International Forest Products Limited
Third Quarter Report
For the three and nine months ended September 30, 2012

Management's Discussion and Analysis

Dated as of November 1, 2012

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, 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 and nine months ended September 30, 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 heading "Outlook". 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 net earnings of $1.1 million, or $0.02 per share for the third quarter of 2012 as compared to net earnings of $6,000, or $0.00 per share for the third quarter of 2011. For the first nine months, 2012, the Company recorded a net loss of $5.1 million, or $0.09 per share as compared to a net loss of $7.0 million, or $0.13 per share for the first nine months, 2011.

EBITDA and Adjusted EBITDA for the third quarter of 2012 were $15.2 million and $14.9 million respectively, compared to $17.6 million and $17.2 million for the third quarter, 2011. EBITDA and Adjusted EBITDA for the first nine months of 2012 were $37.6 million and $37.3 million, respectively, compared to $40.5 million and $40.1 million for the same period in 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 earnings were $0.6 million, or $0.01 per share for the third quarter, 2012 as compared to $2.4 million, or $0.04 per share for the third quarter, 2011. The Company recorded share-based incentive compensation expense of $2.3 million, or $0.04 per share in the third quarter, 2012 as compared to a recovery of $0.9 million, or $0.02 per share for the same period, 2011.

For the first nine months, 2012 the Company's net loss before restructuring costs, certain foreign exchange gains (losses), certain other one-time items and the effect of unrecognized tax assets was $3.8 million, or $0.07 per share as compared to a net loss of $2.5 million, or $0.05 per share for the first nine months, 2011. The Company recorded share-based incentive compensation expense of $3.8 million, or $0.07 per share for the first nine months, 2012 as compared to a recovery of $0.5 million, or $0.01 per share for the same period, 2011.

Housing starts in the U.S. in September, 2012 climbed to a seasonally adjusted annual rate of 872,000 units, the highest level since July 2008 and an increase of 25% over the December 31, 2011 rate. This surge has driven higher North American sales prices as reported by Random Lengths for Western SPF 2x4 #2&Btr in September 2012 which averaged US$296 per mfbm, up by US$48 per mfbm or 19% over December, 2011 average prices.

Sustained growth in the home improvement sector in the third quarter, 2012 generated slightly higher cedar sales volumes. Log availability has been tight, limiting the cedar lumber supply and enabling slight price increases.

Results have also been marginally impacted by a weakened Canadian dollar relative to its U.S. counterpart for the third quarter, 2012 and for the first nine months, 2012, as compared to the same periods of 2011.

<u>Sales</u>

The Company achieved record volumes of quarterly lumber shipments in the third quarter, 2012 and surpassed third quarter, 2011 shipments by 9%. Compared to the same period, 2011, lumber shipments improved by 7% for the first nine months, 2012. Increases reflect the impact of stronger domestic demand driven by improved U.S. housing starts.

Shipments to North America grew rapidly in the third quarter, 2012, relative to the previous two quarters, 2012, and exceeded shipments in the same quarter, 2011 by almost a third as the Company redirected sales to North American markets to benefit from higher realizations. For the first nine months, 2012 North American shipments grew by 29% compared to the same period, 2011.

Improvements in average unit lumber sales values of $27 per mfbm, or 6% in the third quarter, 2012, and $25 per mfbm, or 6% year-to-date, over the respective periods of 2011 reflect higher North American prices. A slightly weaker average Canadian dollar quarter-over-quarter and for the first nine months of 2012 had a positive impact on sales returns as compared to the same periods of 2011.

Compared to the same period, 2011, log sales revenues declined by 26% for the third quarter, 2012, driven primarily by a reduction in log sales volume from B.C. operations of 20%. For the first nine months, 2012 log sales revenues increased by 5% in tandem with Canadian log sales volume increase of 4% vis-à-vis the same period, 2011. Curtailments in logging due to the extended fire season in the third quarter, 2012 impacted the volume of logs available for sale. Average Canadian log sales prices remained relatively constant for the third quarter and first nine months, 2012 as compared to 2011.

Pulp chip and other by-product revenues remained flat for the third quarter, 2012, but improved by 5% or $2.7 million for the first nine months, 2012, compared to the respective periods in 2011, largely driven by the effect of lower chip prices offset by higher sawmill operating rates.

<u>Operating Costs</u>

Production costs for the third quarter of 2012 increased by $11.1 million or 6%, and $54.9 million, or 11%, for the first nine months of 2012, compared to the same periods in 2011.

