2010

Annual Report

Includes:

- **Financial Highlights 2010**
- **Message to Shareholders**
- **Management Discussion and Analysis Dated February 9, 2011**
- **Consolidated Financial Statements**
- **Annual Information Form Dated February 9, 2011**

International Forest Products Limited

INTERFOR

International Forest Products Limited

FINANCIAL HIGHLIGHTS

	2010	2009	2008
		(in millions of dollars, except share and per share amounts)	
Financial Summary			
Sales	625.6	389.8	437.2
EBITDA [(1)]	53.1	16.6	13.7
Net earnings (loss)	(3.9)	(23.9)	(55.4)
Per Share Data			
Net earnings (loss) per common share			
- basic	(0.08)	(0.51)	(1.18)
- diluted	(0.08)	(0.51)	(1.18)
Price range per share			
$ High	6.25	5.00	6.19
$ Low	3.21	1.24	1.20
Book value per share	7.33	7.60	8.62
Cash Flow per share before working capital change	0.68	(0.46)	0.28
Weighted average shares outstanding (millions)	47.1	47.1	47.1
Financial Position			
Total assets	611.9	582.5	665.3
Total debt [(2)]	156.0	144.5	168.0
Total shareholders' equity	347.3	358.0	406.2
Invested capital [(1)]	519.0	505.6	577.9
Financial Ratios (%)			
Return on average shareholders' equity [(1)]	(1.1%)	(6.3%)	(13.3%)
Return on average invested capital, adjusted [(1)]	0.5%	(3.4%)	(10.3%)
Net debt as a % of invested capital, adjusted [(1)]	29.7%	28.2%	29.2%

Notes:
1. See Glossary for definition.
2. Total debt, excluding short-term advances from the Seaboard partnership (2010 - $15.7m, 2009 - $3.1m, 2008 – $3.7m)

"Business conditions in 2010 were much better than those in 2009. Interfor took advantage of the opportunities presented to increase operating rates and to move forward with a number of initiatives which we believe will serve the Company well in the years ahead."

Message to Shareholders – March 2011

For further highlights, please see the Message to Shareholders and Management's Discussion and Analysis on the following pages.

INTERFOR

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MESSAGE TO SHAREHOLDERS

OVERVIEW

Business conditions in 2010 were much better than those in 2009. Interfor took advantage of the opportunities presented to increase operating rates and to move forward with a number of initiatives which we believe will serve the Company well in the years ahead.

Highlights for the year included:

- Production was up almost 70% versus 2009;
- The Company's financial results were much improved;
- The Adams Lake sawmill ran well in excess of rated capacity and delivered outstanding results;
- The Castlegar sawmill was re-commissioned in July and set new standards for productivity and costs;
- Sales to China continued to ramp up;
- The Weyerhaeuser timber deal was finalized; and
- Our financing agreements were renewed and extended in January and again in August.

These steps, along with others taken in recent years, have added to Interfor's position in the industry and will make the company much stronger and profitable as markets recover.

I invite you to review the material covered in the next few pages and later in this report and to form your own views on our progress. Please feel free to forward any comments you would like to make to me directly at duncan.davies@interfor.com.

INCREASED PRODUCTION AND HIGHER COMMODITY PRICES CONTRIBUTE TO IMPROVED FINANCIAL RESULTS

Interfor took advantage of its strong market position to increase production by almost 70% in 2010.

The Company's performance in this area was well ahead of the industry's results overall. In Canada, production was up 13% year-over-year while the U.S. recorded an increase of 5% versus 2009.

Interfor increased production in each of its operating regions in 2010, most notably in the B.C. Interior which benefitted from a full year of production at Adams Lake and Grand Forks and from the resumption of activity at Castlegar in mid-year. For the year, Interfor produced 1.1 billion board feet compared to 660 million board feet in 2009.

By the 4th quarter, Interfor was operating at an annualized rate of 1.2 billion board feet, representing a capacity utilization rate of about 75%.

The opportunity to increase production resulted from a number of factors including the strong competitive position of our operations and from the growth of demand from outside North America, particularly China.

Product prices responded accordingly in 2010. The Random Lengths' Composite Index, which measures pricing levels for a basket of products, increased from US$222 in 2009 to US$284 in 2010. More to the point for West Coast producers, the commodity benchmark SPF 2x4 was up 41% in 2010 and Hem-Fir studs were up 33% versus 2009.

These price increases helped to offset the impact of the stronger C$ which averaged US$0.971 in 2010 versus US$0.876 in 2009.

Not all product lines benefitted to the same extent as the key commodity items. Cedar -- which is normally an important contributor to our results -- saw prices continue to drop after falling 20-30% last year and the price of our key Japanese products were for all intents and purposes flat in 2010.

All together, the combination of higher production levels and stronger commodity prices contributed to significantly better financial results in 2010 versus 2009. All-in, Interfor recorded a net loss (before one-time items) of $3.1 million or $0.07 per share last year on sales of $626 million compared with a loss of $33.7 million or $0.72 per share in 2009 on sales of $390 million. EBITDA, adjusted to exclude one-time items, improved by $54.4 million year-over-year to $48.0 million.

Including a gain on the sale of certain assets and other one-time items, the Company's net loss in 2010 was $3.9 million or $0.08 per share.

ADAMS LAKE DELIVERS OUTSTANDING RESULTS

The Adams Lake sawmill, which commenced full operations in April 2009, continued to perform well above rated capacity in 2010 and delivered outstanding results.

The mill produced 339 million board feet in 2010, almost 10% above 2009 rated capacity, and almost 20% above the mill's original proforma, operating on a two shift basis.

And, despite lumber prices that are well below those expected when the decision to rebuild the mill was made, Adams Lake continues to generate returns very consistent with those anticipated.

We are delighted with the performance of Adams Lake and believe that the ability to design and execute on major capital projects is one of the competitive attributes that distinguishes Interfor from many companies in the industry.

We are currently looking at a number of small discretionary projects for Adams Lake which will further enhance the mill's competitive position. A secondary stacker was added late in the year and an automated grading system is on the drawing board for the 2nd quarter of 2011.

CASTLEGAR RE-COMMISSIONED

Another significant achievement in 2010 was the re-commissioning of the Castlegar sawmill in July.

The Castlegar mill was acquired from Pope & Talbot, Inc. in April 2008 along with another mill in the B.C. Southern Interior at Grand Forks. Both mills were high cost operations at the time of acquisition.

The Grand Forks mill resumed operations in late 2009 and has made a significant contribution to the Company ever since.

However, as I reported to you last year, the situation at Castlegar was somewhat more difficult.

I can now report that a significant breakthrough was achieved at Castlegar in 2010.

A number of changes were made to the operating regime at the mill which in turn has contributed to dramatically improved levels of productivity and costs.

The credit for these changes is due fully to the local management and crew who took control of their own destiny by finding new and constructive ways to work together. Other local stakeholders also contributed to the new spirit of cooperation at Castlegar.

So far, the results at Castlegar have been very encouraging. The mill has made a solid contribution to our financial results since resuming operations and there is potential for further gains.

Looking back now, we feel very comfortable that the business opportunity we identified when the Grand Forks and Castlegar mills were acquired is real. If anything, the opportunity may be even better than we anticipated.

We're currently looking at a number of discretionary investments in the area, including a major upgrade to the Grand Forks sawmill, possibly in conjunction with a power plant that would utilize sawmill waste and other forms of biomass, that could be very attractive long-term.

We hope to be in a position to announce our plans for the Grand Forks/Castlegar region in the next few months.

SALES TO CHINA CONTINUE TO RAMP UP

Interfor has been working actively for a number of years to make in-roads into China. These efforts bore fruit in 2010 as shipments to that market almost quadrupled last year to more than 220 million board feet.

By the 4th quarter, sales to China had increased to the point where they represented a full 28% of Interfor's total shipments. And, significantly, more than 36% of our shipments to China in the 4th quarter came from our U.S. operations.

For the year, shipments to China accounted for 20% of Interfor's total sales compared to about 10% in 2009.

We continue to believe the Chinese market holds tremendous potential. The efforts of the B.C. and Canadian governments and by the industry to promote North American construction technology and products fits well with China's rapidly growing housing requirements.

We remain committed to working with our industry counterparts and with the B.C. and Canadian governments to develop the Chinese market and to growing our volumes to that market significantly in the years ahead.

TIMBER PURCHASE FINALIZED

In mid-March last year we finalized the purchase of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited.

The tenure, which currently provides for an allowable cut of approximately 275,000 m3, strengthens the long-term fibre supply for Adams Lake and helps to offset the potential impacts in future supply as a result of the Mountain Pine Beetle infestation which is impacting timber supply in the B.C. Interior.

FINANCING AGREEMENTS EXTENDED; BALANCE SHEET REMAINS STRONG

Interfor renewed and extended its credit lines twice in 2010. In January, the Company's operating and term lines were extended to February 2011 and February 2012 respectively. In August, the two lines were extended once again, this time to July 2012 and July 2013, with all other terms and conditions remaining substantially the same except for a reduction in pricing.

At year-end, net debt amounted to $147 million or 30% of invested capital.

With the credit lines we have in place and our strong balance sheet, Interfor is well-positioned to withstand any future issue or disruptions which may arise as markets recover.

MARKETING GROUPS REORGANIZED; NEW "LOOK" DEVELOPED

In December, we announced the amalgamation of our Cedar and Whitewood Marketing Groups into one entity under the direction of Steven Hofer, who was subsequently appointed Vice-President, Sales & Marketing.

The reorganization of our sales groups is a key element of our plan to fully leverage our size and product line capabilities in the marketplace.

In addition, in 2011, we will be adopting a new, modern identity under a redesigned Interfor brand replacing the existing Interfor, Adams Lake, Interfor Pacific and Cedarprime labels.

We are excited about the new "look" and look forward to using it to build the Company's presence in the marketplace and to support future growth.

CHALLENGES REMAIN; FOCUS REMAINS INTACT

While business conditions are better than a year ago, we are not out of the woods yet. The U.S. housing market has been slow to recover, the Cedar business is struggling, and log markets in the U.S. are under pressure.

In the face of these challenges we intend to maintain the same disciplined approach to managing our business that has served us well over the last number of years.

We will focus on those items that will help position Interfor to deliver above average returns on capital invested as markets renew.

We remain convinced we are on the right track and look forward to making good progress in 2011.

Thank you for your patience and support.

Duncan K. Davies
President and Chief Executive Officer
March 3, 2011

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of February 9, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2010 relative to 2009, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and Consolidated Financial Statements for the years ended December 31, 2010 and 2009 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 INFORMATION

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 of 2010", "Strong Financial Position", "Income Taxes", "Financing Activities", "Liquidity and Capital Resources", and "Summary of Contractual Obligations"; 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 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 an assessment of risks as described under "Risks and Uncertainties". 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 this 2010 annual Management's Discussion and 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.

OVERVIEW OF 2010

Interfor's results for 2010 were dramatically better than 2009. Growth in export markets, particularly China, provided an alternative to U.S. markets adding upward pressure on North American pricing. This resulted in higher sales values and supported increased operating rates.

Accomplishments in 2010 include:

- the development of lumber and log export markets to take advantage of increasing demand from China;
- increased operating rates, particularly in the B.C. Interior supported by increased demand from export markets as well as improved demand in North American markets;
- marked improvements to the cost structure at the Castlegar sawmill through changes in the operating configuration which allowed the mill to restart and contribute to 2010 earnings;
- the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited which added increased fibre for the Adams Lake sawmill;

- a return to positive operating earnings in the fourth quarter, 2010 for the first time since 2006; and
- an increase of $16.2 million in positive cash flow from operations, after working capital changes, and an improvement of $54.4 million in Adjusted EBITDA over 2009.

The challenges of 2009 persisted into 2010, but to a lesser degree. 2010 continued to be impacted by slow North American lumber demand as recovery in the U.S. housing market leveled off. Ongoing high unemployment, foreclosures and an oversupply of homes in the U.S. weighed on the housing sector, but government spending incentives, a slight uptick in housing starts and minimal ending inventories in 2009 caused an increase in demand in the first half of 2010. The pace of improvement eased mid-year for the balance of 2010.

In an effort to lessen reliance on a sluggish U.S. housing market, the Company shifted its focus to the Asian markets where demand for commodities is expected to remain strong. The impact of an industry-wide redirection of wood products to fast-growing emerging markets, particularly China, has had a dual benefit. In addition to finding replacement markets for the lost volume previously consumed by the U.S. the strong export markets have caused a reduction in supply available to the North American market resulting in improved lumber prices through the final months of 2010.

A downside to the Chinese demand for logs and lumber is that holders of timber in the U.S. Pacific Northwest have expanded their log exports to Chinese sawmills. Strong export markets have caused sawlog prices in the U.S. Pacific Northwest to increase for Interfor's U.S. mills who source their fibre through purchase and timber sale agreements.

Results year-over-year have also been impacted by the strengthened Canadian dollar which, relative to its U.S. counterpart appreciated by almost ten percent on average for 2010 compared to 2009.

Interfor continued to benefit from its diversified product lines and markets, focus on effective cash management and cost control, and investment in core assets. The Company continues to look for opportunities to maximize shareholder value, including acquisition of full control over Seaboard Shipping Company Limited ("Seaboard") to ensure access to timely off-shore transportation and the exploration of the biomass energy sector. A brief overview of the more significant developments in 2010 is presented below.

