International Forest Products Limited
Third Quarter Report
For the three and nine months ended September 30, 2010

Management's Discussion and Analysis

Dated as of October 21, 2010

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and nine months ended September 30, 2010 relative to 2009, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the unaudited interim Consolidated Financial Statements for the three and nine months ended September 30, 2010 and 2009, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2009 and 2008 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 this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of plant and equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for other income (expense) and other income of the investee 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 a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

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

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

Forward-Looking Statements

This report contains 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 heading "Interest, Other Foreign Exchange Gain (Loss), Other Income (Expense)", "Income Taxes" and "Cash Flow and Financial Position"; changes in accounting policy under the heading "Future Accounting Policy Changes"; and in the description of economic conditions under the heading "Outlook". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumption 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. 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 in the 2009 annual Management's Discussion & Analysis under "Risks and Uncertainties" 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

Interfor recorded net earnings of $1.5 million, or $0.03 per share for the third quarter of 2010, and a net loss for the nine months ended September 30, 2010 of $4.5 million, or $0.10 per share. This compares to net earnings of $9.7 million, or $0.21 per share, for the same quarter in 2009 and a net loss of $18.9 million, or $0.40 per share, for the nine months ended September 30, 2009.

Before restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance (refer to Income Taxes), the Company's net loss for the third quarter, 2010 was $1.0 million after-tax, or $0.02 per share, as compared to a loss of $5.3 million after-tax, or $0.11 per share in the third quarter, 2009. The losses for the first nine months of 2010, adjusted for restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance totalled $3.8 million after-tax, or $0.08 per share, as compared to $29.3 million after-tax, or $0.62 per share for the first nine months of 2009.

EBITDA and Adjusted EBITDA for the third quarter of 2010 were $15.3 million and $10.6 million, respectively, compared to $25.3 million and $3.6 million, for the third quarter of 2009. EBITDA and adjusted EBITDA for the first nine months of 2010 were $38.5 million and $33.4 million, respectively, compared to $10.3 million and negative $12.1 million for the same period in 2009.

The North American lumber industry continues to be impacted by depressed U.S. housing starts and a U.S. housing market that is challenged by a supply/demand imbalance. Production curtailments, which were in place for most of 2009, continued into early 2010 to balance output with demand levels and inventory levels were drawn down significantly, leaving inadequate inventory in the supply chain to meet any uptick in demand. As a result, when demand improved at the start of 2010 with government spending incentives, a slight upward movement in U.S. housing starts and the restocking of inventories, production fell short of consumption. During the same period off-shore demand increased, particularly from China, putting even more pressure on the demand for product. The lagged ability of producers to ramp up supply resulted in a dramatic and rapid surge in lumber prices in the first four months of 2010.

U.S. prices peaked in April, 2010, but as homebuyer's tax incentives in the U.S. were withdrawn and as output rose during the second quarter, production quickly outpaced demand bringing the market back into a position of excess supply and lumber prices fell sharply, particularly as economic indicators in the U.S. showed signs of slower growth. Demand weakened even more in response to falling prices as buyers purchased only sufficient product to cover immediate needs to ensure they didn't lose out on lower prices down the road.

In the third quarter, 2010 prices stabilized with production curtailments again providing a balance between supply/demand. Continued discipline in production levels allowed for slight increases in pricing as the third quarter progressed. Offshore demand also improved and production was redirected to export markets, particularly those in the Pacific Rim.

Results year-over-year have also been impacted by the strengthened Canadian dollar which, relative to its U.S. counterpart appreciated by just over five percent on average for the third quarter, 2010 compared to the third quarter, 2009 and just over eleven percent on average for the first nine months, 2010 compared to the first nine months, 2009.

Sales

Lumber shipments improved by 96 million board feet for the third quarter, 2010, and by 377 million board feet for the first nine months, 2010 over the same periods in 2009, reflecting the addition of production from Adams Lake, the recommenced operations at Grand Forks and Castlegar sawmills and higher operating rates at the Company's U.S. sawmills. Relative to the same periods in 2009, there continues to be a significant shift in markets as strong growth in the China markets replaces reduced demand in the U.S.

For the third quarter, 2010, in comparison to the third quarter, 2009 and excluding wholesale programs, shipments to the U.S. accounted for 46% of total lumber shipments, a decline of 15% while China markets grew by 18%. For the first nine months, 2010, shipments directed to the U.S. accounted for 52% of total lumber shipments, a decline of 10% over the same period, 2009, with shipments redirected to China growing by the same amount.

Relative to the same periods in 2009, unit lumber sales values decreased by $16 per mfbm, or 3.9%, for the third quarter, 2010 and $26 per mfbm, or 5.8%, for the first nine months, 2010. Although North American structural lumber product prices and shipment volumes for all products have increased significantly over 2009, there was a decline in the average unit lumber sales values resulting from a sizeable shift in sales mix towards North American structural lumber products and lower value products destined for the Pacific Rim and away from cedar and Japan products, particularly with the substantial volumes added from the Adams Lake sawmill. The stronger Canadian dollar also negatively impacted sales values.

Log sales were up $4.7 million, or 27.1%, for the third quarter, 2010 and $16.1 million, or 37.2%, in the first nine months of 2010, in comparison to the same periods of 2009 with higher overall sales values as reflected in the average sales price for logs in Canada which improved by $4 per cubic metre in the third quarter, 2010 and by $8 per cubic metre in the first nine months of 2010.

Compared to the same periods of 2009, pulp chip and other by-product revenues for the third quarter and first nine months of 2010 were up $5.1 million and $18.3 million respectively, a reflection of higher sawmill operating rates.

Overall 2010 average chip prices in Canada increased slightly compared to the third quarter, 2009 but decreased slightly for first nine months, 2009. More significant price declines in the U.S. were amplified by the negative impact of the stronger Canadian dollar.

Operating Costs

Production costs for the third quarter of 2010 increased $39.3 million, or 40.7%, and $141.8 million, or 54.4%, for the first nine months of 2010, vis-à-vis the same periods in 2009. Comparative production volumes and related costs through the first nine months, 2009 were extremely low as a result of significant market related curtailments in manufacturing and logging, and the curtailment of the Adams Lake sawmill into Quarter 2, 2009, during the final stages of its rebuild. Lumber production increased by 92 million board feet for the third quarter, 2010 compared to the same quarter, 2009, and by 392 million board feet for the first nine months, 2010 compared to the same period in 2009, with most of this increase driven by the B.C. Interior sawmills. Significantly lower cost structures at the new Adams Lake sawmill and cost improvements at the Grand Forks and Castlegar sawmills resulted in sizeable increases in operating rates over 2009.