The Company achieved record quarterly lumber production in the third quarter, 2012 at 350 million board feet, an improvement of 12% over the same quarter, 2011. For the first nine months, 2012, lumber production increased by 35 million board feet, or 4% vis-à-vis the same period, 2011. Market driven increases in operating rates supported by available economic fibre supply for the U.S. Pacific Northwest sawmills for the third quarter more than offset reduced operating hours for the first half of 2012 compared to the third quarter and first nine months of 2011.

Unit cash conversion costs for the third quarter and first nine months, 2012 remained constant as compared to the same periods of 2011.

Unit costs of logs consumed increased 13% quarter-over-quarter and 10% year-over-year for 2012 as compared to the same periods, 2011 resulting from overall higher log prices, higher logging and hauling costs and a weaker Canadian dollar.

Compared to the same period in 2011, B.C. log production fell by 186,000 cubic metres or 19% in the third quarter, 2012 and by 65,000 cubic metres or 3% for the first nine months, 2012. An extended summer fire season limited logging in B.C. operations, and coupled with harsh spring weather on the B.C. Coast contributed to declines in Coastal log production of 33% in the third quarter, 2012 and 15% for the first nine months, 2012 as compared to the same periods in 2011 which saw increased activity to make up lost production due to storms and to meet strong export demand.

For the third quarter, 2012, logging activity in the B.C. Interior was essentially unchanged from the third quarter, 2011, but improved by 12% for the first nine months, 2012 vis-à-vis the same period, 2011 as cold weather extended spring break up enabling increased production.

In the first quarter, 2012, the Company commenced demolition of the remaining structures of the former Adams Lake sawmill. In addition, in the second and third quarters, 2012, an environmental consultant undertook groundwater and other testing at a landfill at its Castlegar sawmill site to reassess potential remediation costs. Based on the results of the testing the Company reduced its estimate of the environmental provision recorded on acquisition of the site in 2008. The resultant net impact on production costs was an expense of $0.2 million for the third quarter, 2012 and a negligible recovery for the first nine months, 2012.

In June, 2011 the Company finalized an insurance claim resulting from storm damage on the B.C. Coast which occurred in the late fall, 2010 and recorded $2.7 million of business interruption recoveries for the first nine months, 2011 which were netted against production costs.

As a result of the lift in commodity lumber prices in the second and third quarters, 2012, the export tax paid under the Softwood Lumber Agreement ("SLA") declined from 15% and fluctuated between 5% and 10% for the period from June 1, 2012 to September 30, 2012. Export taxes for the third quarter, 2012 declined by $0.4 million, or 14% over the same quarter, 2011, the net result of the reduced tax rates partially offset by more than doubling the Canadian shipment volume to the U.S. For the first nine months, 2012, export taxes increased $0.6 million, or 8% as compared to the same period, 2011, resulting from a 25% increase in Canadian shipment volumes to the U.S. offset by reduced tax rates for four months of 2012.

Selling and administrative costs remained constant relative to the same periods in 2011.

Long-term incentive compensation ("LTIC") expense of $2.3 million for the third quarter, 2012 (Quarter 3, 2011 – recovery of $0.9 million), and an expense of $3.8 million for the first nine months, 2012 (first nine months, 2011 - $0.5 million recovery) reflect changes in the estimated fair value of the share-based compensation plans. 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. Though not a direct correlation, the movement in the Company's share price has the greatest impact on expense, as reflected by increases in the closing share price of 16% and 37% in the third quarter and first nine months, 2012 respectively (decreases of 23% and 29% in the third quarter and first nine months, 2011, respectively).

Third quarter and first nine months, 2012 depreciation of plant and equipment was higher by $0.8 million and $0.6 million respectively, over the corresponding periods in 2011. The increase was largely driven by increased operating rates and a weaker Canadian dollar, on average, in 2012 partially offset, in part, by accelerated depreciation on a number of assets with shortened useful lives in early 2011.

Road amortization and depletion expense decreased by 26% and 11% for the third quarter and first nine months, 2012 as compared to the same periods in 2011, corresponding to reduced logging activity on the B.C. Coast combined with a shift from conventional logging to heli-logging.

Third quarter, 2012 restructuring costs of $0.1 million arose as the Company undertook a reorganization of its Coastal operations. This, together with the cancellation of a cutting permit offset by the related impairment of road infrastructure and severance costs resulted in restructuring costs of $0.3 million for the first nine months, 2012.

During the third quarter, 2011 the Company reversed an amount of $0.4 million for a write-down of an asset previously considered impaired and was partially offset with severance costs to recognize a $0.3 million recovery of restructuring costs. For the first nine months, 2011 payments for the buyout of logging contractor's Bill 13 entitlements together with severance costs were partially offset by the impairment reversal resulted in the recognition of $0.7 million expense.