Markets and Pricing

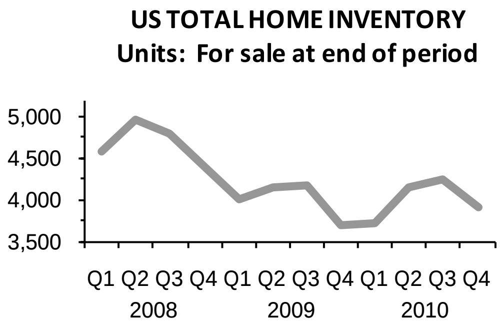
Lumber

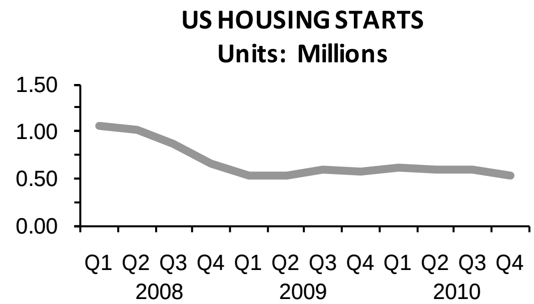
- Structural Lumber

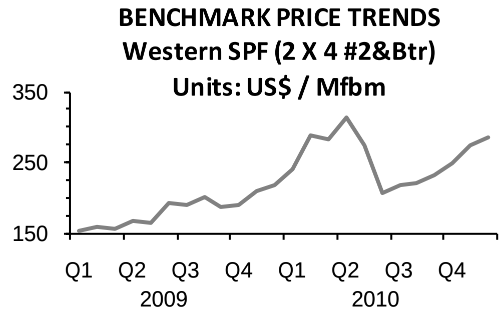
  The North American lumber industry continues to be affected by poor U.S. housing starts and a U.S. housing market that is challenged by a supply/demand imbalance. Industry-wide production curtailments in place for most of 2009 continued into early 2010 to balance output with demand levels. As a result, inventory levels were drawn down significantly, leaving inadequate inventory in the supply chain to meet any increases in demand. Consequently, 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, production quickly outpaced demand bringing the market back into a position of excess supply. Lumber prices fell sharply, particularly as economic indicators in the U.S. showed signs of slower growth.

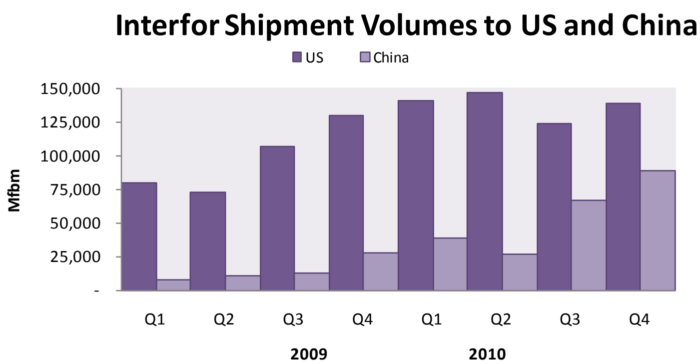
  In mid-2010 prices stabilized with production curtailments again providing a balance between supply/demand. Offshore demand also improved and production was redirected to export markets, particularly those in the Pacific Rim. Reliance on U.S. markets edged down as shipments to China helped offset slower U.S. demand and influenced price increases in both North American and export markets. The average US$ price for Western SPF 2x4 #2&Btr for 2010 was US$74 per mfbm higher than 2009 and ended the last week of December 2010 at an average US$308 per mfbm.





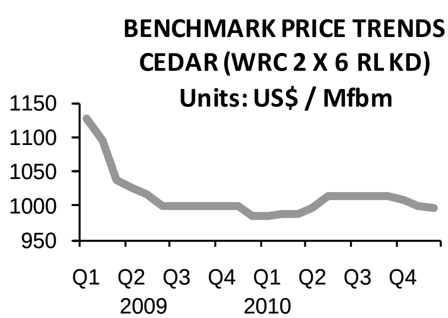


Source: Random Lengths, used with permission



- Cedar

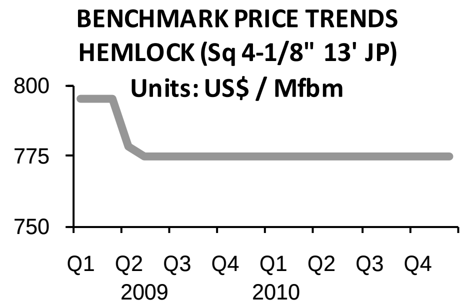
Demand for cedar products weakened significantly in 2009 due to poor North American demand. This resulted in lower prices on North American product lines which did not recover in 2010. The year-over-year average price for knotty Western Red Cedar 2x6 decreased by US$21 per mfbm with a sharp decline from a January 2009 high of $US1,127 per mfbm to US$1,000 per mfbm in June 2009. Prices languished at these levels through 2010.



Source: Random Lengths, used with permission

- Japan

  Continued stable economic conditions and the strength of the Yen relative to the US$ supported prices for the Company’s products in Japan. Housing starts continued to show improvement in 2010 but a significant increase in the global supply of lumber for Japan resulted in stagnant lumber prices. Compared to 2009, the average 2010 price for Hemlock Square 4-1/8”, as reported by Random Lengths, was flat at US$775 per mfbm through most of 2009 and 2010.



Source: Random Lengths, used with permission

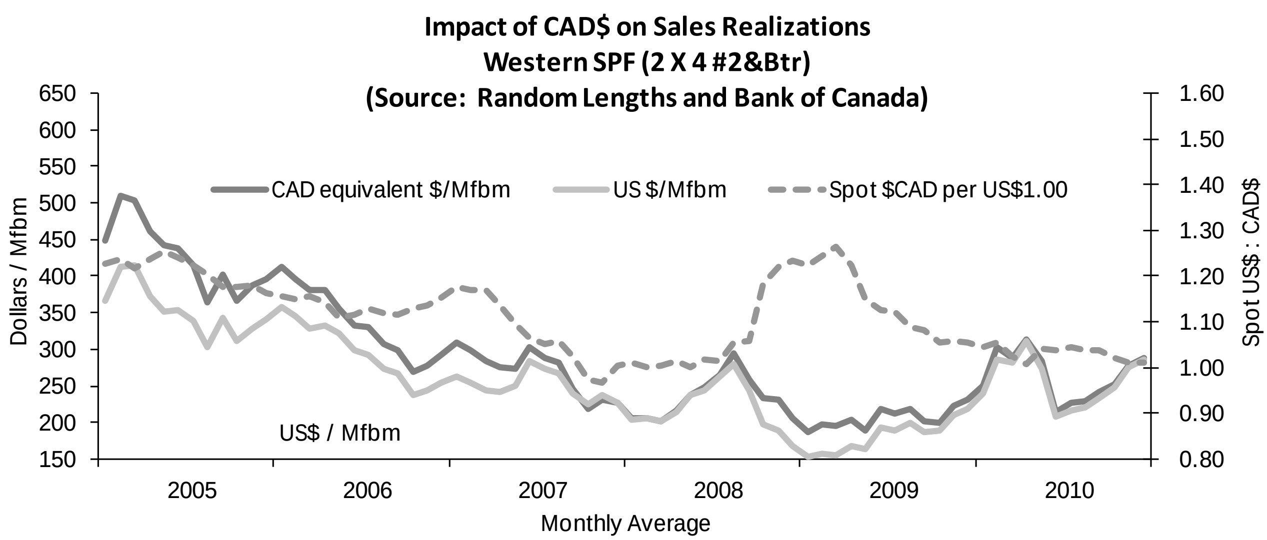
<u>Logs and Residuals</u>

Log sales revenue improved 32.0% compared to 2009 with average prices attained in both Canadian and export log markets higher by $7 per cubic metre and an improvement of 17.6% in sales volumes over 2009. Compared to 2009, pulp chip and other by-product revenues for 2010 increased 63.7% year over year as higher sales volumes were available with higher sawmill operating rates, particularly in the B.C. Interior.

Volatility of the Canadian Dollar

The Canadian dollar (“CAD$”) strengthened steadily against the US$ over the final three quarters of 2009 and through 2010, ending the year at CAD$0.995 per US$1.00, up 5.7% from the end of 2009. Year-over-year, the average CAD$ was stronger at $1.030 for 2010 compared to $1.142 in 2009.

The significance of the volatility of the CAD$ on Canadian lumber producers’ sales realizations is highlighted in the following chart, which shows the average US$ price and CAD$ equivalent of a thousand board feet of Western SPF 2x4 #2&Btr for the period 2005 through 2010.



Export Tax

As a result of the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the United States on October 12, 2006, Canadian softwood lumber exporters pay an export charge when the price of lumber is at or below US$355 per mfbm, as determined by the framing lumber composite price ("RLCI") produced by Random Lengths Publications Incorporated. The Province of B.C. has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). The Province of B.C. chose Option A for both the B.C. Coast and the B.C. Interior which results in the Company's Canadian lumber exports to the United States being subject to the following taxes:

Price [1]	Export Tax (%)
Over US $355	Nil
US $336 - $355	5
US $316 - $335	10
US $315 or under	15

[1] Based on the prevailing RLCI

As a result of higher commodity lumber prices in early 2010, the export tax paid under the SLA declined in 2010 for the first time since the implementation of the agreement in October 2006, though the decline was short-lived. As the prevailing RLCI moved through the various thresholds, the Option A export charge decreased from 15% to 10% in the month of May 2010 and no export tax was charged on U.S. shipments from Canada in June 2010. Price declines resulted in a 10% export tax in July 2010, and further declines resulted in a return to the 15% export tax level for the balance of 2010.

The Option A export charge was 15% throughout 2009.

Purchase of Kamloops Timber Tenure

On March 15, 2010, the Company completed the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited following an extended period of regulatory review. The tenure represents an Allowable Annual Cut ("AAC") of approximately 275,000 cubic metres and strengthens the Company's long term timber supply for the new Adams Lake sawmill helping to offset anticipated declines in future supply as a result of the Mountain Pine Beetle infestation.

Softwood Lumber Agreement Arbitration

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 were held but the matter was not resolved and on January 18, 2011 the U.S. Trade Representative filed for arbitration. The arbitration will be conducted by the London Court of International Arbitration ("LCIA"). Decisions by the LCIA are final and binding on both parties. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

While the arbitration process is ongoing, export tax will continue to apply on all shipments of B.C. lumber to the U.S.

As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2010.

Strong Financial Position

The Company maintained a strong financial position throughout 2010, ending the year with net debt of $146.7 million or 29.7% of invested capital. Cash flow from operations, after working capital changes, for the year was positive $21.0 million. In the fourth quarter of 2010, operating earnings returned to positive levels for the first time in over four years. Adjusted EBITDA at $48.0 million improved considerably from 2009.

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").

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 and 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.

At December 31, 2010 the Company had unused available credit and cash of $113.5 million.

The slow pace of US housing starts continues to colour the near term outlook and despite the shift to Asian markets the U.S. continues to be the largest consumer of our products. The expansion to off-shore markets, however, has driven positive results with increased pricing in both North American and off-shore markets and the Company remains committed to maintaining these customer relationships on a long-term basis.

Currency exchange rates have continued their volatility into 2010 and the Canadian dollar is expected to remain strong relative to its U.S. counterpart for the foreseeable future. Although we continue to balance production against sales and maintain our focus on cost containment, we are actively planning to take advantage of opportunities and the upturn in North American markets when it comes.

REVIEW OF OPERATING RESULTS

Selected Annual Financial Information [1]

		2010	2009	2008	2007	2006
		(millions of dollars except share, per share and foreign exchange rate amounts)				
Sales	–Lumber	482.0	288.6	297.4	434.5	625.6
	–Logs	79.8	60.4	103.6	118.6	103.2
	–Wood chips and other by-products	56.2	34.3	30.6	50.2	41.9
	–Other	7.7	6.4	5.6	7.7	53.7
Total Sales		625.6	389.8	437.2	611.0	824.4
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs		(5.4)	(46.5)	(33.5)	(25.1)	15.4
Operating earnings (loss)		(7.0)	(50.8)	(68.4)	(27.1)	104.7
Net earnings (loss)		(3.9)	(23.9)	(55.4)	(13.3)	96.2
Net earnings (loss) per share – basic		(0.08)	(0.51)	(1.18)	(0.28)	1.98
Net earnings (loss) per share – diluted		(0.08)	(0.51)	(1.18)	(0.28)	1.96
EBITDA[5]		53.1	16.6	13.7	30.8	185.7
Adjusted EBITDA[5]		48.0	(6.4)	12.3	24.8	68.6
Cash flow from operations per share[2]		0.68	(0.46)	0.28	0.51	2.95
Shares outstanding	– end of period (millions)[3]	47.4	47.1	47.1	47.1	48.1
	– weighted average (millions)	47.1	47.1	47.1	47.6	48.5
Average foreign exchange rate per US$1.00[4]		1.0303	1.1420	1.0660	1.0750	1.1341
Closing foreign exchange rate per US$1.00[4]		0.9946	1.0510	1.2180	0.9913	1.1654

1 Tables may not add due to rounding.

2 Cash generated from (used in) operations before taking account of changes in operating working capital.

3 As at February 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

4 Rates are based on Bank of Canada closing foreign exchange rates per US$1.00.

5 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. Adjusted EBITDA represents EBITDA adjusted for net U.S. duty refunds, other income and other income of the investee company.

EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2010	2009	2008	2007	2006
	(millions of dollars)				
Net earnings (loss)	$(3.9)	$(23.9)	$(55.4)	$(13.3)	$96.2
Add: Income taxes (recovery)	(0.5)	(9.9)	(11.0)	(13.6)	42.5
Net interest (income) expense	8.5	7.8	5.1	(1.3)	3.4
Interest income on U.S. duty refunds, net of special charge	-	-	-	-	(12.7)
Depletion and amortization	47.1	38.2	41.0	49.7	51.0
Other foreign exchange (gains) losses	0.3	-	(0.9)	7.3	(2.3)
Restructuring costs, asset write-downs and other	1.6	4.4	34.9	2.0	7.6
EBITDA	53.1	16.6	13.7	30.8	185.7
Deduct:					
U.S. duty refunds, net	-	-	-	-	96.9
Other income	-	23.0	1.4	6.0	20.2
Other income of investee company	5.2	-	-	-	-
Adjusted EBITDA	$48.0	$(6.4)	$12.3	$24.8	$68.6

Volume and Price Statistics

		2010	2009	2008	2007	2006
Lumber sales	(million fbm)	1,132	668	503	870	1,172
Lumber production[1]	(million fbm)	1,110	661	498	856	1,165
Log sales[2]	(thousand cubic metres)	1,081	919	1,319	1,223	1,190
Log production[2]	(thousand cubic metres)	2,661	1,295	1,881	1,767	2,381
Average selling price – lumber[3]	($/thousand fbm)	$426	$432	$591	$499	$534
Average selling price – logs[2]	($/cubic metre)	$67	$61	$74	$95	$86
Average selling price – pulp chips	($/thousand fbm)	$40	$40	$49	$49	$33

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs
2 B.C. operations
3 Gross sales before duties and export taxes

Comparison of Year ended December 31, 2010 to Year ended December 31, 2009

Interfor recorded a net loss of $3.9 million, or $0.08 per share for 2010, as compared to a net loss of $23.9 million, or $0.51 per share in 2009.