Compared to the same periods in 2009, B.C. log production grew by 217,000 cubic metres for the third quarter, 2010, and by 1,106,000 cubic metres for the first nine months, 2010. To match production to consumption and reduce inventories, log production was dramatically curtailed in 2009. Increased fibre consumption resulting from improved operating rates in 2010, particularly in the B.C. Interior sawmills, the acquisition of additional timber tenures, and improved supply/demand balances led to increased log production in both the B.C. Coast and Interior regions. Just over 30% of total log production on the B.C. Coast in the third quarter, 2010 and almost 23% for the first nine months of 2010 were harvested through heli-logging, resulting in significantly higher costs versus the comparative periods. Compared to 2009, heli-logged volumes for 2010 increased by 82.8% for the third quarter and by almost threefold in the first nine months.

Unit cash conversion costs declined by 11.0%, for the third quarter, 2010 and by 25.3%, for the first nine months of 2010, vis-à-vis the same periods in 2009, primarily as a result of the substantial increase in operating rates and improved cost structures in the B.C. Interior sawmills and for U.S. operations costs were further improved by a stronger Canadian dollar. Improvements were partially offset, however, by increased fibre costs in the U.S. Pacific Northwest sawmills.

The export tax paid under the Softwood Lumber Agreement, which declined from 15% to 10% on May 1, 2010, and from 10% to 0% on June 1, 2010 as a result of higher commodity lumber prices in the second quarter, 2010, rose during the third quarter, 2010 to 15%. Compared to the same periods, 2009, Canadian shipments to the U.S. for the third quarter, 2010 rose by 34 million board feet, for an increase in export taxes of $0.7 million, and for the first nine months, 2010 improved by 111 million board feet, for increased export taxes of $2.5 million. As the export tax is based on U.S. dollars, the expenses year-over-year were further reduced by the stronger Canadian dollar on average in 2010 in comparison to 2009.

Selling and administrative costs for the third quarter, 2010 and the first nine months, 2010 increased by $0.7 million and $0.5 million as compared to the same periods of 2009, arising primarily from corporate development expenditures. Long-term incentive compensation ("LTIC"), which is impacted by the Company's share price, showed an expense of $0.2 million for the third quarter, 2010, and $0.5 million for the first nine months of 2010, as the impact of the decreases of 2.7% and 14.9% respectively in the Company's share price was offset by other factors in the LTIC expense calculation.

Third quarter, 2010 and first nine months, 2010 amortization of plant and equipment increases of 18.2% and 19.3% respectively compared to the corresponding periods in 2009, resulted from higher operating rates primarily at the Adams Lake sawmill which did not operate until April 20, 2009 when the new sawmill ramped-up.

Road amortization and depletion expense for the third quarter of 2010 increased $0.2 million, or 5.3%, compared to the same quarter of 2009, and by $6.2 million, or 74.2%, for the first nine months of 2010 compared to the same nine months of 2009 as a result of significantly higher logging activity on the B.C. Coast, which had been dramatically curtailed in 2009 to manage inventory levels, and in the B.C. interior to supply the Adams Lake sawmill.

Restructuring costs in the third quarter, 2010 include an asset impairment charge of $0.5 million which, together with $1.1 million in severance costs arising on the restructuring of certain manufacturing operations in the first two quarters of 2010 resulted in $1.6 million in restructuring costs for the first nine months, 2010. In the comparative quarter, 2009, the Company recorded $3.1 million in asset write-downs and $0.3 million in severance costs in response to reduced operating rates. For the first nine months, 2009, restructuring costs totalled $4.3 million, consisting primarily of the asset impairments recognized in the third quarter, 2009, and severance costs.

Interest, Other Foreign Exchange Gain (Loss), Other Income (Expense)

Third quarter, 2010, interest expense was virtually unchanged compared to the third quarter of 2009, and increased by $0.6 million for the first nine months, 2010 compared to the first nine months, 2009, arising from an increase in average lending rates in 2010 compared to 2009, partially offset by a stronger Canadian dollar. Other foreign exchange gains (losses) were negligible for both years.

The Company reported a loss in Other income (expense) of $0.1 million for the third quarter, 2010 from the disposal of surplus equipment. Together with compensation under the *Forest Act* for timber and other assets resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast and other minor disposals of surplus equipment, the Company received proceeds of $1.3 million and a gain of $0.3 million for the first nine months, 2010.

In the comparative quarter, 2009, completion of the sale of the former Queensboro sawmill site for net proceeds of $29.9 million, $2.0 million for compensation under the *Forest Act*, and sales of other surplus assets generated a total of $32.1 million in cash proceeds and a gain of $21.7 million. These disposals, combined with disposals of surplus property and equipment in the first half of 2009 resulted in total proceeds of $36.7 million and a gain of $22.4 million for the first nine months of 2009.

Equity income at $6.5 million for the third quarter, 2010, and $9.7 million for the first nine months, 2010, increased by $5.8 million and $8.8 million respectively over the same periods in 2009. Of this increase, $4.8 million arose as the Seaboard Partnership ("Seaboard") disposed of its two vessels, the *Skaubryn* and *Skaugran,* in the third quarter, 2010 for a gain of $5.7 million offset by $0.9 million in one-time expenses. The gain, coupled with a significantly increased equity participation in the earnings of Seaboard with greater shipment volumes by the Company relative to the other partners, dramatically improved equity earnings in comparison to the same periods of 2009. Concurrent with the sale of the ships, Seaboard has entered into a charter agreement which effectively replaces the lumber shipping capacity of the sold vessels. Seaboard expects to continue to operate in a normal fashion.