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

Finance costs decreased by $0.1 million for the third quarter and $1.0 million for the first nine months, compared to the same periods, 2011, resulting from an overall decrease in average debt levels compared to the same period in the prior year. Debt was reduced in the second quarter, 2011 when net proceeds of $54.9 million received from a public offering of Class A Subordinate Voting shares on April 8, 2011 were used to repay debt.

Other foreign exchange gain at $0.1 million for the third quarter and $0.0 million for the first nine months, 2012 compared to losses of $2.5 million and $1.2 million for the respective periods, 2011 as volatility of the Canadian dollar and the timing and amount of forward foreign exchange contracts impact these gains and losses. In the last two weeks of the third quarter, 2011 the Canadian dollar depreciated by 7% and resulted in significant losses for the comparative periods in 2011.

Other income for the third quarter and first nine months of 2012 and 2011 was negligible, consisting primarily of minor surplus equipment and scrap sales.

Income Taxes

The Company recorded a negligible income tax expense in the third quarter of 2012 (Quarter 3, 2011 - $0.5 million) which excludes an expense of $0.4 million related to the reduction of certain unrecognized deferred income tax assets arising from loss carry-forwards available to reduce future taxable income (Quarter 3, 2011 - $0.6 million benefit). For the first nine months, 2012, the income tax expense of $0.4 million (Quarter 3, 2011 - $1.3 million) excluded the benefit of $1.4 million of deferred tax assets (first nine months, 2011 - $3.1 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

The Company generated $33.2 million from operations, before changes in working capital during the first nine months, 2012 as compared to $39.0 million for the first nine months, 2011. Cash flows from operations declined slightly year-over-year, as higher costs offset the rise in North American sales prices and increased domestic shipments in the first nine months, 2012; higher export shipments partially offset by lower overall sales realizations and a stronger average Canadian dollar drove cash earnings in the same period, 2011.

Cash generated from operations, after changes in working capital, improved $6.3 million for the nine months ended September 30, 2012 compared to the first nine months, 2011.

Improvements in overall lumber shipments and shift to higher North American sales values were reflected in a cash utilization of $7.2 million for accounts receivable offset by an $11.0 million increase in accounts payable as a result of higher operating rates in the first nine months, 2012.

In the first nine months, 2011, significant increases in lumber production to meet export demand resulted in an inventory build-up of $17.8 million. The increase in accounts receivable of $4.7 million, offset by a $10.9 million rise in accounts payable was the result of the higher operating rates and export shipments in the first nine months, 2011.

Cash capital expenditures for the first nine months of 2012 totalled $45.5 million (first nine months, 2011 - $27.3 million) with $21.0 million spent on the capital upgrades for the Grand Forks and Castlegar mills, $3.2 million on other high-return discretionary projects, $6.4 million on business maintenance expenditures, $16.0 million on road construction and $0.2 million on timber rights. These expenditures were funded by net drawings of $25.0 million on the Company's Revolving Term Line and through cash generated by operations during the first nine months, 2012.

On January 5, 2011 by virtue of the withdrawal of all other partners in Seaboard General Partnership ("SGP"), Interfor acquired control of its net assets. Cash generated from investments includes cash received on acquisition of SGP of $4.8 million.

In the second quarter, 2011 the Company also settled an insurance claim in respect of severe storm damage to logging roads and bridges in the fall, 2010. Net cash proceeds of $4.8 million were received in June 2011.

In the second quarter, 2011, the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of $7.00 per share for net proceeds of $54.9 million. In addition, in the first half, 2011 several stock option holders exercised their options generating $1.4 million in cash.

As at September 30, 2012, the Revolving Term Line was drawn by US$30.2 million (revalued at the quarter-end exchange rate to $29.7 million) and $105.0 million for total drawings of $134.7 million, leaving an unused available line of $65.3 million. The Company's Operating Line of $65.0 million had no borrowings other than outstanding letters of credit of $5.1 million, leaving an unused available line of $59.9 million. Including unrestricted cash of $16.6 million, the Company had available resources of $141.8 million as at September 30, 2012.

These resources, together with cash generated from operations, will be used to support Interfor's working capital requirements, capital expenditures including the Kootenay optimization projects, and debt servicing commitments. 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. The Company continues to monitor discretionary capital spending.

At September 30, 2012, the Company ended the first nine months, 2012, with net debt of $117.8 million or 24% of invested capital as compared to 20% at December 31, 2011, primarily as a result of the sawmill rebuild at Grand Forks.