Included in 2010 results is an equity income inclusion of $6.1 million for a gain on disposal of capital assets by the investee, a valuation charge of $4.1 million against future tax assets, and other one-time items.

Included in 2009 results are an after-tax gain on the sale of the former Queensboro sawmill site of $19.0 million, a valuation charge of $7.4 million against future tax assets, and other one-time items.

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 2010 was $3.1 million after-tax, or $0.07 per share, as compared to a loss of $33.7 million after-tax, or $0.72 per share in 2009.

EBITDA and Adjusted EBITDA for 2010 were $53.1 million and $48.0 million, respectively, compared to $16.6 million and negative $6.4 million for 2009.

<u>Sales</u>

Total sales revenues were $625.6 million in 2010, an improvement of $235.8 million over 2009.

Lumber shipments improved by 464 million board feet in 2010 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. There continues to be a significant shift in markets as strong growth in the China markets helps to offset slower demand in the U.S. For 2010, excluding wholesale programs, shipments to the U.S. accounted for 50% of total lumber shipments, a decline of 10% over 2009 with shipments redirected to China which grew by 11% to 20% of total lumber shipments.

Unit lumber sales values declined by $6 per mfbm resulting from the sizeable shift in sales mix towards North American structural lumber products and lower value products destined for the Pacific Rim and away from high value cedar and Japan products, particularly with the substantial volumes added by the Adams Lake sawmill. The shift in sales mix more than offset the impact of significantly improved North American structural lumber product prices on the Company's average unit sales price. A stronger Canadian dollar also negatively impacted sales values for products priced in $US.

Log sales increased by $19.3 million or 32.0% in 2010 over 2009 with higher sales values attained in both Canadian and export log markets. This was evidenced by improvements of $7 per cubic metre in the average overall sales price for logs sold by Canadian divisions in 2010 as fir and pulp values moved up and pulp fibre made up a lesser percentage of sales. In addition, Canadian log sales volumes grew by 162,000 cubic metres, or 17.6%.

Compared to 2009, pulp chip and other by-product revenues for 2010 were up $21.9 million, a reflection of higher sawmill operating rates. Overall 2010 average chip prices remained constant as compared to 2009, with improvements on the B.C. Coast which are tied to pulp prices offset by a slight decline in the U.S. and amplified by the negative impact of the stronger Canadian dollar.

Operating Costs

Production costs for 2010 increased $182.6 million, or 48.8% over 2009. Comparative production volumes and related costs for 2009 were extremely low as a result of significant market related curtailments in manufacturing and logging, and the curtailment of the Adams Lake sawmill in the first several months of 2009, during the final stages of its rebuild. Lumber production increased by 449 million board feet for 2010 compared to 2009, with most of this increase driven by the B.C. Interior sawmills. The ramp-up of 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 2009, B.C. log production grew by 1.4 million cubic metres in 2010. To match production to consumption and reduce inventories, log production had been dramatically curtailed in 2009. Increased fibre consumption resulting from improved operating rates in 2010, the acquisition of additional timber tenures, and improved supply/demand balances led to increased log production on the B.C. Coast and particularly in the B.C. Interior regions. Increased harvesting through higher cost heli-logging on the B.C. Coast contributed to higher logging unit costs in 2010 as the percentage of heli-logged volumes almost doubled those in 2009 to 22% of total log production on the B.C. Coast.

Manufacturing unit cash conversion costs declined by 17.6% in 2010 compared to 2009 primarily as a result of the substantial increase in operating rates and improved cost structures in the B.C. Interior sawmills. For U.S. operations costs were further improved by a stronger Canadian dollar. Sizeable increases in fibre costs in the U.S. Pacific Northwest sawmills, however, served to partially offset the benefits of improved cash conversion costs as fibre supply remains tight.

The export tax paid under the SLA for 2010 increased by $3.5 million or almost double that of 2009 and resulted from an increase of 135 million board feet in Canadian shipments to the U.S. or 2.7 times the volumes shipped in 2009. 2010 export taxes were also impacted by changing rates through 2010 as commodity lumber prices met certain thresholds during the year and reduced the tax from its maximum of 15% to a low of zero for the month of June 2010. Declines in export tax rates were short-lived, however, and most shipments attracted a rate of 15%.

As the export tax is based on U.S. dollars, the increased expense in 2010 was mitigated by the stronger Canadian dollar in comparison to 2009.

Selling and administration costs in 2010 increased by $1.1 million as compared to 2009, arising primarily from increased corporate development expenditures. Long-term incentive compensation (“LTIC”), which is impacted by the Company’s share price, the number of grants made under the various plans and vesting periods, showed an expense of $1.9 million in 2010 (2009 - LTIC expense of $3.2 million) due to the Company’s rising share price.

An increase in amortization of plant and equipment of 13.2% compared to 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 2010 increased $5.7 million or 42.5% compared to 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 and asset write-downs totaled $1.6 million in 2010, compared to $4.4 million in 2009. The 2010 charge includes $0.5 million of impairment charges for assets no longer expected to provide future benefit compared to $3.1 million in 2009, and a $1.1 million charge for severance costs compared to $1.6 million in 2009. 2009 was also partially offset by a $0.3 million accrual reversal.

The following table shows the components of restructuring costs and write-downs of plant and equipment for both years:

		2010		2009
		(millions of dollars)		
Plant and equipment write-downs	$	0.5	$	3.1
Severance costs		1.1		1.6
Other (recovery)		-		(0.3)
	$	1.6	$	4.4

Interest Expense

In 2010, the Company recorded $8.5 million of total interest expense, compared to $7.8 million in 2009. Average debt levels were unchanged year-over-year but an overall increase in bank average lending rates over 2009 resulted in a higher effective interest rate than in 2009. Also impacting interest expense to a much lesser extent was the volatility of the Canadian dollar which averaged 1.0303 in 2010 as compared to 1.1420 in 2009, and a decrease in pricing on the extension of debt facilities in August, 2010.

Other Foreign Exchange Gain

Other net foreign exchange gain was $0.3 million in 2010 compared to a net foreign exchange gain of $nil in 2009, which arose due to the following items.

		2010		2009
		(millions of dollars)		
Gain (loss) on:				
Revaluation/settlement of forward exchange contracts	$	(0.1)	$	(3.6)
Interest rate swap		-		(2.1)
Revaluation and settlement of US$ denominated debt		0.1		5.8
Other		0.3		(0.1)
	$	0.3	$	0.0

Other Income

Other income was negligible in 2010 compared to $23.0 million in 2009. In 2009, $21.2 million arose primarily from the sale of the Queensboro property, site of the Company's former Queensboro sawmill division that had been permanently closed in July 2008.

		2010		2009
		(millions of dollars)		
Gain on disposal of surplus property, plant and equipment, and investment	$	(0.2)	$	22.1
Gain on settlement of timber takeback		0.4		1.0
Other		(0.2)		(0.1)
	$	-	$	23.0

Equity Income

The Company recorded equity income of $11.4 million in 2010, an increase of $9.6 million over 2009. Of this increase, $5.2 million arose as the Seaboard Partnership ("Seaboard") disposed of its two vessels, the *Skaubryn* and *Skaugran*, during 2010 for a gain of $6.1 million offset by $0.9 million in one-time expenses. The gain, coupled with significantly increased equity participation in the earnings of Seaboard due to greater shipment volumes by the Company relative to the other partners, dramatically improved equity earnings in comparison to 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.

<u>Income Taxes</u>

The Company recorded an income tax recovery of $0.5 million for 2010 and increased its valuation allowance against certain future income tax assets arising from loss carry-forwards available to reduce future taxable income by $4.1 million. For 2009 the increase in the valuation allowance reduced the Company's income tax recovery by $7.4 million to a net recovery of $9.9 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. The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totaling approximately $260 million (2009 - $216 million) expire between 2011 and 2030, and are available to reduce future taxable income.

The overall effective rate of 10.6% for 2010 (2009 – 29.3%) differs significantly from the Canadian statutory rate of 28.5% (2009 – 30.0%) mainly due to the valuation allowance of $4.1 million partially offset by non-taxable income that is accounted for by the equity method.

<u>Net Loss</u>

As a result of the above factors, the Company recorded a net loss of $3.9 million, $0.08 per share, for the year ended December 31, 2010 compared to a net loss of $23.9 million, $0.51 per share, for the year ended December 31, 2009.

Cash Flows

<u>Operating Activities</u>

Before working capital changes, cash generated from operations was $32.0 million for 2010, compared to cash used by operations of $21.6 million as poor lumber markets significantly diminished cash earnings in 2009.

Total cash generated from operations after changes in working capital was $21.0 million for the year, an improvement of $16.2 million over 2009.

Cash used in working capital was $11.0 million (2009 – cash generated by working capital of $26.4 million). 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 $12.4 million and an increase of $15.2 million in related payables. Improved operating levels are also reflected in a $13.5 million increase in accounts receivable over 2009.

Poor lumber markets in the comparative periods of 2009 resulted in weak cash from operations. In response the Company significantly curtailed production with a focus on reducing inventories, resulting in a contribution to cash generated from working capital of $16.9 million. Income taxes contributed $16.0 million of the cash generated from operating working capital as the Company collected a refund of taxes paid in prior years.

<u>Investing Activities</u>

Capital expenditures, excluding changes in amounts accrued, totaled $42.3 million for 2010 (2009 - $27.6 million), and include the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited, adding approximately 275,000 cubic meters of allowable annual cut to its interior fibre supply. In addition to the timber acquisition, expenditures were predominately for maintenance of operating capacity, some discretionary spending on equipment upgrades and on road construction. Comparative spending for 2009 was predominantly for completion of the new Adams Lake sawmill and road construction.

Cash proceeds from the sale of non-core assets and final settlement compensation under the *Forest Act* for timber and other assets totaled $1.3 million in 2010 (2009 - $37.0 million). By comparison, 2009 included $29.9 million in proceeds from the sale of the Queensboro property, compensation of $2.0 million under the *Forest Act* for timber takeback and proceeds of $4.1 million from the sale of surplus property and buildings in Maple Ridge, B.C.

Financing Activities

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").

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 and 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.

During the course of 2010, Interfor drew additional funds on the Revolving Term Line primarily to fund the acquisition of the timber tenure from Weyerhaeuser and road construction. Other than letters of credit, the Operating Line remained undrawn throughout 2010. As at December 31, 2010 the unused available credit under these facilities totaled $104.2 million and, combined with cash of $9.3 million, gave the Company a total of $113.5 million of liquidity available.

During 2010, as share options approached their expiry dates and the Company's share price rose a number of option holders exercised their share options, generating $0.9 million of cash funds.

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, Seaboard made another advance to its partners, with the Company's share being $6.9 million. A second advance of which the Company's share was $8.8 million was received on December 30, 2010. Both advances were repaid by way of set-off on January 3, 2011 when Seaboard declared an income distribution to its partners.

During the course of 2009, Interfor drew on the bank lines primarily for the completion of the new Adams Lake sawmill. Proceeds from the sale of the Queensboro property, the advance from Seaboard and the refund of taxes previously paid were used to pay down the long-term debt.

At December 31, 2010, the Company had cash of $9.3 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the quarter with net debt of $146.7 million or 29.7% of invested capital.

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.

FINANCIAL POSITION

Summary of Financial Position[1]

	2010	2009	2008	2007	2006
	(millions of dollars)				
Current assets	139.0	107.9	131.5	158.3	289.7
Current liabilities	74.2	46.6	79.4	50.0	123.8
Working capital	64.8	61.3	52.1	108.3	165.9
Total assets	611.9	582.5	665.3	545.9	673.8
Total long-term liabilities and future income taxes	190.4	177.9	179.7	67.6	72.1
Operating debt	-	-	30.6	-	0.6
Payable to investee company	15.7	3.1	3.7	-	-
Long-term debt	156.0	144.5	137.4	34.7	40.8
Total debt	171.7	147.6	171.7	34.7	41.4
Shareholders' equity	347.3	358.0	406.2	428.3	478.0
Invested capital	519.0	505.6	577.9	463.0	519.4

Ratio and Investment Information[1]

	2010	2009	2008	2007	2006
Current ratio	1.9	2.3	1.7	3.2	2.3
Net debt as a percentage of invested capital, adjusted[2]	29.7%	28.2%	29.2%	1.9%	(29.1)%
Total debt as a percentage of invested capital	33.1%	29.2%	29.7%	7.5%	8.0%
Return on average shareholders' equity[2]	(1.1)%	(6.3)%	(13.3)%	(2.9)%	22.3%
Return on average invested capital, adjusted[2]	0.5%	(3.4)%	(10.3)%	(3.5)%	25.1%
Pre-tax return on total assets[1]	(0.4)%	(9.0)%	(5.1)%	(4.3)%	2.1%
Cash flow from operations as a percentage of total debt[2]	18.6%	(14.6)%	7.6%	70.2%	345.8%
Equity per share	$7.33	$7.60	$8.62	$9.09	$9.93

	2010	2009	2008	2007	2006
	(millions)				
Weighted average shares outstanding for the year	47.1	47.1	47.1	47.6	48.5
Number of shares outstanding at year end:					
Class A subordinate voting[3]	46.3	46.1	46.1	46.1	47.1
Class B common[3]	1.0	1.0	1.0	1.0	1.0
	47.4	47.1	47.1	47.1	48.1

Re-investment of Cash

	2010	2009	2008	2007	2006
	(millions of dollars)				
Cash flow from operations[2]	32.0	(21.6)	13.0	24.4	143.1
Cash generated from (used in) operating working capital	(11.0)	26.4	0.7	(70.3)	43.3
Proceeds on disposal of assets	1.3	37.0	5.1	8.3	49.2
Capital expenditures and acquisitions	(42.3)	(27.6)	(158.9)	(81.8)	(90.6)

1 Tables may not add due to rounding.
2 See Glossary in Annual Information Form for definition.
3 As at February 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

Current Assets

Cash on hand and deposits at December 31, 2010 totaled $9.3 million compared to $3.8 million from 2009.

