	17,777	17,325
Long-term debt (note 6(b))	125,125	110,713	156,037
Employee future benefits	8,042	8,186	5,815
Other liabilities and provisions	11,380	11,467	12,158
Equity:			
Share capital (note 7)			
Class A subordinate voting shares	342,285	342,285	285,362
Class B common shares	4,080	4,080	4,080
Contributed surplus	7,476	7,476	5,408
Reserves	(7,398)	(5,432)	(7,646)
Retained earnings	35,294	42,413	60,246
	381,737	390,822	347,450
	$ 622,079	$ 614,836	$ 614,591

Contingencies (note 13)
Subsequent events (note 14)

See accompanying notes to consolidated financial statements

On behalf of the Board:

L. Sauder
Director

G.H. MacDougall
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2012 and 2011 (unaudited)

(thousands of Canadian dollars)	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2011	$ 342,285	$ 4,080	$ 7,476	$ (4,929)	$ (503)	$ 42,413	$ 390,822
Net loss for the period:	-	-	-	-	-	(6,510)	(6,510)
Other comprehensive loss:							
Foreign currency translation differences, net of tax	-	-	-	(2,532)	-	-	(2,532)
Defined benefit plan actuarial losses, net of tax	-	-	-	-	-	(609)	(609)
Gain in fair value of interest rate swaps	-	-	-	-	566		566
Balance at March 31, 2012	$ 342,285	$ 4,080	$ 7,476	$ (7,461)	$ 63	$ 35,294	$ 381,737
Balance at December 31, 2010	$ 285,362	$ 4,080	$ 5,408	$ (7,646)	$ -	$ 60,246	$ 347,450
Net loss for the period:	-	-	-	-	-	(1,730)	(1,730)
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	(3,297)	-	-	(3,297)
Defined benefit plan actuarial gains, net of tax	-	-	-	-	-	93	93
Contributions:							
Share options exercised	876	-	-	-	-	-	876
Changes in ownership interests in investee:							
Acquisition of subsidiary	-	-	2,068	-	-	(4)	2,064
Balance at March 31, 2011	$ 286,238	$ 4,080	$ 7,476	$ (10,943)	$ -	$ 58,605	$ 345,456

See accompanying notes to consolidated financial statements.

(Tabular amounts expressed in thousands except number of shares and per share amounts)

1. Nature of operations:

International Forest Products Limited and its subsidiaries (the "Company" or "Interfor") is a producer of wood products in British Columbia and the U.S. Pacific Northwest for sale to markets around the world.

The Company is a publicly listed company incorporated under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office is located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2012 comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2011 are available on www.sedar.com.

2. Statement of Compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements were approved by the Board of Directors on May 3, 2012.

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

(i) Derivative financial instruments are measured at fair value;

(ii) Long-term debt is measured at fair value at inception and at amortized cost thereafter;

(iii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(iv) The employee benefit assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

The functional and presentation currency of the parent company is Canadian dollars.

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2011 annual consolidated financial statements, except for the accounting policy adopted subsequent to that date, as discussed below.

(a) Change in accounting policy:

The Company uses derivative forward foreign exchange contracts which are designated as held for trading and are carried on the Statement of Financial Position at fair value. Previously, changes in fair value were recorded as an adjustment to Sales in Net earnings. Effective January 1, 2012 the Company changed its accounting policy to align with the presentation adopted by companies in its peer group and changes in fair value are now recorded in Other foreign exchange gain (loss) in Net earnings.

The policy has been applied on a retrospective basis and comparative information has been restated. The following changes to historical financial statements have been made to reflect the new policy:

For the three months ended March 31, 2011	As previously reported	Adjustment	Restated
Sales	$ 179,745	$ (1,163)	$ 178,582
Other foreign exchange gain (loss)	(75)	1,163	1,088

There are no changes to previously issued Statements of Financial Position as a result of this change in accounting policy.

(b) New standards and interpretations not yet adopted:

The IASB periodically issues new standards and amendments or interpretations to existing standards. The following new pronouncements are those that the Company considers most significant and are not intended to be a complete list of new pronouncements that may affect the financial statements.

IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IAS 19, *Employee Benefits*, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option. This standard is in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

(Tabular amounts expressed in thousands except number of shares and per share amounts)

3. Significant accounting policies (continued):

(b) New standards and interpretations not yet adopted (continued):

As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements other than the effect of the elimination of the corridor method.