Income Taxes

The Company recorded an income tax recovery of $0.1 million in the third quarter of 2010 (Quarter 3, 2009 - $0.1 million expense) and increased its valuation allowance against certain future income tax assets arising from loss carry-forwards available to reduce future taxable income by $1.6 million (third quarter, 2009 - $2.1 million). For the first nine months, 2010, the increase in the valuation allowance reduced the Company's income tax recovery by $4.0 million to a net recovery of $0.4 million, as compared to a $6.5 million increase in the valuation allowance for the same period of 2009 which reduced the income tax recovery to $6.6 million. Although the Company expects to realize the full benefit of the loss carry-forwards, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has provided a valuation allowance in respect of its operating loss carry-forwards, net of temporary differences.

Cash Flow and Financial Position

The Company generated $6.1 million from operations, before changes in working capital during the third quarter, 2010, compared to cash used of $3.4 million for the third quarter of 2009 as poor lumber markets significantly diminished cash earnings in 2009. After changes in working capital, the Company generated $3.8 million from operations for the third quarter, 2010 as compared to cash used of $0.5 million for the same period, 2009.

Cash generated by the Company from operations, after changes in working capital, was $17.3 million for the nine months ended September 30, 2010 compared to cash generated of $17.4 million in the first nine months of 2009. Significant increases in operating rates, particularly in the B.C. Interior sawmills and the U.S. Pacific Northwest ("PNW") operations, resulted in an inventory build-up of $11.6 million. Over the first nine months of 2010, log inventory volumes in the interior of B.C. increased by 50% and by 152% in the PNW. Similarly, lumber inventory volumes in the interior of B.C. rose by 54% with increased volumes from the start-up of the Grand Forks and Castlegar sawmills. Dismal lumber markets in the comparative periods of 2009 resulted in weak cash earnings. In response the Company significantly curtailed production causing a sharp drawdown of inventories of $25.0 million. In addition, $16.2 million in cash tax refunds were received in the first nine months of 2009 increasing cash generated from working capital.

Capital expenditures for the third quarter of 2010 were $7.5 million, excluding changes in amounts accrued, and $33.1 million year-to-date (Quarter 3, 2009 - $3.3 million; first nine months, 2009 - $23.6 million). Spending in the current quarter was primarily related to maintenance of operating capacity and road construction. In addition to road construction costs, cash expenditures for the first nine months of 2010 included the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited, adding approximately 275,000 cubic metres of allowable annual cut to its interior fibre supply. Comparative spending for the first nine months of 2009 was predominantly for completion of the Adams Lake sawmill and road construction.

During the third quarter, 2010, the Company disposed of surplus equipment, generating proceeds of $0.8 million and a loss of $0.1 million for the third quarter, 2010. These proceeds, combined with additional compensation under the *Forest Act* for timber and other assets and other minor disposals of surplus equipment, resulted in proceeds of $1.3 million and a gain of $0.3 million for the first nine months, 2010.

The comparable quarter, 2009, saw completion of the sale of the former Queensboro mill site for net proceeds of $29.9 million, compensation of $2.0 million under the *Forest Act* for timber takeback settlements and minor sales of surplus assets to generate a total of $32.1 million in cash proceeds. The proceeds generated in the third quarter, 2009, combined with proceeds received from the disposals of surplus property and equipment in the first half of 2009 resulted in total proceeds of $36.7 million and a gain of $22.4 million for the first nine months of 2009.

On January 4, 2010, Seaboard declared an income distribution to its partners. Interfor's share was $3.1 million and was paid to the Company by way of setoff against the promissory note payable to the Seaboard Limited Partnership. On July 30, 2010, subsequent to the sale of one of its two vessels on July 26, 2010, Seaboard made another advance to its partners, with the Company's share being $6.9 million, and which is payable on demand on or before January 4, 2011 and is non-interesting bearing until that date.

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The Company's Operating Line was extended to February 28, 2011 and the Revolving Term Line increased from $150 million to $200 million, and its maturity date was extended to February 28, 2012. All other terms and conditions of the lines remained substantially unchanged.

In conjunction with the amendments to its credit facilities on January 15, 2010 the Company drew US$35.0 million ($35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line").

To fund road construction and the acquisition of the timber tenure from Weyerhaeuser and to convert the U.S. drawings used to repay the Non-Revolving Term Line into Canadian dollars, the Company subsequently drew a further $75.0 million in the first nine months, 2010, and repaid drawings of US$35.0 million ($36.7 million) and $20.0 million.

As at September 30, 2010, the Operating Line was undrawn except for letters of credit, leaving an unused available line of $59.8 million. The Revolving Term Line was drawn by US$30.2 million revalued at the quarter-end exchange rate to $31.1 million and $131.0 million for total drawings of $162.1 million, leaving an unused available line of $37.9 million.

On August 19, 2010, the Company further amended and extended its syndicated credit facilities. The maturity date of the Operating Line was extended from February 28, 2011 to July 28, 2012. The maturity date of the Revolving Term Line was extended from February 28, 2012 to July 28, 2013. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

The Company believes, based on projected selling prices, cash flow projections and existing credit lines, that it has sufficient resources to meet operating and capital requirements through 2011. The Company continues to maintain its disciplined approach to production, its focus on managing the business for cash, ensuring adequate liquidity is maintained and realizing on the benefits of recent strategic activities and investments. Capital expenditures continue to be monitored.

At September 30, 2010, the Company had cash of $11.0 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the quarter with net debt of $151.0 million or 30.1% of invested capital.

Selected Quarterly Financial Information[1]

Quarterly Earnings Summary	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars except share, per share and foreign exchange rate amounts)							
Sales – Lumber	113.1	123.7	107.6	93.1	76.8	62.3	56.5	65.6
– Logs	21.9	19.8	17.4	17.3	17.3	13.0	12.8	18.3
– Wood chips and other by-products	14.0	13.3	13.2	12.2	8.9	5.9	7.4	8.8
– Other	2.4	1.0	1.7	2.9	2.2	0.6	0.6	0.8
Total Sales	151.5	157.9	139.9	125.5	105.2	81.8	77.3	93.5
Operating loss before restructuring costs and asset write-downs	(2.3)	(1.4)	(3.1)	(7.8)	(7.0)	(16.4)	(15.2)	(8.1)
Operating loss	(2.8)	(2.4)	(3.1)	(7.8)	(10.4)	(16.3)	(16.3)	(8.9)
Net earnings (loss)	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)	(18.7)
Net earnings (loss) per share – basic and diluted	0.03	(0.06)	(0.07)	(0.11)	0.21	(0.32)	(0.29)	(0.40)
EBITDA[5]	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)	2.0
Adjusted EBITDA[5]	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)	1.7
Cash flow from operations per share[2]	0.13	0.19	0.17	0.06	(0.07)	(0.23)	(0.22)	0.12
Shares outstanding – end of period (millions)[3]	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Average foreign exchange rate per US$1.00[4]	1.0395	1.0283	1.0401	1.0571	1.0980	1.1669	1.2446	1.2115
Closing foreign exchange rate per US$1.00[4]	1.0290	1.0646	1.0158	1.0510	1.0707	1.1630	1.2613	1.2180