Accounts receivable at December 31, 2010 were $46.0 million, up $13.0 million over 2009, primarily as a result of higher year-end sales volumes and sales values.

Lumber inventory levels at December 31, 2010 were $27.4 million, up $3.1 million compared to 2009. Lumber inventory volumes increased by 16.5% resulting from the additional volumes at the Adams Lake sawmill and the restarted Castlegar sawmill. Lumber inventory unit values decreased primarily due to the reduced levels of higher value cedar lumber in 2010 year-end inventories.

Log inventory levels at December 31, 2010 were $39.1 million, up $8.1 million compared to 2009, to support the higher operating rates and increased log consumption of the Adams Lake sawmill and the restarted Castlegar sawmill.

Investments and Other Assets

Investments and Other Assets increased by $11.6 million to $28.6 million, up as compared to 2009, primarily due to equity income of $11.4 million earned from Seaboard in 2010. On January 3, 2011, the Seaboard Partnership declared an income distribution to its partners. Interfor's share was $15.7 million and was settled by way of setoff against the promissory note payable to the Seaboard Partnership (see Current Liabilities).

On January 5, 2011, all other partners in the Seaboard Partnership withdrew and the Company became the sole owner of Seaboard. Seaboard Partnership was wound-up on January 7, 2011 and continues operations as Seaboard Shipping Company Limited which is wholly owned by Interfor. Its accounts will be included in the consolidated financial statements of the Company from the date of change in control.

Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of $431.2 million for property, plant and equipment, timber, logging roads, and assets held for sale was a decrease of $13.2 million over 2009. Capital expenditures including changes in amounts accrued were $43.1 million, of which $32.1 million related to investments in road building and the acquisition of the timber tenure from Weyerhaeuser Company Limited and the balance of $10.9 million was primarily for maintenance of operating capacity with some discretionary spending on equipment upgrades. The stronger Canadian dollar at the end of 2010 compared to the end of 2009 resulted in reduction in capital assets of U.S. operations of $8.1 million due to foreign currency revaluations. Offsetting the investments in capital assets were amortization and depletion expense of $46.0 million, and various other minor write-downs and disposals.

Current Liabilities

As at December 31, 2010, the Company had a Canadian operating line of credit ("Operating Line") of $65.0 million. Drawings under these lines are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company had no borrowings under its Operating Line, and its unused available Operating Line was $60.2 million, after outstanding letters of credit of $4.8 million. The Company's working capital ratio at December 31, 2010 was 1.9 to 1.

On January 15, 2010 the Company amended its existing Operating Line and the maturity date was extended to February 28, 2011. 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, with all other terms and conditions remaining substantially unchanged except for a reduction in pricing.

Accounts payable levels at December 31, 2010 were $58.3 million for an increase of $14.8 million over 2009. The increase in trade accounts payables and other accruals results from increased operating rates, particularly from logging activities in B.C. The current portion of reforestation also increased by $3.0 million due to increased levels of logging in 2010, the Weyerhaeuser timber acquisition and the rescheduling of planting projects which had been delayed for cash management reasons during the global downturn.

In July 2010, the Company received an advance of $6.9 million from Seaboard, and a further $8.8 million was received in December 2010. In January 2011, Seaboard declared an income distribution to its partners of which Interfor's share of $15.7 million was received by way of setoff against the advance payable to

Seaboard. This compares to the advance received in December, 2009 of $3.1 million which was also settled by way of an income distribution of the same amount in January 2010.

Long-Term Liabilities

As part of its amendment and extension of existing syndicated credit facilities in January, 2010 the Company's Canadian revolving term line (the "Revolving Term Line") was increased from $150 million to $200 million, and its maturity date was extended to February 28, 2012. In August, 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. Except for a reduction in pricing, all other terms and conditions of the line remained unchanged. The Revolving Term Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans.

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"). At December 31, 2009 the Non-Revolving Term Line was fully drawn at US$35.0 million and was revalued at the year-end exchange rate to $36.8 million. The Company subsequently drew a further $36.7 million and repaid the drawings of US$35.0 million used to repay the Non-Revolving Term Line.

At December 31, 2010, the Revolving Term Line was drawn by $126.0 million (2009 - $76.0 million), and by US$30.2 million (2009 – US$30.2 million) revalued at the year-end exchange rate to $30.0 million (2009 - $31.7 million) for total drawings of $156.0 million (2009 - $107.7 million) and leaving an unused available line of $44.0 million. Together with the Non-Revolving Term Line which was outstanding at December 31, 2009, drawings totaled $144.5 million, leaving an unused available line of $42.3 million.

Overall, long-term liabilities excluding long-term debt, increased only marginally by $0.7 million, with small decreases in a number of areas slightly offsetting an increase of $1.2 million in long-term incentive compensation reflecting an increase in the Company's closing share price which rose from $4.69 at December 31, 2009 to $5.60 at December 31, 2010.

Liquidity and Capital Resources

As at December 31, 2010, the Company had working capital of $64.8 million (2009 - $61.3 million), $104.2 million (2009 - $99.2 million) available on its operating and term lines and $9.3 million in cash.

On January 15, 2010, the Revolving Term Line was increased from $150 million to $200 million and the maturity dates of the Operating Line and the Revolving Term Line were both extended. On August 10, 2010, the maturity dates were further extended to July 28, 2012 for the Operating Line and July 28, 2013 for the Revolving Term Line. The Non-Revolving Term Line facility of US$35.0 million was cancelled on January 15, 2010 after drawings were fully repaid.

These resources, in addition to cash generated from operations, will be used to support our working capital requirements, debt servicing commitments, and any essential capital expenditures.

Interfor has had positive EDITDA in each of the past five years in total, and, despite the difficult economic climate over the last three years, for ten of the past twelve quarters. In addition, in the fourth quarter, 2010 Interfor showed positive earnings from operations for the first time in over four years.

Interfor believes that its existing credit lines will be sufficient to satisfy the funding of operating and capital requirements for the foreseeable future. The Company continues to maintain its disciplined approach to production, focus on managing the business for cash, ensure adequate liquidity is maintained and realize on the benefits of recent strategic activities and investments.

Summary of Contractual Obligations

The payments due in respect of contractual and legal obligations may be summarized as follows:

	Payments due by period				
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
	(millions of dollars)				
Accounts payable and accrued liabilities	$ 44.4	$ 44.4	$ -	$ -	$ -
Income taxes payable	0.2	0.2	-	-	-
Payable to investee company[1]	15.7	15.7	-	-	-
Long-term debt	156.0	-	156.0	-	-
Reforestation liability	28.2	9.8	6.9	5.4	6.0
Other long-term liabilities	21.8	4.1	5.4	1.8	10.5
Pension solvency payments	4.2	1.5	1.5	0.8	0.4
Operating leases and contractual commitments	19.3	6.1	5.9	4.1	3.2
Total contractual obligations [2]	$ 289.9	$ 81.8	$ 175.9	$ 12.1	$ 20.1

[1] On January 3, 2011, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share was $15.7 million and was paid to the company by way of setoff against the promissory note payable to the Seaboard Partnership.

[2] Table may not add due to rounding.

Related Party Transactions

Lumber sales to a significant shareholder amounted to $0.8 million (2009 - $0.9 million). Shipping services provided by Seaboard International Shipping Company Limited totaled $7.0 million (2009 - $4.7 million). In addition, the Company provided management and other support services to Seaboard totaling $0.5 million (2009 - $nil). These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which encompass letters of credit and surety performance bonds, primarily for timber sales. These are more fully described in Note 7(a) and Note 15(e) in the Consolidated Financial Statements. At December 31, 2010, the total of such instruments aggregated $12.9 million (2009 - $12.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Summary of Issuance of Shares

There have been no issuances of shares over the last five years, other than those shares issued on exercised employee options.

SELECTED QUARTERLY FINANCIAL INFORMATION [1]

Quarterly Earnings Summary	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share, per share and foreign exchange rate amounts)							
Sales – Lumber	137.5	113.1	123.7	107.6	93.1	76.8	62.3	56.5
– Logs	20.6	21.9	19.8	17.4	17.3	17.3	13.0	12.8
– Wood chips and other by-products	15.7	14.0	13.3	13.2	12.2	8.9	5.9	7.4
– Other	2.4	2.4	1.0	1.7	2.9	2.2	0.6	0.6
Total Sales	176.3	151.5	157.9	139.9	125.5	105.2	81.8	77.3
Operating earnings (loss) before restructuring costs and asset write-downs	1.3	(2.3)	(1.4)	(3.1)	(7.8)	(7.0)	(16.4)	(15.2)
Operating earnings (loss)	1.3	(2.8)	(2.4)	(3.1)	(7.8)	(10.4)	(16.3)	(16.3)
Net earnings (loss)	0.6	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)
Net earnings (loss) per share – basic and diluted	0.01	0.03	(0.06)	(0.07)	(0.11)	0.21	(0.32)	(0.29)
EBITDA[5]	14.6	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)
Adjusted EBITDA[5]	14.5	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)
Cash flow from operations per share[2]	0.19	0.13	0.19	0.17	0.06	(0.07)	(0.23)	(0.22)
Shares outstanding – end of period (millions)[3]	47.4	47.1	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.2	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Average foreign exchange rate per US$1.00[4]	1.0131	1.0395	1.0283	1.0401	1.0571	1.0980	1.1669	1.2446
Closing foreign exchange rate per US$1.00[4]	0.9946	1.0290	1.0646	1.0158	1.0510	1.0707	1.1630	1.2613

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 February 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

4 Accounting quarter-end dates may differ slightly from the reporting date. As such, the foreign exchange rate used to revalue quarter-end balances may differ from those calculated using the Bank of Canada closing foreign exchange rate per US$1.00.

5 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. Adjusted EBITDA represents EBITDA adjusted for other income and other income of the investee company. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	0.6	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)
Add: Income taxes (recovery)	(0.1)	(0.1)	0.2	(0.4)	(3.3)	0.1	(3.6)	(3.1)
Interest expense	2.1	2.1	2.3	2.0	2.0	2.2	2.0	1.6
Depletion and amortization	11.9	11.2	12.6	11.4	12.5	9.9	9.5	6.3
Other foreign exchange (gains) losses	0.2	0.1	0.1	-	0.1	-	(0.1)	-
Restructuring costs, asset write-downs and other	-	0.5	1.1	-	0.1	3.3	(0.1)	1.1
EBITDA	14.6	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)
Deduct:								
Other income (expense)	(0.3)	(0.1)	0.4	-	0.6	21.7	-	0.6
Other income of investee company	0.4	4.8	-	-	-	-	-	-
Adjusted EBITDA	14.5	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)

Volume and Price Statistics

		2010				2009			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	321	277	270	264	234	181	131	122
Lumber production	(million fbm)	303	272	277	258	245	180	115	121
Log sales[1]	(thousand cubic metres)	292	289	262	239	261	242	216	200
Log production[1]	(thousand cubic metres)	794	595	624	648	533	378	312	72
Average selling price – lumber[2]	($/thousand fbm)	$428	$408	$459	$408	$398	$424	$477	$462
Average selling price – logs[1]	($/cubic metre)	$64	$73	$68	$64	$62	$69	$56	$54
Average selling price – pulp chips	($/thousand fbm)	$42	$40	$37	$40	$39	$38	$40	$46

1 B.C. operations
2 Gross sales before duties and 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 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.

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 and first quarter, 2010, as lumber prices rose in response to increased North American demand and a temporary supply/demand imbalance. During the same period off-shore demand increased, particularly from China which continued through the remaining 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. All quarters of 2009 and 2010 include the effect of a tax valuation allowance against future tax assets which serves to reduce or eliminate any income tax recoveries on the Statement of Operations. The third quarter of 2009 includes an after-tax gain of $19.0 million from the sale of the former Queensboro sawmill site.

Quarter 4, 2010 Compared to Quarter 4, 2009

Overview

The Company recorded net earnings of $0.6 million, or $0.01 per share, for the fourth quarter of 2010 as compared to a net loss of $5.0 million, or $0.11 per share in the fourth quarter of 2009. Before restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance, the Company's net earnings for the fourth quarter, 2010 was $0.7 million after-tax, or $0.01 per share, as compared to a net loss of $4.4 million after-tax, or $0.09 per share for the fourth quarter, 2009.

EBITDA and Adjusted EBITDA for the fourth quarter of 2010 were $14.6 million and $14.5 million, respectively, compared to $6.3 million and $5.7 million, for the comparative quarter in 2009.

Lumber pricing in the North American markets have been impacted by record volumes of lumber, particularly from the Pacific Northwest and B.C., exported to meet increased demand from China as they look to satisfy their growing need for construction lumber and industrial timber applications. Increased shipments to China impacted supply available to the North American markets which improved pricing of North American products due to a supply/demand imbalance and the existence of lean inventories. This is evidenced by the movement of the average price reported by Random Lengths for SPF 2x4 #2&Btr from US$233 per mfbm for September, 2010 to US$285 per mfbm at the end of December, 2010 and is magnified even more in comparison to the fourth quarter, 2009 average price of US$206 per mfbm.

Improved pricing impacted both sales realizations and ending inventory valuations for the Company in the fourth quarter, 2010 resulting in positive operating earnings in the quarter for the first time since the third quarter, 2006.

Changes in the Castlegar sawmill operating configuration in early 2010, achieved with the support of the mill's employees and other local stakeholders and without the benefit of any significant capital expenditures, continued to contribute a marked improvement in the mill's cost structure and impact fourth quarter, 2010 results.

The Company continued to monitor and adjust production levels in all operations to match product demand and control inventory levels.

Sales

Compared to the same quarter of 2009, lumber shipments were up 37.1% or 87 million board feet for the fourth quarter of 2010, reflecting additional production from Adams Lake and the recommenced operations at Grand Forks and Castlegar sawmills. Slower growth in demand in the U.S. markets continues to be replaced by strong growth in the demand for product from China. For the fourth quarter, 2010, in comparison to the fourth quarter, 2009 and excluding wholesale programs, 44% of all lumber shipments were directed to the U.S., a decline of 13%, and more than offset by shipments to Chinese markets which grew by 16%.