Selected Quarterly Financial Information[1]

Quarterly Earnings Summary	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars except share and per share amounts)							
Sales – Lumber[2]	161.9	162.4	133.6	133.6	139.6	133.7	131.4	136.3
– Logs	26.8	35.6	27.0	22.9	36.0	28.6	20.8	20.6
– Wood chips and other residual products	17.5	17.8	18.2	17.5	17.6	16.8	16.4	15.7
– Other	8.5	9.6	7.9	14.6	9.9	8.7	10.0	2.4
Total Sales	214.7	225.4	186.7	188.7	203.1	187.9	178.6	175.0
Operating earnings (loss) before restructuring costs[2]	2.5	2.9	(5.5)	(6.2)	3.9	(2.3)	(0.1)	0.3
Operating earnings (loss) [2]	2.4	2.8	(5.5)	(6.1)	4.2	(2.4)	(1.0)	0.3
Net earnings (loss)	1.1	0.3	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8
Net earnings (loss) per share – basic and diluted	0.02	0.01	(0.12)	(0.12)	0.00	(0.10)	(0.04)	0.02
Net earnings (loss), adjusted for certain one-time and other items [2,4,6]	0.6	0.9	(5.2)	(3.7)	2.4	(3.2)	(1.7)	(0.8)
Net earnings (loss), adjusted for certain one-time and other items – per share [2,4]	0.01	0.02	(0.09)	(0.07)	0.04	(0.06)	(0.03)	(0.02)
EBITDA[7]	15.2	16.5	6.0	6.7	17.6	11.3	11.6	13.3
Adjusted EBITDA[7]	14.9	16.5	5.8	6.7	17.3	11.3	11.6	13.2
Cash flow from operations per share[5]	0.20	0.24	0.15	0.08	0.26	0.22	0.27	0.22
Shares outstanding – end of period (millions)[3]	55.9	55.9	55.9	55.9	55.9	55.9	47.5	47.4
– weighted average (millions)	55.9	55.9	55.9	55.9	55.9	55.2	47.4	47.2
Average foreign exchange rate per US$1.00	0.9954	1.0104	1.0010	1.0230	0.9808	0.9680	0.9856	1.0131
Closing foreign exchange rate per US$1.00	0.9832	1.0181	0.9975	1.0170	1.0482	0.9645	0.9696	0.9946

1 Tables may not add due to rounding.

2 The Company uses 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 November 1, 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
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars)							
Net earnings (loss)	1.1	0.3	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8
Add (deduct):								
Other (income) expense	(0.2)	(0.0)	(0.1)	-	(0.4)	(0.0)	-	0.3
Other (income) expense of associate company	-	-	-	-	-	-	-	(0.4)
Other foreign exchange (gains) losses	(0.1)	0.5	(0.4)	(1.1)	2.5	(0.2)	(1.1)	(1.1)
Restructuring costs (recovery)	0.1	0.1	-	(0.1)	(0.3)	0.1	0.8	-
Deferred tax assets not recognized (recognized)	(0.4)	0.0	1.8	3.9	0.6	2.2	0.3	(0.3)
Net earnings (loss) adjusted for certain one-time and other items[3]	0.6	0.9	(5.2)	(3.7)	2.4	(3.2)	(1.7)	(0.8)

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 may be calculated from the Statements of Operations as follows[3]:

	2012			2011				2010
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
	(millions of dollars)							
Net earnings (loss)	1.1	0.3	(6.5)	(6.5)	0.0	(5.3)	(1.7)	0.8
Add: Income taxes (recovery)	0.0	0.3	-	0.2	0.5	1.2	(0.4)	(0.5)
Finance costs	1.6	1.7	1.5	1.3	1.7	1.9	2.3	2.5
Depreciation, depletion and amortization	12.4	13.6	11.3	13.0	13.3	13.6	11.7	11.7
Other foreign exchange (gains) losses	(0.1)	0.5	(0.4)	(1.1)	2.5	(0.2)	(1.1)	(1.1)
Restructuring costs (recovery)	0.1	0.1	-	(0.1)	(0.3)	0.1	0.8	-
EBITDA	15.2	16.5	6.0	6.7	17.6	11.3	11.6	13.3
Deduct:								
Other income (expense)	0.2	0.0	0.1	-	0.4	0.0	-	(0.3)
Other income of associate company	-	-	-	-	-	-	-	0.4
Adjusted EBITDA[3]	14.9	16.5	5.8	6.7	17.3	11.3	11.6	13.2

Volume and Price Statistics

		2012			2011				2010
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Lumber sales	(million fbm)	366	363	320	318	336	334	313	321
Lumber production	(million fbm)	350	333	323	294	313	325	332	303
Log sales[1]	(thousand cubic metres)	345	379	361	310	430	314	301	292
Log production[1]	(thousand cubic metres)	817	840	892	795	1,002	796	816	794
Average selling price – lumber[2]	($/thousand fbm)	$442	$448	$418	$420	$415	$400	$419	$424
Average selling price – logs[1]	($/cubic metre)	$75	$75	$64	$69	$74	$82	$61	$64
Average selling price – pulp chips	($/thousand fbm)	$43	$46	$48	$51	$48	$44	$40	$42

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 economical 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.