1 Tables may not add due to rounding.
2 Cash generated from operations before taking account of changes in operating working capital.
3 As at October 21, 2010, the number of shares outstanding by class are: Class A Subordinate Voting shares – 46,112,276, Class B Common shares – 1,015,779, Total – 47,128,055.
4 Rates are based on Bank of Canada closing foreign exchange rates per US$1.00.
5 EBITDA represents earnings before interest, taxes, 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 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. Adjusted EBITDA represents EBITDA adjusted for other income (expense).

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

	2010			2009				2008
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars)							
Net earnings (loss)	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)	(18.7)
Add: Income taxes (recovery)	(0.1)	0.2	(0.4)	(3.3)	0.1	(3.6)	(3.1)	10.4
Interest expense	2.1	2.3	2.0	2.0	2.2	2.0	1.6	2.5
Depletion and amortization	11.2	12.6	11.4	12.5	9.9	9.5	6.3	7.8
Other foreign exchange (gains) losses	0.1	0.1	-	0.1	-	(0.1)	-	(0.9)
Restructuring costs, asset write-downs and other	0.5	1.1	-	0.1	3.3	(0.1)	1.1	0.8
EBITDA	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)	2.0
Deduct:								
Other income (expense)	(0.1)	0.4	-	0.6	21.7	-	0.6	0.3
Other income of investee company	4.8	-	-	-	-	-	-	-
Adjusted EBITDA	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)	1.7

Volume and Price Statistics		2010			2009				2008
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Lumber sales	(million fbm)	277	270	264	234	181	131	122	133
Lumber production	(million fbm)	272	277	258	245	180	115	121	118
Log sales[1]	(thousand cubic metres)	289	262	239	261	242	216	200	236
Log production[1]	(thousand cubic metres)	595	624	648	533	378	312	72	290
Average selling price – lumber[2]	($/thousand fbm)	$408	$459	$408	$398	$424	$477	$462	$494
Average selling price – logs[1]	($/cubic metre)	$73	$68	$64	$62	$69	$56	$54	$69
Average selling price – pulp chips	($/thousand fbm)	$40	$37	$40	$39	$38	$40	$46	$58

1 B.C. operations
2 Gross sales before export taxes

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 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 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 the logging operations. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity, which increases during the spring, summer and fall.

The impact of the global recession on overall demand and poor lumber sales realizations increased the operating losses in the first three quarters of 2009. Operating rates increased in the fourth quarter of 2009, as lumber prices rose slightly, carrying through the first three quarters of 2010. The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's sales are to export markets and priced in $US. A strong Canadian dollar reduces the lumber sales realizations in Canada, but lessens the impact of any losses in U.S. operations. The fourth quarter of 2008 net loss includes the effect of a valuation allowance of $15.2 million against future tax assets, and additional valuation allowances continued through all quarters of 2009 and 2010. The third quarter of 2009 includes an after-tax gain of $19.0 million from the sale of the former Queensboro sawmill site.

U.S.W. Union Agreement

The United Steel Workers ("USW") is the certificated bargaining agent for the majority of unionized employees in the Company's manufacturing operations in B.C. The Southern Interior USW agreement expired a year ago on September 30, 2009. On June 14, 2010 the USW agreement for the B.C. Coast also expired. Employees continue to work under the terms of the expired agreements with no workplace disruptions.

Softwood Lumber Agreement

On October 8, 2010, the U.S. Trade Representative's office filed a request for consultations with Canada under the terms of the Softwood Lumber Agreement ("SLA") over its concern that the province of British Columbia is charging too low a price for certain grades of timber harvested on public lands in the B.C. Interior.

Under the terms of the SLA, consultations between the two governments must be held within twenty days. If the matter is not resolved within forty days, either side may refer the matter to arbitration. As the U.S. concern is still in a preliminary stage of discussion, the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at September 30, 2010.

Storm Damage

In the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered severe power outages, mudslides, road washouts and flooding, with a state of emergency declared in several populated areas. Some logging areas were impacted by these severe storms with bridge and culvert damage, road washouts and slides in reforested areas. Due to the remoteness and magnitude of the areas impacted the Company has been unable to assess the extent of the damage and its related costs. The Company does expect some assistance from the governments and certain losses are expected to be covered by insurance.

As the extent of the damage has not yet been determined, the costs cannot be reasonably estimated and no provisions have been recorded in the financial statements as at September 30, 2010.

Accounting Policy Changes

Effective January 1, 2010, the Company adopted three new CICA accounting standards:

(a) Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with IFRS standards.

(b) Handbook Section 1601, *Consolidated Financial Statements* and Handbook Section 1602, *Non-Controlling Interests*, which replace Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

Adoption of these standards had no retrospective impact on the consolidated financial statements.

Future Accounting Policy Changes

In February 2008, the Canadian Accounting Standards Board confirmed that Canadian generally accepted accounting principles ("Canadian GAAP") will be converged with International Financial Reporting Standards ("IFRS") for fiscal years commencing January 1, 2011. The transition from Canadian GAAP to IFRS will be applicable for the Company for the first quarter of 2011 when the Company will prepare both the current and comparative financial information using IFRS.

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS conversion project in 2008 with the provision of training to key employees. Early in 2009, the Company developed an implementation plan, assembled a cross functional team establishing subject specialists, provided additional technical training and commenced a high level review of its financial statement elements to identify major differences. As needed, the Company engaged outside consultants to provide expertise and assistance.

The detailed review of the impact of IFRS on Interfor's consolidated financial statements is substantially complete and the Company is working with its auditors to validate the adjustments required on transition.

Changes required to systems and controls, including information technology systems, have been identified and implemented as the project progresses. No significant changes to computer systems have been required as a result of the conversion to IFRS.