Relative to the same periods in 2009, unit lumber sales values increased by $31 per mfbm, or 7.8%, for the fourth quarter, 2010 reflecting significantly improved North American structural lumber product prices, somewhat tempered by the negative impact of a stronger Canadian dollar. Compared to the average of the fourth quarter of 2009, the Canadian dollar appreciated 4 cents relative to its U.S. counterpart.

Log sales were up $3.3 million, or 18.9%, for the fourth quarter, 2010 as sales volumes increased by 32,000 m3 or 12.1% vis-à-vis its comparative in 2009. Unit sales values on the B.C. Coast, where the majority of log sales are transacted, moved up 5.2% reflecting improved log markets and a lesser pulp log component.

Compared to the same periods of 2009, pulp chip and other by-product revenues for the fourth quarter of 2010 were up $3.5 million, a reflection of higher sawmill operating rates. Average chip prices for the fourth quarter, 2010 increased on both the B.C. Coast as well as in the U.S. reflecting increased global demand for pulp over the same quarter, 2009. More significant price increases in the U.S. were negated by the stronger Canadian dollar.

Operating Costs

Production costs for the fourth quarter of 2010 increased $40.8 million, or 35.8% compared to the same period in 2009. Lumber production increased by 58 million board feet for the fourth quarter, 2010 compared to the same quarter, 2009 driven by increased production at the B.C. Interior sawmills.

Unit cash conversion costs remained constant, quarter-over-quarter as compared to 2009 as increased per unit conversion costs resulting from a curtailment at the Beaver sawmill were offset by a stronger Canadian dollar. In addition, fibre supply for the U.S. Pacific Northwest sawmills remains tight and resulted in sizeable increases in log costs for U.S. operations.

Compared to the same period in 2009, B.C. log production grew by 260,000 cubic metres for the fourth quarter, 2010 driven by the seasonality of logging in the B.C. interior and the increased demand for logs in the B.C. Interior sawmills resulting from improved operating rates as compared to 2009. Unit logging costs for the fourth quarter remained relatively constant, year-over-year.

Compared to the same period, 2009, Canadian shipments to the U.S. for the fourth quarter, 2010 rose by 25 million board feet or 70.2% which corresponds with a 70% increase in export taxes, or $1.0 million as the tax rate for both periods remained at 15%.

Selling and administrative costs for the fourth quarter, 2010 increased by $0.6 million compared to the same quarter, 2009 primarily as a result of additional corporate development expenditures and expansion of export sales administration. Long-term incentive compensation (“LTIC”) expense is impacted by the change in the Company’s share price and showed an expense of $1.4 million for the fourth quarter, 2010, reflecting a 40.4% increase in the Company’s share price over the quarter. Similarly, LTIC expense in the fourth quarter, 2009, resulted from a 49.8% improvement of the share price for that quarter.

Fourth quarter, 2010 amortization of plant and equipment remained flat in comparison to the fourth quarter, 2009 despite the inclusion of Castlegar sawmill for 2010 as the investment in capital assets at the mill is extremely low.

Road amortization and depletion expense for the fourth quarter of 2010 declined by $0.5 million or 10.8% for the quarter vis-à-vis the same quarter, 2009 as a result of decreased logging activity on the B.C. Coast with log production lower by 58,000 cubic metres or 13.8%.

Interest, Other Foreign Exchange Gain (loss), Other Income

Fourth quarter, 2010, interest expense was virtually unchanged as compared to the fourth quarter of 2009, with an increase in average lending rates in 2010 partially offset by a stronger Canadian dollar. Other foreign exchange gains (losses) were negligible for both years.

The Company reported Other income (expense) of ($0.3) million for the fourth quarter, 2010 from the disposal of surplus equipment and roads as compared to a gain of $0.6 million realized in the fourth quarter, 2009. Increased equity participation in the earnings of Seaboard with greater shipment volumes by the Company relative to the other partners, improved equity earnings in comparison to 2009.

Income Taxes

The Company recorded an income tax recovery of $0.1 million in the fourth quarter of 2010 as compared to a $3.3 million recovery in the comparative period of 2009. The valuation allowance against certain future income tax assets arising from loss carry-forwards available to reduce future taxable income was increased by $0.1 million (fourth quarter, 2010 - $1.0 million). Although the Company expects to realize the full benefit of the loss carry-forwards, the Company has provided a valuation allowance in respect of its operating loss carry-forwards, net of temporary differences.

Cash Flow

Cash generated by the Company from operations, after changes in working capital, was $3.7 million for the fourth quarter of 2010, compared to cash used of $12.7 million for the fourth quarter of 2009. The increase in accounts receivable partially offset by a rise in accounts payable was the result of the higher operating rates and export shipments in the fourth quarter of 2010.

Capital expenditures continued to be closely monitored. Spending of $4.6 million on plant and equipment was evenly divided between high return discretionary projects and spending related to maintenance of operating capacity, with spending on road construction totaling $4.6 million. Comparative spending for the fourth quarter, 2009 was primarily for road construction as all other capital expenditures were severely curtailed.

In the fourth quarter, 2010 the Company received an $8.8 million advance from Seaboard which it used to pay down a portion of its Revolving Term Line. An advance from Seaboard of $3.1 million received in the fourth quarter, 2009 was used together with drawings of $15.0 million on the Revolving Term Line to fund cash used in operations and priority capital expenditures.

The Company had cash of $9.3 million at December 31, 2010 and ended the quarter with net debt of $146.7 million or 29.7% of invested capital.

Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company’s disclosure controls and procedures as of December 31, 2010. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer (“CEO”) and the Chief Financial Officer (“CFO”). Based on the evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of December 31, 2010.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") as of December 31, 2010. The evaluation was carried out within the COSO framework and under the supervision of, and with the participation of the CEO and the CFO. Based on the evaluation, the CEO and CFO concluded that the Company's ICFR were effective as of December 31, 2010.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2010 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

Valuation of Accounts Receivable. Interfor regularly reviews the collectability of its accounts receivable and records an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Consideration is given to current economic conditions and specific customer circumstances to determine the amount of any bad debt expenses to be recorded.

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer, and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer on a prepayment basis.

All North American sales are conducted under standard industry terms. All lumber sales outside of the North American markets are either insured by the Export Development Corporation or letters of credit or are prepaid in advance of shipment.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and this held true for 2010, despite the impacts of the global economic downturn and historical low housing starts. Based on this past experience and its detailed review of trade accounts receivable past due, a negligible reserve (2009 - $0.1 million) was set up for specific trade receivables.

Although Interfor has not experienced any significant bad debt expenses in prior periods, declines in the economy could result in collectability concerns. Accounts receivable balances for individual customers could potentially be material at any given time.

*Valuation of Inventories***.** Interfor values its lumber inventories at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom or sort basis. Other inventories consist primarily of seedlings, spare parts, and supplies and are recorded at the lower of cost and replacement cost. The unit net realizable value for lumber inventories and Coastal log inventories is determined by reference to the average sales values by specific product in the period immediately following the reporting date. The unit realizable value for Interior and U.S. log inventories is determined by reference to the value of the projected lumber and residual outturns. The unit cost for lumber is based on a three month moving average actual cost, lagged by one month and adjusted for unusual items. The unit cost for Coastal logs is based on a twelve month moving average actual cost and for Interior logs is based on a three month moving average actual cost, both lagged by one month and adjusted for unusual items. The unit cost for U.S. logs is based on actual specific cost. Instances where net realizable value is lower than cost result in a charge to operating earnings in the period. Downward movements in commodity prices could result in a material write-down of inventory at any given time.

Recoverability of Property, Plant and Equipment, Logging Roads, Timber and Goodwill. Interfor's assessment of recoverability of property, plant and equipment, timber and logging roads is made with reference to projections of future cash flows to be generated by its operations. The assessment of recoverability of goodwill is also made with reference to projections of future cash flows to be generated by the related reporting unit, and discounted to estimate the fair value of goodwill.

These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, export taxes, and other factors. There is a high degree of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

For goodwill, an appropriate discount rate is determined by reference to current market conditions and specific company factors.

Interfor assesses the recoverability of Property, Plant and Equipment, and Timber and Logging Roads as conditions and events warrant. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that an impairment may exist. The Company assessed the recoverability of these assets as at December 31, 2010, and concluded that there were no impairments.

*Reforestation and Other Forestry-related Liabilities***.** Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated cost of reforestation as the timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed or contracted by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liability could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate certain roads constructed and used to access timber once that access is no longer required. Accordingly, Interfor also accrues the cost of road deactivation as the related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Foresters and Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liability could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Each of these estimates is reviewed regularly on an ongoing basis.

Environmental Obligations. Environmental expenditures that relate to an existing condition caused by past operations are charged as current production costs once existence of a liability and costs of rehabilitation efforts can be reasonably determined. Interfor engages independent third party experts to assist in determining the existence of environmental liabilities, appropriate prescriptions for treatment and related costs. Estimates of environmental obligations could be materially impacted by a number of factors including incorrect or incomplete problem definition and identification of treatments, or inaccurate cost projections. Incorrect estimates could result in a material charge against operating earnings.

Pension and Other Post-retirement Benefits. Interfor sponsors various defined contribution pension plans available, based on eligibility requirements, to all Canadian salaried and all US employees. The Company sponsors two defined benefit plans for those hourly employees not covered by forest industry union plans. It also sponsors a post-retirement medical and life insurance plan.

The Company retains independent actuarial consultants to value the defined pension benefit obligations, the post retirement medical and life insurance obligations and related plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and assumed rates of increase for employee compensation and health care costs. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Income Taxes. The Company's provision for income taxes, both current and future, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for federal, provincial and foreign taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and future, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Future income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

NEW ACCOUNTING POLICIES AND 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

Convergence with International Financial Reporting Standards

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 has identified a number of key areas that will be impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; share-based payments; employee future benefits; and future income taxes. Management is finalizing the determination of the impact of the application of IFRS on the financial statements and having these impacts audited.

A review of the Company's information systems and the day-to-day accounting processes and controls has been carried out during the IFRS conversion project and no significant impacts were identified. No significant changes to computer systems have been required and no changes which materially affect, or are reasonably likely to materially affect, the Company's controls have been required. To ensure the effectiveness of the key monitoring controls under IFRS, additional training has been performed in relation to the specific impacts of IFRS on the Company's financial policies and statements.

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:

Property, plant and equipment

IFRS 1 allows a company to use fair value as the deemed cost for items of property, plant and equipment at the date of transition which results in an adjustment to Retained earnings in the opening Balance Sheet.

The Company has identified a property at its Hammond sawmill site for which it will take this election at the transition date. The impact is expected to increase property, plant and equipment on the Balance Sheet as at January 1, 2010 by $15.7 million.

Cumulative translation adjustments

IFRS 1 provides an exemption that allows the cumulative translation adjustments to be set to zero at the date of transition as an adjustment to Retained earnings in the opening Balance Sheet. Interfor expects to take advantage of this exemption which would result in Accumulated other comprehensive loss and Retained earnings in the opening Balance sheet to each decrease by $24.9 million at January 1, 2010.

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. The impact of this is expected to be a reduction in Investments and other assets on the Balance Sheet as at January 1, 2010 by $7.2 million for the defined benefit pension plan liabilities of the Company. In addition, Investments and other assets are expected to be reduced by a further $0.8 million to reflect the Company's share of its investee's pension adjustment as at January 1, 2010.

Business combinations

IFRS 1 provides an exemption which eliminates the requirement to restate business combinations entered into prior to the date of transition. Interfor does not expect to restate any of its previous business combination accounting.

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. 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.

Based on the Company's analysis, Interfor does not expect any impairments to be recorded as at January 1, 2010 under IFRS.

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 and requires the discount rate for evaluation of asset retirement obligations to reflect the current risk-free interest rate. As a result, the Company expects to increase its Reforestation liability, net of current portion on the Balance Sheet by $1.9 million, and its Other long-term liabilities by $0.9 million under IFRS on January 1, 2010, for a total of $2.8 million increase in liabilities.

Share based compensation

IFRS requires recognition of compensation expense for share based compensation to be based on fair values rather than implicit values, determined through the use of Black-Scholes and other option modeling techniques. As a result, the Company expects to increase the current portion recorded in Accounts payable and accrued liabilities by $0.4 million and the long term portion in Other long-term liabilities by $0.5 million as at January 1, 2010 under IFRS.

Future income taxes

As a result of the aforementioned adjustments, future income taxes on the Balance Sheet as at January 1, 2010 are expected to be reduced by $0.3 million under IFRS.

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. These will be fully disclosed in our March 31, 2011 quarter-end financial statements.

The impact of the changeover from Canadian GAAP to IFRS is expected to be as follows[1]:

		Retained earnings		Accumulated other comprehensive loss
		(millions of dollars)		
Balance as at January 1, 2010 under Canadian GAAP	$	88.9	$	(24.9)
Transition election to fair value property at Hammond sawmill site		15.7		-
Employee future benefits adjustments to reflect unamortized actuarial gains (losses)		(8.0)		-
Increase in decommissioning liabilities resulting from change to credit-free discount rate		(2.8)		-
Increase in share based compensation liability to reflect fair values		(0.9)		-
Reduction in future income taxes liability arising from aforementioned adjustments		0.3		-
		4.4		-
Transition election to set cumulative translation adjustments to zero		(24.9)		24.9
Balance as at January 1, 2010 under IFRS	$	68.4	$	-

[1] Table may not add due to rounding

Since the impacts of conversion to IFRS standards are still in process of being finalized and audited, it is possible that further differences may arise that could have a significant impact on the Company's financial statements under IFRS. Interfor expects to meet all filing requirements and deadlines for its first reporting under IFRS for the March 31, 2011 quarter-end.

RISKS AND UNCERTAINTIES

Pricing

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada, Japan and China), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products. Based on 2010 levels of operations, a $10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	$10 increase per thousand fbm	$8.5 million increase in net income
Chips	$10 increase per unit[1]	$4.2 million increase in net income

1 Interfor sells chips in either volumetric units (VU's or GPU's - B.C. Coastal operations) or bone dry units (BDU's - B.C. Interior and Pacific Northwest operations).

Competition

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of

Interfor's competitors have greater financial resources than the Company and a number are, in certain product lines, lower cost producers than Interfor.