Offshore demand, particularly from China, grew rapidly through the last half of 2010 and the first half, 2011, levelling off in the latter half, 2011. Export markets slowed in the first two quarters, 2012, but were more than offset by strong North American demand resulting in higher sales prices and a reduction in export tax rates in the second and third quarters, 2012.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operations' 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 have been recognized since the third quarter of 2008.

In the first quarter, 2011 the Company acquired 100% 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.

Accounting Policy Changes

The Company uses 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. There is no effect on Net earnings or on the Statement of financial position.

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 September 30, 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 September 30, 2012. For a full discussion of critical accounting estimates, 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 recent positive news, the outlook for the U.S. housing sector remains uncertain and concerns over sustainability continue. Export taxes declined to 5% for October but will increase to 10% in November due to recent decreases in the relevant benchmark prices. Canadian housing starts are expected to moderate in late 2012 and through 2013, but are expected to top 200,000 units this year for the first time since 2008.

Compared to recent years, the Chinese economy has cooled and the growth in demand for lumber has levelled off. This, together with the prospect of more log supply available to China from Russia may temper near-term sales. China is expected to remain an important player in global lumber markets, and we will continue to focus on this market.

Rebuilding activity in Japan's Tohoku region impacted by the March 2011 earthquake is progressing slowly, but is expected to show gradual improvement. In addition, a scheduled increase in the consumption tax in Japan in April 2014 is expected to spur an increase in construction in the year preceding the increase.

The Canadian dollar is forecast to continue trading near parity relative to its U.S. counterpart through the balance of 2012.

The Company continues to devote considerable attention to the capital projects at Grand Forks and Castlegar. The Grand Forks project is well ahead of schedule, with the new line scheduled to commence start-up procedures the first week of December. The final stage of the Castlegar project is scheduled for completion in mid-November.

As always, Interfor continues its disciplined approach to production, inventory management and capital spending to help position the Company to deliver above average returns on capital invested as markets improve.

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
Chairman

Duncan K. Davies
President and Chief Executive Officer

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three and nine months ended September 30, 2012 and 2011 (unaudited)

(thousands of Canadian dollars except loss per share)	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Sales (note 3(a))	$ 214,712	$ 203,087	$ 626,796	$ 569,555
Costs and expenses:				
Production	190,293	179,166	562,856	507,951
Selling and administration	4,925	5,008	15,557	15,248
Long term incentive compensation expense (recovery)	2,298	(945)	3,820	(485)
Export taxes	2,252	2,610	7,276	6,716
Depreciation of plant and equipment (note 9)	7,465	6,629	21,180	20,540
Depletion and amortization of timber, roads and other (note 9)	4,932	6,698	16,120	18,055
	212,165	199,166	626,809	568,025
Operating earnings (loss) before restructuring costs	2,547	3,921	(13)	1,530
Restructuring (costs) recovery (note 10)	(100)	305	(246)	(684)
Operating earnings (loss)	2,447	4,226	(259)	846
Finance costs (note 11)	(1,587)	(1,657)	(4,797)	(5,826)
Other foreign exchange gain (loss)	76	(2,461)	15	(1,160)
Other income (note 12)	211	359	339	416
	(1,300)	(3,759)	(4,443)	(6,570)
Earnings (loss) before income taxes	1,147	467	(4,702)	(5,724)
Income tax expense (recovery):				
Current	146	145	503	535
Deferred	(132)	316	(128)	727
	14	461	375	1,262
Net earnings (loss)	$ 1,133	$ 6	$ (5,077)	$ (6,986)
Net earnings (loss) per share, basic and diluted (note 13)	$ 0.02	$ 0.00	$ (0.09)	$ (0.13)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2012 and 2011 (unaudited)