Completion of an opening balance sheet prepared under IFRS at the date of transition, January 1, 2010, will be finalized in late 2010. As each quarter of 2010 is completed under Canadian GAAP, information is assembled to prepare financial statements and notes under IFRS which will be used for comparative purposes in 2011. Amendments will be made as adjustments become final.

While the quantitative effects of IFRS have not yet been finalized, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: impairment of assets; provisions; and employee future benefits. In addition, the presentation of financial information under IFRS differs significantly from those prepared under Canadian GAAP standards.

Impairment of assets

IFRS requires the assessment of asset impairment to be based on a comparison of the asset carrying value and its recoverable amount, usually based on its value in use as represented by its discounted future cash flows. Under Canadian GAAP the assessment of impairments provides for a two-step test with no impairment recognized if the undiscounted future cash flows exceed the carrying value of the related asset. Discounting is required only as a second step to quantify an impairment.

As such, impairments are more likely under IFRS standards and the difference in methodology may result in impairments being recorded in the opening Balance Sheet as an adjustment to Retained earnings. Where an impairment is required under IFRS, future amortization charges will decrease with a lower amortization base.

IFRS also provides for the reversal of previously recognized asset impairments, excluding goodwill, where conditions justify such reversals. Canadian GAAP does not allow reversal of impairments recognized in the financial statements.

These changes in standards may result in the potential for more impairments recognized against income in the future as well as more volatility as reversals occur.

Provisions

IFRS has a broader threshold for the recognition of provisions than that provided under Canadian GAAP and may result in additional liabilities being recognized under IFRS.

Employee future benefits

IFRS provides various options for the treatment of unamortized actuarial gains and losses, one of which is to recognize the full amounts of such gains and losses in the Company's Balance sheet with an adjustment recorded to Other comprehensive income, rather than amortizing these amounts against income over a number of years as is required under Canadian GAAP. In addition, IFRS requires the recognition of minimum funding requirements in relation to solvency deficiencies.

Presentation of financial statements

There are a number of presentation changes and reclassifications amongst line items on the financial statements that are expected under IFRS. In addition, IFRS requires significantly more financial statement note disclosure than required under Canadian GAAP standards.

IFRS 1 First time adoption of International Reporting Standards

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 *First time adoption of International Reporting Standards* which provides a number of optional exemptions to first-time adopters to ease the transition to IFRS. The Company expects to apply exemptions under each of the following IFRS 1 categories which are significant to the Company's opening balance sheet, with quantitative effects being finalized:

Employee future benefits

IFRS 1 provides an exemption that allows recognition of all unamortized actuarial gains and losses at the transition date as an adjustment to Retained earnings in the opening Balance Sheet.

Business combinations

IFRS 1 provides an exemption which eliminates the requirement to restate business combinations entered into prior to the date of transition.

Cumulative translation adjustments

IFRS 1 provides an exemption that allows the cumulative translation account to be set to zero at the date of transition as an adjustment to Retained earnings in the opening Balance Sheet.

Property, plant and equipment

IFRS 1 allows a company to selectively fair value property, plant and equipment with a one-time adjustment at the date of transition as an adjustment to Retained earnings in the opening Balance Sheet. The Company has identified certain properties which it will fair value on transition.

Since the process of finalizing the impacts of conversion to IFRS standards is still ongoing it is possible that further differences may arise that could have a significant impact on the Company's financial statements under IFRS. Progress remains on schedule as quantification of the impacts of the conversion will be finalized in the fourth quarter, 2010 and information for preparation of comparative financial statements and note disclosure is aggregated.

Controls and Procedures

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended September 30, 2010 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 September 30, 2010. 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, 2009 as filed on SEDAR at www.sedar.com.

Outlook

After navigating through the global recession in relatively good shape, economic activity in Canada appears to be transitioning to a more subdued rate of expansion for the balance of 2010. Recent data, including a decline in Canada's gross domestic product for the first time in almost a year in July and labour data indicating a net job loss in September, suggest a cooling of the Canadian economy. The Bank of Canada, which had raised its prime lending rate from a record low 0.25 percent to its current level of one per cent in recent months, did not increase its rate in October and it is widely anticipated that it will continue to slow its pace of rate hikes in the coming months.

Recovery in the U.S. new housing market continues to be stagnant. Sales of new houses declined in July 2010 to the second lowest level in U.S. Commerce Department records dating back to 1963, with demand plunging after government spending incentives lapsed on April 30. August 2010 new home sales remained flat in comparison to July. Ongoing high unemployment, a lack of consumer confidence and an oversupply of homes in the U.S. continue to weigh on the housing sector. It does appear, however, that U.S. housing starts may have found a floor with seasonally adjusted starts averaging 600,000 units for 2010, and 586,000 units since the historic low of 477,000 units in April 2009.

There continues to be optimism about the growth of exports to emerging markets, including China as it provides a new market to help offset reduced demand in the U.S. and a strong market for lower grade products.

With the prospect of continuing challenges in the North American markets, the Company continues its disciplined approach to production, inventory management and capital spending.

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.

E. Lawrence Sauder
Chairman

Duncan K. Davies
President and Chief Executive Officer

INTERFOR

CONSOLIDATED STATEMENTS OF OPERATIONS

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Sales	$ 151,493	$ 105,169	$ 449,315	$ 264,271
Costs and expenses:				
Production	135,830	96,530	402,309	260,490
Selling and administration	4,728	3,984	13,180	12,683
Long term incentive compensation expense	249	716	454	1,707
Export taxes	1,746	1,047	4,903	2,418
Amortization of plant and equipment	7,246	6,128	20,622	17,289
Depletion and amortization of timber, roads and other	3,988	3,789	14,570	8,363
	153,787	112,194	456,038	302,950
Operating loss before restructuring costs	(2,294)	(7,025)	(6,723)	(38,679)
Restructuring costs and write-downs of plant and equipment (note 10)	(480)	(3,325)	(1,587)	(4,312)
Operating loss	(2,774)	(10,350)	(8,310)	(42,991)
Interest expense on long-term debt	(1,956)	(1,809)	(5,976)	(4,673)
Other interest expense	(141)	(431)	(445)	(1,169)
Other foreign exchange gain (loss)	(67)	11	(111)	114
Other income (expense) (note 9)	(129)	21,723	259	22,352
Equity in earnings of investee company (note 5)	6,465	700	9,745	938
	4,172	20,194	3,472	17,562
Earnings (loss) before income taxes	1,398	9,844	(4,838)	(25,429)
Income taxes (recovery):				
Current	8	24	42	24
Future	(135)	100	(395)	(6,600)
	(127)	124	(353)	(6,576)
Net earnings (loss)	$ 1,525	$ 9,720	$ (4,485)	$ (18,853)
Net earnings (loss) per share, basic and diluted (note 11)	$ 0.03	$ 0.21	$ (0.10)	$ (0.40)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Retained earnings, beginning of period	$ 82,851	$ 84,175	$ 88,861	$ 112,748
Net earnings (loss)	1,525	9,720	(4,485)	(18,853)
Retained earnings, end of period	$ 84,376	$ 93,895	$ 84,376	$ 93,895