Factors which affect the Company's competitive position include:

- the foreign exchange rate;
- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the ability to secure space on vessels for overseas shipments and on trucks and railcars for North American shipments;
- the cost of export taxes payable on sales to the U.S.; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian mills generally purchase less than 50% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre for its U.S. based mills, with some logs for the sawmills located on the Olympic Peninsula provided by the Company's Canadian coastal logging operations. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

Use of Financial and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts are the Company's Canadian bankers who are highly-rated and, hence, the risk of credit loss on the instruments is mitigated.

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 75% of their lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount in Japanese Yen. While the Canadian operations also incur some US$ denominated expenses, primarily for ocean freight and other transportation, and equipment operating leases, the majority of expenses are incurred in CAD$.

An increase in the value of the CAD$ relative to the US$ would reduce the amount of revenue in CAD$ realized by the Company from lumber sales made in US$. This would reduce the Company's operating margin and the cash flow available to fund operations. As a result, any such increase in the value of the CAD$ relative to the US$ could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

The Company actively manages its currency exchange risk for fluctuations in US$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. As at December 31, 2010, the Company has outstanding obligations to sell a maximum of US$22.5 million at an average rate of CAD$1.0168 to the USD$1.00 and sell Japanese ¥75.0 million at an average rate of ¥83.03 to the US$1.00 during 2011. All foreign currency gains or losses to December 31, 2010 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts has been recorded as an asset of $0.5 million in accounts receivable and a negligible liability in accounts payable (2009 - $0.4 million asset fair value recorded in accounts receivable).

Based on the Company's net exposure to foreign currencies and related financial instruments in 2010, the sensitivity of Interfor's net earnings is as follows:

US$	$0.01 increase vs. CAD$	$1.3 million increase in net income
Japanese Yen	1¥ increase vs. US$	$0.1 mllion increase in net income

Until 2010, Interfor's U.S. operations produced and sold products almost exclusively for the U.S. market, but with the poor U.S. housing starts and increased demand from China and other overseas markets there has been some sizable growth in export sales in 2010. All revenues and expenses are denominated in US$. All foreign currency denominated assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gain or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in Accumulated Other Comprehensive Income ("AOCI") are reclassified to the Statement of Operations.

The Company recorded a $7.6 million an unrealized foreign exchange loss on translation of its self-sustaining operations in 2010 (2009 - $24.3 million loss) to Other comprehensive income (loss).

On October 1, 2008, the Company designated the US$30.2 million drawn under its Revolving Term Line for the acquisition of its Beaver operations as a hedge against its investment in its self-sustaining U.S. operations. Unrealized foreign exchange gains of $1.7 million (2009 - $5.0 million gain) have been recorded in Other comprehensive income (loss) in 2010.

The Company had previously designated its US$35.0 million Non-Revolving Term Line as a hedge against its investment in its self-sustaining U.S. operations. Effective April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains as a result of applying hedge accounting totaled $5.5 million and continue to be recorded in AOCI.

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"). Upon repayment of the loan, the foreign exchange gain of $1.0 million realized on repayment of the Non-Revolving Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

The Company subsequently drew a further $36.7 million and repaid the drawings of US$35.0 million used to repay the Non-Revolving Term Line, realizing a foreign exchange loss of $0.9 million which was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

Cost of Debt Financing and Sensitivity

As at December 31, 2010 Interfor had drawn a total of $160.8 million (2009 - $149.5 million) of floating rate debt under its operating and term credit facilities, including letters of credit.

The Company's operating and term credit facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for CAD$ loans or at LIBOR for US$ loans, in all cases depending upon a financial ratio. The lines are 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 requirement.

During September 2005, the Company entered into a cross currency interest rate swap. The Company received US$20.0 million at maturity on September 1, 2009 in exchange for payment of CAD$23.5 million (an exchange rate of 1.1765). In addition, during the term of the swap the Company paid an amount based on annual interest of 5.84% on the CAD$23.5 million and received 90 day LIBOR plus a spread of 200 basis points on the US$20.0 million, with LIBOR recalculated at set interval dates. The swap matured on September 1, 2009 and total foreign exchange losses of $2.1 million were recognized in 2009.

Based on the Company's average debt level during 2010, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $1.1 million in net earnings.

Regulatory Issues

Interfor's operations are subject to extensive provincial, state, federal or other laws and regulations that apply to most aspects of our business activities. Where applicable, Interfor is required to obtain approvals, permits and licences for its operations as a condition to operate.

From time to time the changes in government policy or regulation may impact the company's operations. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut ("AAC")

Interfor holds cutting rights in B.C. that represent an AAC of approximately of 3.7 million cubic metres. Of this amount 3.5 million cubic metres is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures (timber Licences and non-replaceable forest licences) that will expire over time.

The AAC is regulated by the Ministry of Forests and Range and subject to periodic reviews that assess and then make determinations to set harvesting rates for each tenure. Many factors affect the AAC such as timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

Reductions in Interfor's AAC from any new protected areas are subject to compensation, once these areas have been formally removed. Currently there are no compensation claims outstanding.

The amount of timber available for harvest in the B.C. Southern Interior is expected to remain high for the next five years as a consequence of an accelerated harvest to address the impact from the pine beetle epidemic. The overall timber supply is expected to be reduced in the BC interior once the surplus of dead pine is no longer useable. The amount and duration of the AAC increase and subsequent decline will vary by location.

Aboriginal Issues

Aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve aboriginal rights and title claims. In addition, the governments have entered, and may continue to enter, into interim measures agreements with aboriginal groups. Any interim measures agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self government. The impact of aboriginal claims or treaty settlements on Interfor's forest tenures or the amounts of compensation to Interfor, if any, cannot be estimated at this time.

The courts have also established that the Crown has a duty to consult with aboriginal groups and where appropriate accommodate aboriginal interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long standing complex issues. In British Columbia the Province has initiated a New Relationship process with First Nations that is intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement.

In late 2009 the Province and six Coastal First Nations signed a Reconciliation Protocol that provides a shared decision making process for resource and land use, as well as new forest sector opportunities. This agreement overlaps a portion of Interfor's Central Coast tenures. The agreement will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

Stumpage Fees

Stumpage is the fee the Crown charges companies to harvest timber from Crown land. Stumpage payments for a harvesting area is based on a competitive market pricing system (MPS) that has been established for both the coast and interior regions of BC.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The primary variable in MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that go into determining an individual stumpage rate for each cutting permit.

On July 1, 2010 The Ministry of Forests and Range implemented changes to the interior market pricing system in response to the Mountain Pine Beetle (MPB) epidemic. These changes included the introduction of stand as a whole pricing with cruise based billing for MPB damaged timber. The impact of these changes is to increase the overall market sensitivity to pricing of MPB damaged timber. These changes in the pricing system are consistent with Canada's obligation under the 2006 Softwood Lumber Agreement ("SLA").

On October 8, 2010, the U.S. Department of Commerce informed Canada that it was requesting consultations under the SLA agreement with respect to current and past pricing of MPB damaged timber. As of December 31, 2010 the consultation period was still in effect. On January 18, 2011 the U.S. government filed for arbitration under the terms of the SLA, with the arbitration to be conducted by the London Court of International Arbitration as required by the SLA. Decisions by the LCIA are final and binding on both parties. As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2010.

Periodic changes in the British Columbia government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

Interfor has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of its environmental performance. Interfor may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Interfor's financial condition and results of operations.

Labour Disruptions

The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian USW union. The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) expired on June 30, 2009 while the USW agreement for the B.C. Coast (Acorn and Hammond) expired on June 14, 2010. The Company also has 16 employees in the B.C. Interior who are members of the Canadian Marine Service Guild, and their collective agreement expires September 30, 2011. Negotiations with the USW regarding renewal of the expired agreements are ongoing, with employees continuing to work under the terms of the expired agreement with no workplace disruptions.

Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on the Company's business. The Company believes that its current labour relations are stable and does not anticipate any related disruptions to its operations in the foreseeable future.

OUTLOOK

Business conditions remain uncertain. The North American market has softened in recent weeks as harsh weather has impacted building activity in a number of regions. Sales to China and other offshore markets continue to positively impact pricing in North America. Cedar remains soft; Japan is stable.

The Canadian dollar is expected to remain relatively stable in 2011, hovering near parity relative to its U.S. counterpart throughout the year.

The Company will continue to diversify its lumber markets to reduce its reliance on the U.S.

Interfor is continuing to move ahead with its high return capital program. So far, a total of $4.3 million has been spent and a number of projects are scheduled for completion in the first six months of 2011. Total capital spending in the first quarter of 2011 is expected to be in the range of $10 million; spending for the year is projected at $45 - $47 million.

ADDITIONAL INFORMATION

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

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of International Forest Products Limited (Interfor) is responsible for preparing the accompanying consolidated financial statements. The financial statements were prepared in accordance with Canadian generally accepted accounting principles and are necessarily based in part on management's best estimates and judgements. The financial information included elsewhere (in the Statutory Reports) is consistent with that in the consolidated financial statements.

Interfor maintains a system of internal accounting control which management believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report. The Company's Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP and their report follows.

Duncan K. Davies	John A. Horning
President and Chief Executive Officer	Senior Vice President, Chief Financial Officer and Corporate Secretary

February 9, 2011

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of International Forest Products Limited, which comprise the consolidated balance sheets as at December 31, 2010 and December 31, 2009**,** the consolidated statements of operations, retained earnings, cashflows, and comprehensive income (loss) and accumulated other comprehensive income (loss) for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of International Forest Products Limited as at December 31, 2010 and December 31, 2009, and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

February 9, 2011

International Forest Products Limited
Consolidated Balance Sheets
(Expressed in thousands of Canadian dollars)
December 31, 2010 and 2009

	2010	2009
Assets		
Current assets:		
Cash and cash equivalents	$ 9,301	$ 3,802
Accounts receivable	45,961	32,951
Income taxes recoverable	-	230
Inventories (note 3)	71,762	60,159
Prepaid expenses	8,334	7,777
Future income taxes (note 14)	3,627	2,974
	138,985	107,893
Investments and other assets (note 4)	28,618	17,060
Property, plant and equipment (note 5)	333,989	357,501
Logging roads and bridges (note 6)	17,063	16,485
Timber tenures (note 6)	80,154	67,010
Goodwill	13,078	13,078
Long-lived assets held for sale (note 2)	-	3,424
	$ 611,887	$ 582,451
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	$ 58,267	$ 43,510
Income taxes payable	230	-
Payable to investee company (notes 8 and 22(a))	15,738	3,096
	74,235	46,606
Reforestation liability, net of current portion (note 10)	15,017	14,724
Long-term debt (note 7(b))	156,037	144,525
Other long-term liabilities (note 9)	15,695	15,316
Future income taxes (note 14)	3,627	3,286
Shareholders' equity:		
Share capital (note 11):		
Issued and fully paid:		
Class A subordinate voting shares	285,362	284,500
Class B common shares	4,080	4,080
Contributed surplus (note 11(a))	5,408	5,408
Accumulated other comprehensive loss	(32,501)	(24,855)
Retained earnings	84,927	88,861
	347,276	357,994
	$ 611,887	$ 582,451

Commitments and contingencies (note 15)
Subsequent events (notes 1(e), 8, 15(c) and 22)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

E.L. Sauder, Director

G.H. MacDougall, Director

International Forest Products Limited

Consolidated Statements of Operations

(Expressed in thousands of Canadian dollars, except earnings per share amounts)

Years ended December 31, 2010 and 2009

	2010	2009
Sales	$ 625,618	$ 389,775
Costs and expenses:		
Production	557,122	374,488
Selling and administration	17,508	16,445
Long term incentive compensation	1,873	3,211
Export taxes	7,427	3,903
Amortization of plant and equipment	28,117	24,838
Depletion and amortization of timber, roads and other	19,008	13,340
	631,055	436,225
Operating loss before restructuring costs and write-downs of plant, equipment	(5,437)	(46,450)
Restructuring costs and write-downs of plant and and equipment (note 13)	(1,578)	(4,367)
Operating loss	(7,015)	(50,817)
Other earnings (expenses):		
Interest expense on long-term debt	(7,944)	(6,442)
Other interest expense	(581)	(1,401)
Other foreign exchange gain (loss)	(280)	37
Other income (expense) (note 12)	(25)	22,965
Equity in earnings of investee companies (note 4)	11,446	1,885
	2,616	17,044
Loss before income taxes	(4,399)	(33,773)
Income taxes (note 14):		
Current (recovery)	60	(183)
Future (recovery)	(525)	(9,703)
	(465)	(9,886)
Net loss	$ (3,934)	$ (23,887)
Net loss per share (note 16):		
Basic and diluted	$ (0.08)	$ (0.51)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of Canadian dollars)

Years ended December 31, 2010 and 2009

	2010	2009
Retained earnings, beginning of year	$ 88,861	$ 112,748
Net loss	(3,934)	(23,887)
Retained earnings, end of year	$ 84,927	$ 88,861

See accompanying notes to consolidated financial statements.