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Net earnings (loss)	$ 1,133	$ 6	$ (5,077)	$ (6,986)
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations	(4,402)	10,397	(4,297)	6,539
Defined benefit plan actuarial losses	(588)	(4,913)	(4,007)	(5,571)
Gain (loss) in fair value of interest rate swaps (note 15)	68	(500)	281	(500)
Income tax on other comprehensive income	(132)	316	(128)	367
	(5,054)	5,300	(8,151)	835
Total comprehensive earnings (loss) for the period	$ (3,921)	$ 5,306	$ (13,228)	$ (6,151)

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2012 and 2011 (unaudited)

(thousands of Canadian dollars)	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Cash provided by (used in):		
Operating activities:		
Net loss	$ (5,077)	$ (6,986)
Items not involving cash:		
Depreciation of plant and equipment	21,180	20,540
Depletion and amortization of timber, roads and other	16,120	18,055
Deferred income tax expense (recovery)	(128)	727
Current income tax expense	503	535
Finance costs	4,797	5,826
Other assets	(1,986)	76
Reforestation liability	888	580
Other liabilities and provisions	(3,011)	(2,296)
Write-down (recovery) of plant and equipment	128	(423)
Unrealized foreign exchange losses and other	124	2,551
Other (note 12)	(314)	(228)
	33,224	38,957
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(7,153)	(4,715)
Inventories	(3,490)	(17,792)
Prepayments	(1,773)	(2,465)
Trade accounts payable and accrued liabilities	11,014	10,936
Income taxes paid	(1,055)	(410)
	30,767	24,511
Investing activities:		
Additions to property, plant and equipment	(29,316)	(12,603)
Additions to logging roads	(15,960)	(14,597)
Additions to timber and other intangible assets	(180)	(59)
Proceeds on disposal of property, plant, and equipment	392	257
Cash received on acquisition of subsidiary	-	4,846
Investments and other assets	(206)	(736)
	(45,270)	(22,892)
Financing activities:		
Issuance of capital stock, net of share issue expenses	-	56,256
Interest payments	(3,978)	(4,624)
Additions to long-term debt (note 6(b))	65,000	70,000
Repayments of long-term debt (note 6(b))	(40,000)	(121,000)
	21,022	632
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(107)	179
Increase in cash	6,412	2,430
Cash and cash equivalents, beginning of year	10,435	9,301
Cash and cash equivalents, end of period	$ 16,847	$ 11,731

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2012 and December 31, 2011 (unaudited)

(thousands of Canadian dollars)	Sept. 30, 2012	Dec. 31, 2011
Assets		
Current assets:		
Cash and cash equivalents (note 6(c))	$ 16,847	$ 10,435
Trade accounts receivable and other	50,652	44,000
Inventories (note 5)	100,421	97,645
Prepayments	12,382	10,757
	180,302	162,837
Employee future benefits	547	1,256
Other investments and assets	4,326	2,836
Property, plant and equipment	345,079	340,034
Logging roads and bridges	19,384	16,753
Timber licences	74,489	76,792
Other intangible assets	792	1,250
Goodwill	13,078	13,078
	$ 637,997	$ 614,836
Liabilities and Equity		
Current liabilities:		
Trade accounts payable and accrued liabilities	$ 75,221	$ 60,692
Reforestation liability	11,258	14,121
Income taxes payable	495	1,058
	86,974	75,871
Reforestation liability	18,942	17,777
Long-term debt (note 6(b))	134,693	110,713
Employee future benefits	9,817	8,186
Other liabilities and provisions (note 7)	9,977	11,467
Equity:		
Share capital (note 8)		
Class A subordinate voting shares	342,285	342,285
Class B common shares	4,080	4,080
Contributed surplus	7,476	7,476
Reserves	(9,576)	(5,432)
Retained earnings	33,329	42,413
	377,594	390,822
	$ 637,997	$ 614,836

Contingencies (note 16)

See accompanying notes to consolidated financial statements

On behalf of the Board:

L. Sauder
Director

D. Whitehead
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended September 30, 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:	-	-	-	-	-	(5,077)	(5,077)
Other comprehensive loss:							
Foreign currency translation differences, net of tax	-	-	-	(4,425)	-	-	(4,425)
Defined benefit plan actuarial losses, net of tax	-	-	-	-	-	(4,007)	(4,007)
Gain in fair value of interest rate swaps	-	-	-	-	281	-	281
Balance at September 30, 2012	$ 342,285	$ 4,080	$ 7,476	$ (9,354)	$ (222)	$ 33,329	$ 377,594
Balance at December 31, 2010	$ 285,362	$ 4,080	$ 5,408	$ (7,646)	$ -	$ 60,246	$ 347,450
Net loss for the period:	-	-	-	-	-	(6,986)	(6,986)
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	6,741	-	-	6,741
Defined benefit plan actuarial losses, net of tax	-	-	-	-	-	(5,406)	(5,406)
Loss in fair value of interest rate swaps	-	-	-	-	(500)	-	(500)
Contributions:							
Share options exercised	1,370	-	-	-	-	-	1,370
Share issuance, net of share issue expenses	55,554	-	-	-	-	-	55,554
Changes in ownership interests in investee:							
Acquisition of subsidiary	-	-	2,068	-	-	(4)	2,064
Balance at September 30, 2011	$ 342,286	$ 4,080	$ 7,476	$ (905)	$ (500)	$ 47,850	$ 400,287