4. Seasonality of operating results:

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's B.C. Coastal 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. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring thaw and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

5. Inventories:

	Mar. 31, 2012	Dec. 31, 2011
Logs	$ 55,626	$ 59,412
Lumber	37,715	31,729
Other	7,119	6,504
	$ 100,460	$ 97,645

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at March 31, 2012 was $7,313,000 (December 31, 2011 - $10,006,000).

6. Cash and borrowings:

March 31, 2012	Operating Line	Revolving Term Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 265,000
Maximum borrowing available	65,000	200,000	265,000
Drawings	-	125,125	125,125
Outstanding letters of credit included in line utilization	5,301	-	5,301
Unused portion of line	59,699	74,875	134,574
December 31, 2011			
Available line of credit	$ 65,000	$ 200,000	$ 265,000
Maximum borrowing available	65,000	200,000	265,000
Drawings	-	110,713	110,713
Outstanding letters of credit included in line utilization	5,062	-	5,062
Unused portion of line	59,938	89,287	149,225

(a) Operating Line:

The Canadian operating line of credit ("Operating Line") may be drawn in either CAD$ or US$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA[1]. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The Operating Line is subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. As at March 31, 2012 other than outstanding letters of credit included in the line utilization the Operating Line was undrawn (December 31, 2011 - $nil).

The maturity date of the Operating Line is July 28, 2015.

[1]EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization.

(Tabular amounts expressed in thousands except number of shares and per share amounts)

6. Cash and borrowings (continued):

(b) Long-term debt:

The Revolving Term Line may be drawn in either CAD$ or US$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA[1].

The Revolving Term Line is available to a maximum of $200,000,000 and is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The line is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The maturity date of the Revolving Term Line is July 28, 2015.

As at March 31, 2012, the Revolving Term Line was drawn by US$30,200,000 (December 31, 2011 – US$30,200,000) revalued at the quarter-end exchange rate to $30,125,000 (December 31, 2011 - $30,713,000), and $95,000,000 (December 31, 2011 - $80,000,000) for total drawings of $125,125,000 (December 31, 2011 - $110,713,000).

The US$30,200,000 drawing under the Revolving Term Line has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $589,000 (Quarter 1, 2011 - $755,000 gain) arising on revaluation of the Non-Revolving Term Line were recognized in Foreign exchange translation differences in Other comprehensive income.

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

Twelve months ending	
March 31, 2013	$ -
March 31, 2014	-
March 31, 2015	-
March 31, 2016	125,125
March 31, 2017	-
	$ 125,125

[1]EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization.

7. Share capital:

The transactions in share capital are described below:

	Number			
	Class A	Class B	Total	Amount
Balance, December 31, 2010	46,337,676	1,015,779	47,353,455	$ 289,442
Shares issued on exercise of options	287,000	-	287,000	1,370
Share issuance, net of share issue costs and income tax benefit	8,222,500	-	8,222,500	55,553
Balance, December 31, 2011 and March 31, 2012	54,847,176	1,015,779	55,862,955	$ 346,365

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization can be allocated by function as follows:

	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Production	$ 11,110	$ 11,453
Selling and administration	207	247
	$ 11,317	$ 11,700

9. Finance costs:

	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Interest on borrowing	$ 1,276	$ 1,860
Accretion expense	113	178
Amortization of prepaid finance costs	153	236
	$ 1,542	$ 2,274

(Tabular amounts expressed in thousands except number of shares and per share amounts)

10. Net earnings (loss) per share:

	3 Months Mar. 31, 2012			3 Months Mar. 31, 2011		
	Net loss	Shares	Per share	Net loss	Shares	Per share
Basic loss per share	$ (6,510)	55,863	$ (0.12)	$ (1,730)	47,389	$ (0.04)
Share options	-	-	-	-	19*	-
Diluted loss per share	$ (6,510)	55,863	$ (0.12)	$ (1,730)	47,389	$ (0.04)

*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. There were no share options outstanding at March 31, 2012.

11. Segmented information:

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

The Company sales to both foreign and domestic markets are as follows:

	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Canada	$ 60,416	$ 51,115
United States	70,565	63,719
China and Taiwan	20,547	31,324
Japan	25,788	20,667
Other export	9,344	11,757
	$ 186,660	$ 178,582

Sales by product line are as follows:

	3 Months Mar. 31, 2012	3 Months Mar. 31, 2011
Lumber	$ 133,622	$ 131,365
Logs	26,950	20,849
Wood chips and other by products	18,163	16,413
Ocean freight and other	7,925	9,955
	$ 186,660	$ 178,582

12. Financial instruments:

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

As at March 31, 2012, the Company has outstanding obligations to sell a maximum of US$24,200,000 at an average rate of CAD$0.99925 to the US$1.00 and sell Japanese ¥100,000,000 at an average rate of ¥76.44 to the US$1.00 and buy US$6,000,000 at an average rate of CAD$0.9949 to the US$1.00 during 2012. All foreign currency gains or losses to March 31, 2012 have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of these foreign currency contracts, being an asset of $164,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2011 - $283,000 asset recorded in Trade accounts receivable and other measured based on Level 2 of the fair value hierarchy).