See accompanying notes to consolidated financial statements

INTERFOR

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 1,525	$ 9,720	$ (4,485)	$ (18,853)
Items not involving cash:				
Amortization of plant and equipment	7,246	6,128	20,622	17,289
Depletion and amortization of timber, roads and other	3,988	3,789	14,570	8,363
Future income tax (recovery)	(135)	100	(395)	(6,600)
Other assets	15	598	15	77
Reforestation liability	(579)	202	1,035	613
Other long-term liabilities	447	62	452	726
Equity in earnings of investee company	(6,465)	(700)	(9,745)	(938)
Write-downs of plant, equipment and roads	485	3,067	809	3,067
Unrealized foreign exchange losses (gains)	(551)	(4,644)	312	(5,764)
Other (note 9)	146	(21,723)	(259)	(22,357)
	6,122	(3,401)	22,931	(24,377)
Cash generated from (used in) operating working capital:				
Accounts receivable	(1,552)	(1,895)	1,512	1,828
Inventories	2,591	699	(11,564)	25,044
Prepaid expenses	(4,197)	(2,449)	(1,873)	(368)
Accounts payable and accrued liabilities	787	6,523	5,836	(867)
Income taxes	-	-	441	16,183
	3,751	(523)	17,283	17,443
Investing activities:				
Additions to property, plant and equipment	(3,505)	(1,126)	(6,356)	(20,320)
Additions to logging roads and timber	(3,982)	(2,125)	(26,785)	(3,238)
Proceeds on disposal of property, plant, and equipment	812	32,075	1,301	36,659
Investments and other assets	(1,494)	(126)	(3,536)	(866)
	(8,169)	28,698	(35,376)	12,235
Financing activities:				
Issuance of share capital (note 8)	-	-	39	-
Funds from promissory note payable to investee company (note 5)	6,896	-	6,896	-
Additions to long-term debt (note 7(b))	10,000	34,000	110,819	44,000
Repayments of long-term debt (note 7(b))	(10,000)	(33,000)	(92,534)	(41,000)
Decrease in bank indebtedness	-	(28,754)	-	(30,566)
	6,896	(27,754)	25,220	(27,566)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(25)	(64)	102	(111)
Increase in cash	2,453	357	7,229	2,001
Cash and cash equivalents, beginning of period	8,578	1,828	3,802	184
Cash and cash equivalents, end of period	$ 11,031	$ 2,185	$ 11,031	$ 2,185
Supplementary disclosures				
Cash interest paid	$ 2,097	$ 2,240	$ 6,421	$ 5,842
Cash income taxes paid (received)	6	24	400	(16,155)

See accompanying notes to consolidated financial statements

INTERFOR

CONSOLIDATED BALANCE SHEETS
September 30, 2010 (unaudited) and December 31, 2009 (audited)

(thousands of Canadian dollars)	Sept. 30, 2010	Dec. 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 11,031	$ 3,802
Accounts receivable	30,980	32,951
Income taxes recoverable	-	230
Inventories (note 6)	71,324	60,159
Prepaid expenses	9,570	7,777
Future income taxes	3,222	2,974
	126,127	107,893
Investments and other assets (note 5)	26,311	17,060
Property, plant and equipment, net of accumulated amortization	338,474	357,501
Timber tenures, net of accumulated depletion	80,623	67,010
Logging roads and bridges, net of accumulated amortization	16,390	16,485
Goodwill	13,078	13,078
Long-lived assets held for sale	3,424	3,424
	$ 604,427	$ 582,451
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 49,270	$ 43,510
Income taxes payable	215	-
Payable to investee company (note 5)	6,896	3,096
	56,381	46,606
Reforestation liability, net of current portion	16,501	14,724
Long-term debt (note 7(b))	162,076	144,525
Other long-term liabilities	15,745	15,316
Future income taxes	3,222	3,286
Shareholders' equity:		
Share capital (note 8)		
Class A subordinate voting shares	284,539	284,500
Class B common shares	4,080	4,080
Contributed surplus	5,408	5,408
Accumulated other comprehensive income (loss)	(27,901)	(24,855)
Retained earnings	84,376	88,861
	350,502	357,994
	$ 604,427	$ 582,451

Contingencies (note 15)

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder
Director

G.H. MacDougall
Director

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Net earnings (loss)	$ 1,525	$ 9,720	$ (4,485)	$ (18,853)
Other comprehensive loss:				
Net change in unrealized foreign currency translation losses on translation of self-sustaining foreign subsidiaries	(4,930)	(13,471)	(3,046)	(21,708)
Other comprehensive loss	(4,930)	(13,471)	(3,046)	(21,708)
Comprehensive loss	$ (3,405)	$ (3,751)	$ (7,531)	$ (40,561)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2010 and 2009 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Accumulated other comprehensive loss, beginning of period	$ (22,971)	$ (8,791)	$ (24,855)	$ (554)
Other comprehensive loss	(4,930)	(13,471)	(3,046)	(21,708)
Accumulated other comprehensive loss, end of period	$ (27,901)	$ (22,262)	$ (27,901)	$ (22,262)

See accompanying notes to consolidated financial statements

(Tabular amounts expressed in thousands except per share amounts)

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 ("GAAP") 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, 2009, except for the new accounting policies adopted subsequent to that date, as discussed in Note 2.