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 and nine months ended September 30, 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 November 1, 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 at fair value through profit or loss 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:

	As previously reported	Adjustment	Restated
For the three months ended September 30, 2011			
Sales	$ 200,165	$ 2,922	$ 203,087
Other foreign exchange gain (loss)	461	(2,922)	(2,461)
For the nine months ended September 30, 2011			
Sales	$ 568,064	$ 1,491	$ 569,555
Other foreign exchange gain (loss)	331	(1,491)	(1,160)

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.

(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):

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.

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:

	Sept. 30, 2012	Dec. 31, 2011
Logs	$ 54,976	$ 59,412
Lumber	37,433	31,729
Other	8,012	6,504
	$ 100,421	$ 97,645

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber and roads. The inventory writedown in order to record inventory at the lower of cost and net realizable value at September 30, 2012 was $9,466,000 (December 31, 2011 - $10,006,000).

6. Cash and borrowings:

September 30, 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	-	134,693	134,693
Outstanding letters of credit included in line utilization	5,132	-	5,132
Unused portion of line	59,868	65,307	125,175
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 September 30, 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 September 30, 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 $29,693,000 (December 31, 2011 - $30,713,000), and $105,000,000 (December 31, 2011 - $80,000,000) for total drawings of $134,693,000 (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 gain of $1,021,000 for the nine months ended September 30, 2012 (September 30, 2011 - $1,619,000 loss) arising on revaluation of the Non-Revolving Term Line were recognized in Foreign exchange translation differences in Other comprehensive income. For the third quarter, 2012 the unrealized foreign exchange gain of $1,054,000 (Quarter 3, 2011 - $2,528,000 loss) was recognized in Other comprehensive income.

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

Twelve months ending	
Sept. 30, 2013	$ -
Sept. 30, 2014	-
Sept. 30, 2015	134,693
Sept. 30, 2016	-
Sept. 30, 2017	-
	$ 134,693

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

(c) Cash and cash equivalents

At September 30, 2012 Company's cash balances are restricted by $276,000 (December 31, 2011 - $nil) for contractor holdback payments.

7. Other liabilities and provisions:

In the second quarter, 2012, the Company engaged an environmental consultant to undertake groundwater and other testing at a landfill at its Castlegar sawmill site in the B.C. Interior to update its assessment of potential remediation costs. Based on the results of the testing undertaken the Company revised its estimate of the environmental provision recorded on acquisition of the site from Pope and Talbot, Inc. in 2008 and recorded a recovery of $1,000,000 in Production costs, increasing Net earnings. Further testing and monitoring of the site and a final assessment was undertaken in the third quarter, 2012, resulting in a further recovery of $321,000.

8. 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 September 30, 2012	54,847,176	1,015,779	55,862,955	$ 346,365

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of $7.00 per share for net cash proceeds of $54,886,000.

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

9. Depreciation, depletion and amortization:

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

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Production	$ 12,155	$ 13,108	$ 36,623	$ 37,922
Selling and administration	242	219	677	673
	$ 12,397	$ 13,327	$ 37,300	$ 38,595

10. Restructuring costs:

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Severance costs	$ 100	$ 118	$ 385	$ 369
Plant, equipment and road impairments (reversal)	-	(423)	128	(423)
Contractor buyout	-	-	-	840
Other recovery	-	-	(267)	(102)
	$ 100	$ (305)	$ 246	$ 684

Restructuring costs of $100,000 for severance were recorded as the Company undertook a reorganization of its Coastal operations in the third quarter, 2012.

Further severance costs of $285,000 in the second quarter, 2012 resulted from severance costs related to early retirement of hourly workers. In addition, the cancellation of a cutting permit gave rise to a recovery of previously accrued restructuring of $267,000, partially offsetting a $128,000 impairment of related road infrastructure.

Restructuring costs of $850,000 in the first quarter, 2011 resulted from the buyout of a logging contractor's Bill 13 entitlements and severance costs related to early retirement of hourly workers.