International Forest Products Limited
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian dollars)
Years ended December 31, 2010 and 2009

	2010	2009
Cash provided by (used in):		
Operating activities:		
Net loss	$ (3,934)	$ (23,887)
Items not involving cash:		
Amortization of plant and equipment	28,117	24,838
Depletion and amortization of timber, roads and other	19,008	13,340
Future income taxes (recovery)	(525)	(9,703)
Other assets	(5)	759
Reforestation liability	(449)	(961)
Other long-term liabilities	456	2,909
Equity in earnings of investee company (note 4)	(11,446)	(1,885)
Write-down of plant, equipment, and roads	809	3,067
Unrealized foreign exchange gains	(71)	(6,969)
Other expense (income) (note 12)	25	(23,089)
	31,985	(21,581)
Cash generated from (used in) operating working capital:		
Accounts receivable	(13,460)	(8,580)
Inventories	(12,421)	16,882
Prepaid expenses	(744)	(625)
Accounts payable and accrued liabilities	15,169	2,702
Income taxes	456	15,976
	20,985	4,774
Investing activities:		
Additions to property, plant and equipment	(10,912)	(20,781)
Additions to logging roads and timber	(31,398)	(6,811)
Proceeds on disposal of property, plant and equipment (note 12)	1,325	36,985
Investments and other assets	(4,383)	(942)
	(45,368)	8,451
Financing activities:		
Issuance of share capital, net of expenses (note 11(a))	862	-
Decrease in bank indebtedness	-	(30,589)
Funds from promissory note payable to investee company (note 8)	15,738	3,096
Additions to long-term debt (note 7(b))	125,819	59,000
Repayments of long-term debt (note 7(b))	(112,534)	(41,000)
	29,885	(9,493)
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(3)	(114)
Increase in cash and cash equivalents	5,499	3,618
Cash and cash equivalents, beginning of year	3,802	184
Cash and cash equivalents, end of year	$ 9,301	$ 3,802
Supplementary disclosures:		
Cash interest paid, net	$ 8,525	$ 7,843
Cash income taxes received	397	16,179

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2010 and 2009

	2010	2009
Net loss	$ (3,934)	$ (23,887)
Other comprehensive loss:		
Net change in unrealized foreign currency translation losses on translation of self-sustaining foreign subsidiaries	(7,646)	(24,301)
Other comprehensive loss	(7,646)	(24,301)
Comprehensive loss	$ (11,580)	$ (48,188)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2010 and 2009

	2010	2009
Accumulated other comprehensive loss, beginning of year	$ (24,855)	$ (554)
Other comprehensive loss	(7,646)	(24,301)
Accumulated other comprehensive loss, end of year	$ (32,501)	$ (24,855)

See accompanying notes to consolidated financial statements.

1. Significant accounting policies and change in accounting policies:

International Forest Products Limited (the "Company" or "Intefor") is incorporated under the *Business Corporations Act* (British Columbia) and its primary business activity is the production of wood products in British Columbia and the U.S. Pacific Northwest for sale to markets around the world.

(a) Principles of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries from their respective dates of acquisition or incorporation. All intercompany balances and transactions have been eliminated on consolidation.

(b) Adoption of changes in accounting policies:

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

(i) 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").

(ii) 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 impact on the consolidated financial statements.

(c) Cash and cash equivalents:

Cash consists of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(d) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average of cost of production on a three month rolling average, lagged by one month and adjusted for exceptional costs, as in the case of a curtailment.

Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are in boom form, or in aggregate on a species and sort basis where the logs do not exist in boom form. Cost for internally produced log inventories is determined as the weighted average cost of logging on a twelve month rolling average on the B.C. Coast and on a three month rolling average in the B.C. Interior. For both areas, costs are lagged by one month and adjusted for exceptional costs, as in the case of a curtailment. Log inventories purchased from external sources are costed at acquisition cost. Net realizable value of logs is based on either replacement cost or, for logs for which have been committed to processing into lumber, on estimated net realizable value after taking into consideration costs of completion and sale.

Other inventories consist primarily of supplies which are recorded at lower of cost and replacement cost.

(e) Investments and advances:

Investments over which the Company is able to exert significant influence are accounted for on the equity basis. Advances are accounted for at amortized cost.

1. Significant accounting policies and change in accounting policies (continued):

(e) Investments and advances (continued):

The Company has been the holder of 60% of the outstanding common shares of Seaboard Shipping Company Ltd. ("Seaboard"). The remaining common shares have been held by other British Columbia forestry companies. Seaboard's subsidiary company operates ocean-going vessels that provide service to world ports with contractual commitments for lumber and plywood volumes, as well as other cargo. Although the Company owns over 50% of the common shares of Seaboard, the shareholders have entered into agreements that limit the Company's ability to control Seaboard's strategic decisions. In addition, net earnings of Seaboard are distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership.

The Company accounts for its investment in Seaboard using the equity method with the investment adjusted for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard.

Effective January 5, 2011, there was a restructuring of Seaboard such that the Company became sole owner of Seaboard after all other partners withdrew. (See Subsequent events - note 22(b)).

(f) Property, plant and equipment and timber tenures and logging roads and bridges:

Property, plant and equipment and timber tenures and logging roads and bridges are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 2.5% to 25%) based on the estimated useful lives of the assets. Timber licence depletion and road and bridge amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed periodically to ensure they are aligned with estimates of remaining economic useful lives of the associated capital assets.

(g) Reforestation liability:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences. Accordingly, the Company records the fair value of the costs of reforestation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur. These costs are included in the cost of current production.

(h) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures that prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

1. Significant accounting policies and change in accounting policies (continued):

(i) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, recoverability of assets, rates for depletion and amortization, and determination of fair values of assets and liabilities acquired in business combinations. Actual results could differ from those estimates.

(j) Income taxes:

Income taxes are accounted for under the asset and liability method. Future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. When the realization of future tax assets is not considered to be more likely than not, a valuation allowance is provided.

(k) Share-based compensation:

The Company has share option plans and other share-based compensation plans for directors, officers and certain other eligible employees.

The Company follows the fair value method of accounting for share options granted to directors, officers and employees. Under the fair value method, compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant.

For other share based compensation plans which are based on changes in the value of the Company's share price, the Company records a liability and recognizes an expense (recovery) for changes in the estimated compensation over the vesting period based on the quoted market price of the Company's shares over the strike price of the grant.

(l) Sales recognition and presentation policies:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, before freight, wharfage and handling costs, and export taxes.

(m) Employee future benefits:

The estimated costs for defined benefit pensions and other post-retirement benefits provided to employees by the Company are accrued using actuarial methods and assumptions, including Management's best estimates of the discount rate, future investment earnings, salary escalation, and health care costs.

The actuarial liability, and the associated annual cost of accruing benefits for the defined benefit pension plans and other post-retirement benefits is calculated using the projected accrued benefit cost method pro-rated on service.

For the purpose of calculating the expected return on plan assets, those assets are valued at fair value.

1. Significant accounting policies and change in accounting policies (continued):

(m) Employee future benefits (continued):

Actuarial gains and losses arise from actual experience being different from the assumptions, or changes in actuarial assumptions used to determine the actuarial liability.

The unamortized net actuarial gains or losses in excess of ten percent of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight-line basis over the average remaining service period of active employees. The average remaining service period of the active employees covered by the plans is twelve years in 2010 (2009 - thirteen years).

(n) Hedging relationships and accounting for derivative financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign currency and interest rate exposures. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis to ensure the derivatives are effective in offsetting changes in fair values or cash flows of hedged items. Foreign exchange exposure to foreign currency receipts and related receivables, primarily U.S. currency, is managed through the use of foreign exchange forward contracts and options.

Exposure to interest rates on a component of long-term debt was managed through the use of a cross currency interest rate swap. This swap agreement required the periodic exchange of payments without the exchange of the notional principal amount on which the payments are based. Foreign exchange adjustments accounted for under the cross currency interest rate swap agreement were recognized in Other foreign exchange gain (loss) on the Statement of Operations. The cross currency interest rate swap matured on September 1, 2009.

The Company has chosen not to designate its derivative forward foreign exchange contracts, options and interest rate swap as hedges. Consequently, derivatives for which hedge accounting is not applied are carried on the balance sheet at fair value, with changes in fair value being recorded in the statement of operations.

(o) Foreign currency translation:

Foreign currency denominated assets and liabilities of self-sustaining foreign operations are translated into Canadian Dollars at exchange rates in effect at the balance sheet date. Related unrealized gains and losses are included in the net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income.

For the Company's integrated foreign operations foreign currency monetary assets and liabilities are translated into Canadian Dollars at exchange rates in effect at the balance sheet date, while foreign currency non-monetary assets and liabilities are translated into Canadian dollars at the historical exchange rate in effect when the related asset was acquired or obligation incurred. Related unrealized translation gains and losses are included in Operating earnings or Other foreign exchange gain (loss) in the Statement of Operations, depending upon the nature of the item translated.

Long-term obligations denominated in foreign currencies are from time to time designated as a hedge of the Company's investments in self-sustaining foreign operations and hedge accounting is utilized with resulting unrealized foreign exchange gains and losses recorded in Other Comprehensive Income in the period in which they occur. When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting any accumulated unrealized foreign exchange gains and losses remain in Accumulated Other Comprehensive Income. Unrealized foreign exchange gains and losses arising subsequent to termination of the designation of the hedge relationship are recorded in Other foreign exchange gain (loss) in the Statement of Operations.

1. Significant accounting policies and change in accounting policies (continued):

(o) Foreign currency translation (continued):

Unrealized foreign exchange gains and losses residing in Accumulated Other Comprehensive Income will be released to the Statement of Operations upon the reduction of the net investment in self-sustaining foreign operations through the sale, reduction or substantial liquidation of an investment position.

Revenues and expenses denominated in foreign currencies are translated at average rates for the period with the exception of depreciation and amortization of foreign currency denominated long term assets of the Company's integrated foreign operations, which are translated at historical exchange rates.

(p) Net earnings (loss) per share:

Basic earnings (loss) per share are computed by dividing net earnings by the weighted average shares outstanding during the reporting period. Diluted earnings (loss) per share are computed using the treasury stock method.

(q) Asset retirement obligations:

Asset retirement obligations are recognized at the fair value in the period in which the legal obligation was incurred, with fair value of a liability determined with reference to the present value of estimated future cash flows. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to fair value calculations are recognized in the statement of operations as they occur.

(r) Impairment of long-lived assets, goodwill and related measurement uncertainty:

Long-lived assets are tested for recoverability whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The Company determines if an impairment loss exists by comparing the carrying amount of a long-lived asset to the sum of the undiscounted cash flows expected to result from its use and eventual disposition. If an impairment loss exists, the amount of the loss is measured as the amount by which the long-lived asset's carrying amount exceeds its fair value.

As at December 31, 2010, the Company tested the recoverability of its long-lived assets. The recoverability tests performed include management forecasts of cash flows arising from the use and disposition of the relevant assets. Based on the management forecasts, undiscounted cash flows exceed the carrying value of the Company's long-lived assets and no impairment charge is required at December 31, 2010.

Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that an impairment may exist. The Company determines if an impairment loss exists by estimating the fair value of the goodwill and related reporting unit and comparing it to the carrying amount of the goodwill and related reporting unit. When the carrying value of a reporting unit's goodwill exceeds its fair value, an impairment loss is recognized in an amount equal to the excess.

The Company uses a discounted cash flow methodology to estimate the fair value of the goodwill and related reporting unit. The cash flows are based on management forecasts and an appropriate discount rate as determined by reference to current market conditions and specific company factors. For the year ended December 31, 2010, the estimated fair value of the goodwill and related reporting unit exceeds the carrying value of these assets. Therefore, no impairment charge is required.

Numerous assumptions are required in conducting the recoverability tests and the more significant ones include lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, and the amount of sales to the U.S. from Canada and the level of export taxes. The Company has analyzed external data in determining appropriate assumptions.

1. Significant accounting policies and change in accounting policies (continued):

(r) Impairment of long-lived assets, goodwill and related measurement uncertainty (continued):

Given the judgements and estimates required to carry out the tests for recoverability of long-lived assets and goodwill, and the sensitivity of results to significant assumptions used, it is possible that future conditions may change and may result in different assumptions in the future, which could result in impairment of the carrying values of the assets at that time.

(s) Comparative figures:

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

(t) Future accounting 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 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 has identified a number of key areas that will be impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; share-based payments; employee future benefits; and future income taxes. Management is finalizing the determination of the impact of the application of IFRS on the financial statements and having these impacts audited.

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:

Property, plant and equipment

IFRS 1 allows a company to use fair value as the deemed cost for items of property, plant and equipment at the date of transition which results in an adjustment to Retained earnings in the opening Balance Sheet. The Company has identified a property at its Hammond sawmill site for which it will take this election at the transition date

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.

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.

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

2. Long-lived assets held for sale:

In 2009, the Company had classified the property at the former Field sawmill site located in Courtenay, B.C., as held for sale at December 31, 2009. As at December 31, 2010, the property was reclassified to Property, plant and equipment, note 5.

3. Inventories:

	2010	2009
Logs	$ 39,107	$ 31,011
Lumber	27,353	24,301
Other	5,302	4,847
	$ 71,762	$ 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 to record inventory at the lower of cost and net realizable value at December 31, 2010 was $7,589,000 (2009 - $9,578,000).

4. Investments and other assets:

	2010	2009
Seaboard Shipping Company Limited	$ 17,125	$ 8,774
Other investments and deposits	523	563
Pension asset (note 17(b))	8,858	7,121
Deferred financing fees, net of accumulated amortization	2,112	602
	$ 28,618	$ 17,060

Summarized information of Seaboard is as follows:

	2010	2009
Total assets	$ 30,202	$ 21,620
Shareholders' equity	23,228	17,699
Net sales	41,995	36,278
Interfor's shipment percentage	96.8%	75.7%
Interfor's equity in earnings	$ 11,446	$ 1,885
Distributions received	3,096	3,651

In 2010, a distribution was made to the partners, of which the Company's share was $3,096,000 (2009 - $3,651,000). In accordance with equity accounting, the distributions were recorded as a reduction of the investment. See also Payable to investee company, note 8.

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

5. Property, plant and equipment:

2010	Cost	Accumulated amortization	Net book value
Land	$ 19,274	-	19,274
Buildings	61,808	22,444	39,364
Machinery and equipment	405,244	158,367	246,877
Mobile equipment	13,589	11,045	2,544
Computer software and equipment	20,433	13,643	6,790
Site improvements	32,002	14,662	17,340
Other	6,201	4,401	1,800
	$ 558,551	$ 224,562	$ 333,989
2009			
Land	$ 15,990	$ -	$ 15,990
Buildings	71,198	29,324	41,874
Machinery and equipment	420,160	151,110	269,050
Mobile equipment	8,892	6,778	2,114
Computer software and equipment	20,509	11,321	9,188
Site improvements	25,400	7,088	18,312
Other	4,588	3,615	973
	$ 566,737	$ 209,236	$ 357,501

6. Roads, bridges and timber tenures:

2010	Cost	Accumulated amortization	Net book value
Roads and bridges	$ 43,958	$ 26,895	$ 17,063
Timber tenures	117,597	37,443	80,154
	$ 161,555	$ 64,338	$ 97,217
2009			
Roads and bridges	$ 41,730	$ 25,245	$ 16,485
Timber tenures	101,718	34,708	67,010
	$ 143,448	$ 59,953	$ 83,495

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

7. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

	2010	2009
Available line of credit	$ 65,000	$ 65,000
Maximum borrowing available	65,000	61,926
Operating Line drawings	-	-
Outstanding letters of credit included in line utilization	4,756	4,997
Unused portion of line	60,244	56,929

On January 15, 2010 the Company amended its existing operating line of credit ("Operating Line") and the maturity date was extended to February 28, 2011. 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 remained substantially unchanged except for a reduction in pricing.