On August 25, 2011, the Company entered into two interest rate swaps, each with notional value of $25,000,000 and maturing July 28, 2015. Under the terms of the swaps the Company pays an amount based on a fixed annual interest rate of 1.56% and receives a 90 day BA CDOR which is recalculated at set interval dates. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. As these interest rate swaps have been designated as cash flow hedges the fair value of these interest rate swaps at March 31, 2012, being an asset of $63,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2011 - $503,000 liability recorded in Trade accounts payable and accrued liabilities measured based on Level 2 of the fair value hierarchy) and a gain of $566,000 (Quarter 1, 2011 - $nil) has been recognized in Other comprehensive income for the first quarter, 2012.

During the first quarter, 2012 the Company also traded lumber futures to manage price risk and which were designated as held for trading with changes in fair value recorded in Other income (expense) in net earnings. At March 31, 2012 there were no outstanding lumber futures contracts and a gain of $25,000 was recognized in Other income (expense) on completed contracts for the first quarter, 2012 (Quarter 1, 2011 - $nil).

13. Contingencies:

(a) Softwood Lumber Agreement:

On January 18, 2011, the U.S. Trade Representative's ("USTR") office filed for arbitration under the provisions of the Softwood Lumber Agreement ("SLA") over its concern that the Province of British Columbia ("B.C.") is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The arbitration is being conducted by the London Court of International Arbitration ("LCIA"). The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the USTR filed a detailed statement of claim with the LCIA and Canada delivered its initial response in November, 2011. Final submissions to the arbitration panel are due on May 24, 2012 with a final decision expected by the end of 2012.

As the U.S. arbitration request is still in preliminary stages and the existence of any potential claim has not been determined, no provision has been recorded in the financial statements as at March 31, 2012.

(b) Significant customer in creditor protection:

On January 31, 2012, Catalyst Paper Corporation ("Catalyst") announced that the company and certain of its subsidiaries had obtained an Initial Order from the Supreme Court of British Columbia under the Companies' Creditors Arrangement Act. Catalyst is the primary buyer of Interfor's chips on the B.C. Coast, under long-term purchase contracts. Catalyst is also a purchaser of Interfor's pulp logs and other residuals.

The Court has granted Interfor a security interest as a critical supplier on all current and future products purchased from Interfor. Catalyst continues to meet its obligations to Interfor during the restructuring process.

As at March 31, 2012 the trade accounts receivable at risk for non-payment total approximately $150,000.

The outcome of Catalyst's restructuring and any potential impact to the Company cannot be determined at this point.

(c) Storm damage:

In September 2011, an earthquake on Vancouver Island and heavy rains on the B.C. mainland coastal and inlet areas resulted in mudslides and debris torrents with some logging areas impacted by road washouts and bridge and culvert damage. Due to the remoteness and magnitude of the areas impacted the Company has been unable to fully assess the extent of the damage and its related costs until the first quarter, 2012. There are no immediate financial impacts on the Company and no provision has been recorded in the financial statements as at March 31, 2012.

14. Subsequent events:

(a) Softwood Lumber Agreement:

In April, 2012 the U.S. Lumber Coalition approached the USTR alleging that the B.C. government is undercharging B.C. Coastal forest companies for timber harvested on Crown lands. As this second complaint is in the very preliminary stages of investigation, the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at March 31, 2012.

(b) WorkSafeBC Orders Safety Reviews:

On April 24, 2012, as a result of a second explosion and destruction of a sawmill in B.C. in the first quarter, 2012, WorkSafeBC, the workers' compensation insurer in B.C., has ordered province-wide sawmill safety reviews, including full hazard identification and risk assessment with particular focus on combustible dust, dust accumulation and potential ignition sources. In May, 2012 WorkSafeBC officers will be following up on these orders to confirm that the ordered actions have been taken and sawmills are in compliance with the *Workers Compensation Act* and *Occupational Health and Safety Regulation* in regard to combustible dust and potential safety hazards.

In early 2012, the Company engaged a consultant to assist in the evaluation of safety standards at each of its sawmills and as at May 3, 2012 reviews have been completed at the Canadian sawmill sites. The Company believes that it maintains high standards of safe work practices and provides a safe work environment.

INTERFOR

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