2. Adoption of change in accounting policies:

Effective January 1, 2010, the Company adopted three new Canadian Institute of Chartered Accountants ("CICA") accounting standards:

(a) CICA Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with International Financial Reporting Standards ("IFRS").

(b) CICA Handbook Section 1601, *Consolidated Financial Statements* and CICA Handbook Section 1602, *Non-Controlling Interests*, which replace CICA Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

Adoption of these standards has no retrospective impact on the consolidated financial statements.

3. Comparative figures:

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

4. Seasonality of operating results:

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

5. Payable to investee company:

On December 29, 2009, the Seaboard Limited Partnership ("Seaboard"), made an advance to its partners, with the Company's share of the advance being $3,096,000. The Company signed an unsecured promissory note which was payable on demand on or before January 4, 2010 and was non-interest bearing until January 4, 2010.

On January 4, 2010, Seaboard declared an income distribution to its partners, of which the Company's share of $3,096,000 was received by way of setoff against the promissory note payable to the Seaboard. In accordance with equity accounting, the income distribution was recorded as a reduction of the investment in Seaboard.

On July 30, 2010, subsequent to the sale of one of its two vessels in July Seaboard made another advance to its partners, with the Company's share of the advance being $6,896,000. The Company signed an unsecured promissory note which is payable on demand on or before January 4, 2011 and is non-interest bearing until January 4, 2011.

Seaboard sold its remaining vessel in August, 2010. Seaboard has chartered ships to replace the sold vessels and expects to continue to meet its freight requirements.

6. Inventories:

	Sept. 30, 2010	Dec. 31, 2009
Logs	$ 34,827	$ 31,011
Lumber	30,251	24,301
Other	6,246	4,847
	$ 71,324	$ 60,159

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 September 30, 2010 was $9,885,000 (December 31, 2009 - $9,578,000).

(Tabular amounts expressed in thousands except per share amounts)

7. Cash, bank indebtedness and long-term debt:

(a) Bank indebtedness:

September 30, 2010	Total
Available line of credit	$ 65,000
Maximum borrowing available	65,000
Operating Line drawings	-
Outstanding letters of credit included in line utilization	5,174
Unused portion of line	59,826
December 31, 2009	
Available line of credit	$ 65,000
Maximum borrowing available	61,926
Operating Line drawings	-
Outstanding letters of credit included in line utilization	4,997
Unused portion of line	56,929

The 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. Borrowing levels under the 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 and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. As at September 30, 2010, there were no drawings under the Operating Line (December 31, 2009 - $nil).

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The maturity date of the existing Canadian operating line of credit ("Operating Line") was extended to February 28, 2011. All other terms and conditions of the line remained substantially unchanged.

On August 19, 2010, the Company further amended and extended its existing syndicated credit facilities and the maturity date of the Operating Line was extended to July 28, 2012. All other terms and conditions of the Operating Line remain substantially unchanged except for a reduction in pricing.

(b) Long-term debt:

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The Company's Revolving Term Line increased from $150,000,000 to $200,000,000, and its maturity date was extended to February 28, 2012. All other terms and conditions of the line remained substantially unchanged.

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.

As at September 30, 2010, the Revolving Term Line was drawn by US$30,200,000 (December 31, 2009 – US$30,200,000) revalued at the quarter-end exchange rate to $31,076,000 (December 31, 2009 - $31,740,000), and $131,000,000 (December 31, 2009 - $76,000,000) for total drawings of $162,076,000 (December 31, 2009 - $107,740,000), leaving an unused available line of $37,924,000.

In conjunction with the amendments to its credit facilities on January 15, 2010, the Company drew US$35,000,000 ($35,819,000) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line"). At December 31, 2009 the Non-Revolving Term Line was fully drawn at US$35,000,000 and was revalued at the year-end exchange rate to $36,785,000. Upon repayment of the loan, the foreign exchange gain of $966,000 realized on repayment of the Non-Revolving Term Line (September 30, 2009 - $5,156,000 unrealized foreign exchange gain on revaluation of loan) was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

The Company subsequently drew a further $55,000,000 in the first quarter, 2010, and repaid the drawings of US$35,000,000 ($36,715,000) used to repay the Non-Revolving Term Line, realizing a foreign exchange loss of $896,000 which was recognized in Other foreign exchange gain (loss) on the Statement of Operations. In each of the second and third quarters, 2010, the Company drew and repaid $10,000,000.

The US$30,200,000 drawing under the Revolving Term Line has been designated as a hedge against the Company's investment in its self-sustaining U.S. operations and unrealized foreign exchange gains of $664,000 (September 30, 2009 - $4,448,000 gain) arising on revaluation of the Non-Revolving Term Line for the nine months ended September 30, 2010 were recognized in Other comprehensive income.

The term 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 term 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.

On August 19, 2010, the Company further amended and extended its existing syndicated credit facilities and the maturity date of the Revolving Term Line was extended to July 28, 2013. All other terms and conditions of the Revolving Term Line remain substantially unchanged except for a reduction in pricing.

(Tabular amounts expressed in thousands except per share amounts)

7. Cash, bank indebtedness and long-term debt (continued):

(b) Long-term debt (continued):

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

Twelve months ending		
September 30, 2011	$	-
September 30, 2012		-
September 30, 2013		162,076
September 30, 2014		-
September 30, 2015		-
	$	162,076

8. Share capital:

During the second quarter, 2010, the Company issued Class A shares as previously granted share options were exercised. There were no changes to the Class B shares.

The transactions in share capital are described below:

	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Shares issued on exercise of options				
Number of shares	-	-	11	-
Proceeds	$ -	$ -	$ 39	$ -

9. Other income (expense):

	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Gain (loss) on disposal of surplus property, plant and equipment	$ (146)	$ 20,719	$ (117)	$ 21,353
Gain on settlement of timber takeback	-	1,004	376	1,004
Other (expense)	17	-	-	(5)
	$ (129)	$ 21,723	$ 259	$ 22,352

In the first quarter of 2010, minor disposals of surplus equipment resulted in proceeds of $14,000 and a loss of $8,000. In the second quarter, 2010, the Company received further compensation under the *Forest Act* for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast which, combined with further minor disposals of surplus equipment, resulted in proceeds of $475,000 and a gain of $413,000.

Minor disposals of surplus equipment in the third quarter, 2010, generated proceeds of $812,000 and a loss of $146,000.