Additional payments in the second quarter, 2011 resulted in the recognition of further restructuring costs of $175,000 for the buyout of Bill 13 entitlements. Further hourly worker early retirements were slightly offset by revisions to previously accrued severances resulted in a recovery of $102,000 in the second quarter, and an expense of $118,000 in the third quarter, 2011.

During the third quarter, 2011, the Company also reversed an amount of $423,000 for a write-down for an asset previously considered impaired.

11. Finance costs:

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Interest on borrowing	$ 1,290	$ 1,173	$ 3,943	$ 4,488
Accretion expense	103	194	354	575
Amortization of prepaid finance costs	194	290	500	763
	$ 1,587	$ 1,657	$ 4,797	$ 5,826

12. Other income:

The trading of lumber futures together with minor disposals of surplus equipment and scrap resulted in proceeds of $392,000 and a gain of $339,000 in the first nine months of 2012.

In the first nine months of 2011, the Company disposed of surplus equipment and traded lumber futures and generated $257,000 in proceeds and a gain of $416,000.

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

13. Net earnings (loss) per share:

	3 Months Sept. 30, 2012			3 Months Sept. 30, 2011		
	Net earnings (loss)	Weighted Average Number of Shares	Per share	Net earnings (loss)	Weighted Average Number of Shares	Per share
Basic and diluted earnings (loss) per share	$ 1,133	55,863	$ 0.02	$ 6	55,863	$ 0.00

	9 Months Sept. 30, 2012			9 Months Sept. 30, 2011		
	Net earnings (loss)	Weighted Average Number of Shares	Per share	Net earnings (loss)	Weighted Average Number of Shares	Per share
Basic and diluted earnings (loss) per share	$ (5,077)	55,863	$ (0.09)	$ (6,986)	52,852	$ (0.13)

14. 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's sales to both foreign and domestic markets are as follows:

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Canada	$ 58,288	$ 57,089	$ 183,254	$ 157,185
United States	102,264	74,820	264,585	195,934
China/Taiwan	20,443	33,057	72,270	110,391
Japan	24,428	27,000	77,492	71,110
Other export	9,289	11,121	29,195	34,935
	$ 214,712	$ 203,087	$ 626,796	$ 569,555

Sales by product line are as follows:

	3 Months Sept. 30, 2012	3 Months Sept. 30, 2011	9 Months Sept. 30, 2012	9 Months Sept. 30, 2011
Lumber	$ 161,903	$ 139,617	$ 457,894	$ 404,732
Logs	26,787	35,979	89,387	85,473
Wood chips and other by products	17,519	17,624	53,527	50,817
Ocean freight and other	8,503	9,867	25,988	28,533
	$ 214,712	$ 203,087	$ 626,796	$ 569,555

15. 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 September 30, 2012, the Company has outstanding obligations to sell a maximum of US$11,400,000 at an average rate of CAD$0.98397 to the US$1.00 and purchase a maximum of €40,000 at an average rate of CAD$1.2695 to the €1.00 during 2012. All foreign currency gains or losses to September 30, 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 $5,000 (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).

15. Financial instruments (continued):

On August 25, 2011, the Company entered into two interest rate swaps, each with a 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 September 30, 2012, being a liability of $222,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts payable and accrued liabilities (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 $281,000 (September 30, 2011 - $500,000 loss) has been recognized in Other comprehensive income for the nine months ending September 30, 2012. For the third quarter, 2012 a gain of $68,000 (Quarter 3, 2011 - $500,000 loss) was recognized in Other comprehensive income.

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 September 30, 2012 there were no outstanding lumber futures contracts and a gain of $26,000 was recognized in Other income (expense) on completed contracts for the nine months ended September 30, 2012 (September 30, 2011 - $188,000 gain). There were no lumber futures traded in the third quarter, 2012 (Quarter 3, 2011 - $188,000 gain).

16. Contingencies:

(a) Softwood Lumber Agreement:

In April, 2012 the U.S. Lumber Coalition approached the U.S. Trade Representative's office that the B.C. government is undercharging B.C. Coastal forest companies for timber harvested on Crown lands. As this 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 September 30, 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 ("CCAA"). 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 granted Interfor a security interest as a critical supplier on all current and future products purchased from Interfor and Catalyst met its obligations to Interfor during the restructuring process.

A restructuring plan was approved by Catalyst's creditors in June, 2012 and approved by the B.C. Supreme Court in July, 2012. Catalyst emerged from creditor protection in September, 2012. Any potential long term impact to the Company cannot be determined at this point.

INTERFOR

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