In the first quarter of 2009, the Company disposed of surplus property and buildings in Maple Ridge, B.C., previously classified as held for sale. This disposition, combined with minor sales of surplus equipment in the first and third quarters, generated proceeds of $4,584,000 and a gain of $634,000.

In the third quarter, 2009, the Company completed the sale of its former Queensboro mill site, located in New Westminster, B.C. and its remaining surplus equipment, yielding net proceeds of $29,987,000 and a gain of $ $20,715,000. In addition, the Company received $2,000,000 as an advance of compensation under the *Forest Act* for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast, and recorded a gain of $1,004,000. This, combined with other minor sales of surplus equipment in the quarter, 2009, contributed an additional gain of $4,000.

10. Restructuring costs and write-downs of plant and equipment:

	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Severance costs	$ (5)	$ 258	$ 1,102	$ 1,510
Plant and equipment write-downs	485	3,067	485	3,067
Other (recovery)	-	-	-	(265)
	$ 480	$ 3,325	$ 1,587	$ 4,312

(Tabular amounts expressed in thousands except per share amounts)

10. Restructuring costs (continued):

During the first quarter of 2010 the Company revised its estimated severance costs and recorded $33,000 in additional restructuring costs. In the second quarter of 2010 the Company restructured certain of its manufacturing operations resulting in additional severance costs of $1,074,000. The Company recorded $485,000 in asset write-downs in the third quarter, 2010, as it determined certain assets were impaired. In addition, minor adjustments to restructuring costs were finalized resulting in a severance recovery of $5,000.

During the first, second and third quarters of 2009, the Company recorded total severance costs of $1,510,000 as it downsized its workforce in response to reduced operating rates. In the second quarter, 2009, the Company was successful in defending a legal dispute and was able to reverse restructuring costs previously accrued. The Company recorded $3,067,000 in asset write-downs in the third quarter, 2009, as it determined certain assets were impaired.

11. Net earnings (loss) per share:

	3 Months Sept. 30, 2010			3 Months Sept. 30, 2009		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	$ 1,525	47,128	$ 0.03	$ 9,720	47,117	$ 0.21
Share options	-	-	-	-	-	-
Diluted earnings (loss) per share	$ 1,525	47,128	$ 0.03	$ 9,720	47,117	$ 0.21

	9 Months Sept. 30, 2010			9 Months Sept. 30, 2009		
	Net earnings (loss)	Shares	Per share	Net earnings (loss)	Shares	Per share
Basic earnings (loss) per share	$ (4,485)	47,123	$ (0.10)	$ (18,853)	47,117	$ (0.40)
Share options	-	-	-	-	-	-
Diluted earnings (loss) per share	$ (4,485)	47,123	$ (0.10)	$ (18,853)	47,117	$ (0.40)

12. 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 Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Canada	$ 48,093	$ 34,319	$ 135,385	$ 79,974
United States	53,130	43,596	182,667	109,143
Japan	19,323	14,170	55,585	39,203
China/Taiwan	21,922	3,875	42,832	9,458
Other export	9,025	9,209	32,846	26,493
	$ 151,493	$ 105,169	$ 449,315	$ 264,271

Sales by product line are as follows:

	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Lumber	$ 113,103	$ 76,781	$ 344,434	$ 195,544
Logs	21,946	17,271	59,186	43,132
Wood chips and other by products	14,000	8,864	40,486	22,161
Other	2,444	2,253	5,209	3,434
	$ 151,493	$ 105,169	$ 449,315	$ 264,271

(Tabular amounts expressed in thousands except per share amounts)

12. Segmented information (continued):

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

	Sept. 30, 2010	Dec. 31, 2009
Canada	$ 304,007	$ 299,365
United States	147,982	158,133
	$ 451,989	$ 457,498

13. Employee future benefits:

The total benefits cost under its various pension, retirement savings and other post-retirement benefit plans (described in the Company's audited annual consolidated financial statements) are as follows:

	3 Months Sept. 30, 2010	3 Months Sept. 30, 2009	9 Months Sept. 30, 2010	9 Months Sept. 30, 2009
Canadian employees' deferred profit sharing plan	$ 272	$ 268	$ 834	$ 886
Defined benefit plan	63	112	189	337
Unionized employees' pension plan	526	365	1,393	925
Post-retirement benefits plan	22	19	64	55
U.S. employees' 401(k) plan	140	125	449	409
Senior management supplementary pension plan	106	122	498	368
Total pension expense	$ 1,129	$ 1,011	$ 3,427	$ 2,980

14. Financial instruments:

The Company employs financial instruments such as foreign currency forward and option contracts to manage exposure to fluctuations in foreign exchange 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 September 30, 2010, the Company has outstanding obligations to sell a maximum of US$19,500,000 at an average rate of CAD$1.0421 to the USD$1.00, and sell Japanese ¥210,000,000 at an average rate of ¥86.10 to the US$1.00 during 2010. All foreign currency gains or losses to September 30, 2010 have been recognized in the Statement of Operations and the fair value of these foreign currency contracts is a net receivable of $91,000 (measured based on Level 2 of the fair value hierarchy), $170,000 of which has been recorded in accounts receivable and $79,000 has been recorded in accounts payable (December 31, 2009 - $403,000 asset fair value measured based on Level 2 and recorded in accounts receivable).

15. Contingencies:

(a) Softwood Lumber Agreement

On October 8, 2010, the U.S. Trade Representative's office filed a request for consultations with Canada under the terms 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 grades of timber harvested on public lands in the B.C. Interior.

Under the terms of the SLA, consultations between the two governments must be held within twenty days. If the matter is not resolved within forty days, either side may refer the matter to arbitration. As the U.S. concern is still in a preliminary stage of discussion the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at September 30, 2010.

(b) Storm damage

In the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered severe power outages, mudslides, road washouts and flooding, with a state of emergency declared in several populated areas. Some logging areas were impacted by these severe storms with bridge and culvert damage, road washouts and slides in reforested areas. Due to the remoteness and magnitude of the areas impacted the Company has been unable to assess the extent of the damage and its related costs. The Company does expect some assistance from governments and certain losses are expected to be covered by insurance.

As the extent of the damage has not yet been determined, the costs cannot be reasonably estimated and no provisions have been recorded in the financial statements as at September 30, 2010.

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