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 of total debt divided by twelve months' trailing EBITDA[1]. 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, a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

As at December 31, 2010, there were no drawings under the Operating Line (December 31, 2009 - $nil).

(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.

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 remained substantially unchanged except for a reduction in pricing.

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 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, a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

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

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

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

(b) Long-term debt (continued):

As at December 31, 2010, the Revolving Term Line was drawn by US$30,200,000 (December 31, 2009 – US$30,200,000) revalued at the year-end exchange rate to $30,037,000 (December 31, 2009 - $31,740,000), and $126,000,000 (December 31, 2009 - $76,000,000) for total drawings of $156,037,000 (December 31, 2009 - $107,740,000), and leaving an unused available line of $43,963,000.

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 was recognized in Other foreign exchange gain (loss) on the Statement of Operations (2009 - $5,845,000 unrealized foreign exchange gain on revaluation of loan).

The Company subsequently drew a further $36,715,000 and repaid the drawings of US$35,000,000 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.

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 $1,703,000 (2009 - $5,043,000 gain) arising on revaluation of the Non-Revolving Term Line were recognized in Other comprehensive income.

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

2011	$ -
2012	-
2013	156,037
2014	-
2015	
	$ 156,037

8. Payable to investee company:

On July 30, 2010, subsequent to the sale of one of its two vessels, the Seaboard Limited Partnership ("the Seaboard Partnership"), made an advance to its partners, with Interfor's share of the advance being $6,896,000. The Seaboard Partnership made a second advance to its partners, and Interfor received $8,842,000 on December 30, 2010. The Company signed unsecured promissory notes in respect of each of these advances, payable on demand on or before January 3, 2011 and non-interest bearing until January 3, 2011 and bearing interest at the rates of 4.5% thereafter for the July 30, 2010 advance and 4.0% per annum thereafter for the remaining advance.

These advances were settled subsequent to December 31, 2010 (see Subsequent events, note 22(a)).

On December 29, 2009, the Seaboard Partnership made an advance to its partners, with Interfor's share of the advance being $3,096,000. On January 4, 2010, the Seaboard Partnership 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 Partnership.

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

9. Other long-term liabilities:

	2010	2009
Road deactivation and environmental	$ 4,529	$ 5,026
Pension and other post-retirement benefits (notes 17(b) and (e))	5,152	4,706
Long term incentive compensation		
Share based (notes 11(c) and (d))	1,649	1,550
Total shareholder return plan	2,130	2,280
Other	2,235	1,754
	$ 15,695	$ 15,316

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount. For the three year period which concluded December 31, 2009, a minimum target award was guaranteed for the Chief Operating Officer irrespective of the actual compound growth rate. The guaranteed target award matured on December 31, 2009 and was converted in March 2010 into a long-term payable account under the Deferred Share Unit Plan ("DSU Plan") and is included in Other in Other long-term liabilities. Valuation adjustments are made monthly to the plan based on a referenced investment fund and are charged to compensation expense.

The Company recorded compensation expense under the TSR Plan of $1,065,000 (2009 - $1,470,000) and $102,000 (2009 - $nil) under the long-term payable under the DSU Plan for the year ended December 31, 2010.

10. Reforestation liability:

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as production occurs and the fair value of the liability for reforestation is determined with reference to the present value of estimated future cash flows required to settle the obligation.

Changes in the reforestation liability for the years ended December 31 are as follows:

	2010	2009
Reforestation liability, beginning of year	$ 21,496	$ 24,345
Reforestation expense on current production	7,992	2,779
Reforestation liability addition on acquisition of Weyerhaeuser timber tenure	742	-
Reforestation expenditures	(6,260)	(5,969)
Accretion expense	1,031	1,098
Changes in estimated future reforestation expenditures	(199)	(757)
	$ 24,802	$ 21,496
Consisting of:		
Current portion included in accounts payable and accrued liabilities	$ 9,785	$ 6,772
Long term reforestation liability	15,017	14,724
	$ 24,802	$ 21,496

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

10. Reforestation liability (continued):

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2010 is $28,165,000 (2009 - $24,610,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at the Company's estimated credit-adjusted risk-free interest rate of 7.0%. Reforestation expense incurred due to current production and accretion expense are included in production costs for the year.

11. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2010 and 2009 consists of:

100,000,000 Class A subordinate voting shares without par value

1,700,000 Class B common shares without par value

5,000,000 preference shares without par value

Share transactions during 2010 and 2009 were as follows:

	Number			
	Class A	Class B	Total	Amount
Balance, December 31, 2008	46,101,476	1,015,779	47,117,255	$ 288,580
Shares issued on exercise of options	-	-	-	-
Balance, December 31, 2009	46,101,476	1,015,779	47,117,255	288,580
Shares issued on exercise of options	236,200	-	236,200	862
Balance, December 31, 2010	46,337,676	1,015,779	47,353,455	$ 289,442

The first 13-1/3¢ per share per annum of dividends to common shareholders declared are paid on the Class A shares. Any additional dividends must be declared in equal per share amounts on the Class A and B shares.

The Class B shares (carrying ten votes per share) are exchangeable into Class A shares (carrying one vote per share) at any time at the option of the holder or, under certain conditions which will result in the automatic conversion of the Class B shares into Class A shares, on the basis of one Class A share for one Class B share.

On January 3, 2008, the Company received approval to make a normal course issuer bid to acquire up to 1,300,000 Class A shares (representing approximately 2.8% of the outstanding Class A shares as at December 31, 2007) through the facilities of the Toronto Stock Exchange. Any Class A shares purchased by the Company are at market prices and are cancelled as purchased. The program commenced on January 8, 2008 and terminated on January 7, 2009.

The Company did not repurchase any Class A shares through the normal course issuer bid in 2009.

There was no change in contributed surplus in 2010 or 2009.

At December 31, 2010, Class A shares are reserved for possible future issuance as follows:

(i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and

(ii) 1,918,740 Class A shares are reserved for possible issuance pursuant to the share option plan.

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

11. Share capital (continued):

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2010 are exercisable at prices ranging from $3.65 to $4.94 per share, being the closing market price for the shares on the dates that the options were granted. The options expire on January 18, 2011 and April 30, 2011.

Details of the Company's share option plan for the years ended December 31, 2010 and 2009 are as follows:

	2010		2009	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	751,340	$ 4.44	1,021,340	$ 4.59
Granted	-	-	-	-
Exercised	(236,200)	3.65	-	-
Expired or cancelled	(228,140)	4.85	(270,000)	5.00
Outstanding, end of year	287,000	$ 4.77	751,340	$ 4.44
Options exercisable, year end	287,000	$ 4.77	751,340	$ 4.44

The options outstanding at December 31, 2010 have a weighted average remaining life of 0.3 years.

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities (see Other long-term liabilities, note 9).

	2010		2009	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,732,580	$ 5.01	1,428,320	$ 5.90
Granted	290,000	4.73	363,500	1.38
Exercised	-	-	-	-
Expired or cancelled	(64,400)	3.70	(59,240)	4.28
Outstanding, end of year	1,958,180	$ 5.01	1,732,580	$ 5.01
Units exercisable, year end	1,110,580	$ 5.88	921,960	$ 5.85

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

11. Share capital (continued)

(c) Share Appreciation Rights Plan (continued):

Details of units outstanding under the SAR Plan at December 31, 2010 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2010	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2010	Weighted average strike price
$1.38	311,000	8.2	$ 1.38	-	$ -
$3.40-$5.21	912,860	5.6	4.75	451,160	4.57
$6.07-$7.30	590,820	3.2	6.60	573,320	6.59
$8.02	143,500	6.1	8.02	86,100	8.02
	1,958,180		$ 5.01	1,110,580	$ 5.88

The Company recorded compensation expense in respect of the SAR Plan of $582,000 (2009 – expense of $546,000) for the year ended December 31, 2010. Accrued compensation payable on unexercised units totaled $1,128,000 (2009 - $546,000) at December 31, 2010, of which $741,000 (2009 - $184,000) was classified current and recorded in accounts payable and accrued liabilities and the balance was recorded in long-term liabilities (see Other long-term liabilities, note 9).

(d) Deferred Share Unit Plan:

In January 2004, the Company introduced a DSU Plan for Directors and senior officers of the Company. The Plan, which allows for immediate vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSU's either increase or decrease in value in a direct relationship with the Company's Class "A" Subordinate Voting shares.

Participants in the TSR Plan may elect, subject to the approval of the Company's Board of Directors, to receive their award in DSU's at the end of any performance period. In respect of the guaranteed 2009 TSR award, the Board exercised its discretion and required the award to be converted in March 2010 into a long-term payable account under the Deferred Share Unit Plan included in Other in Other long-term liabilities (note 9).

DSU's may also be granted directly to Directors or senior employees of the Company at the discretion of the Board and Directors may also elect to take DSU's as payment of their annual retainer. In 2010 a total of 46,784 DSU's (2009 – 31,602) were granted to or taken by Directors under the plan at an average value of $4.94 (2009 - $2.29) per unit.

The Company recorded compensation expense of $124,000 (2009 – $1,195,000) for the year ended December 31, 2010 in respect of the DSU Plan. Subsequent changes to share values will result in adjustments to the compensation accrual and expense. At December 31, 2010, the Company had 480,249 (2009 – 361,465) DSU's outstanding. At December 31, 2010, accrued compensation payable in respect of the DSU Plan totaled $2,135,000 (2009 - $1,781,000), of which $873,000 (2009 - $593,000) was classified current and recorded in accounts payable and accrued liabilities and the balance was recorded in long-term liabilities (see Other long-term liabilities, note 9).

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

12. Other income (expense):

	2010	2009
Gain (loss) on disposal of surplus property, plant, and equipment, and investment	$ (201)	$ 22,085
Gain on settlement of timber takeback	376	1,004
Other	(200)	(124)
	$ (25)	$ 22,965

In 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 minor disposals of surplus equipment and roads, resulted in proceeds of $1,325,000 and a net loss of $25,000.

In 2009, the Company completed the sale of its former Queensboro millsite, located in New Westminster, B.C. and its remaining surplus equipment, yielding net proceeds of $30,197,000 and a gain of $21,169,000. The Company also disposed of surplus property and buildings in Maple Ridge, B.C. which, combined with other disposals of surplus equipment and an investment, generated sales proceeds of $4,788,000 and a gain of $916,000. The Queensboro millsite and surplus property and buildings in Maple Ridge, B.C. had been classified as held for sale at December 31, 2008.

In addition, under the terms of the *Forest Act*, the Company received $2,000,000 as advance compensation 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 in 2009.

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

The Company recorded restructuring costs, and write-downs of plant and equipment consisting of the following:

	2010	2009
Plant and equipment write-downs	$ 485	$ 3,067
Severance costs	1,093	1,565
Other (recovery)	-	(265)
	$ 1,578	$ 4,367

During 2010 the Company restructured certain of its manufacturing operations and revised certain of its previous estimates resulting in severance costs of $1,093,000. The Company also recorded $485,000 in asset write-downs as it determined certain assets were impaired.

During 2009, the Company determined certain assets were impaired in the current operating environment and recorded $3,067,000 in asset write-downs. In addition, total severance costs of $1,565,000 were recorded as the Company downsized its workforce in response to reduced operating rates. A successful defense of a legal dispute in 2009 allowed the Company to reverse restructuring costs of $265,000 previously accrued.

As at December 31, 2010, $742,000 (2009 - $1,359,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2011 in accordance with its restructuring plans. In addition, a further $523,000 (2009 - $618,000) in other restructuring costs are also included in accounts payable and accrued liabilities.

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

14. Income taxes:

Future income taxes are determined as follows:

	2010	2009
Future income tax assets:		
Losses carried forward	$ 80,289	$ 68,502
Reforestation, restructuring and other accruals deductible when paid	7,968	7,139
Tax credits	2,520	2,779
	90,777	78,420
Valuation allowance	(25,527)	(22,734)
	65,250	55,686
Future income tax liabilities:		
Property, plant and equipment	(67,366)	(58,013)
Other	2,116	2,015
	$ -	$ (312)
Current future income tax assets	$ 3,627	$ 2,974
Non-current future income tax liabilities	(3,627)	(3,286)
	$ -	$ (312)

The reconciliation of income taxes at the statutory rate to the income tax recovery is as follows:

	2010	2009
Income tax expense (recovery) at the statutory rate of 28.5% (2009 – 30.0%)	$ (1,253)	$ (10,132)
Valuation allowance on future income tax assets	4,096	7,449
Non-taxable income of investments accounted for by the equity method	(3,262)	(565)
Entities with different tax rates	(599)	(1,245)
Non-taxable portion of capital losses (gains)	(148)	(6,013)
Change in future tax rates and statutory and tax recovery rate difference	411	789
Other	290	(169)
	$ (465)	$ (9,886)

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately $260,000,000 (2009 - $216,000,000) expire between 2011 and 2030, and are available to reduce future taxable income. The Company has provided a valuation allowance in respect of approximately $72,000,000 (2009 - $62,000,000) of its operating loss carry-forwards, net of temporary differences. The Company also has B.C. Manufacturing and Processing tax credit and Canadian investment tax credit carry-forwards of $2,520,000 (2009 - $2,779,000) which expire between 2011 and 2026.

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

15. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2011	$ 6,070
2012	3,360
2013	2,580
2014	2,230
2015	1,840

(b) Central and North Coast Land Use Decisions:

In 2006, the Government of B.C. announced land use decisions for the Central Coast and the North Coast regions of B.C. which recently resulted in permanent reductions in the Company's allowable annual cut ("AAC") in the plan areas. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating areas.

In 2009, the Company received $2,500,000 as an advance of compensation under the Forest Act for timber, roads and bridges, and forestry and engineering work related to timber returned pursuant to the Plan. The Company recorded $2,000,000 as proceeds on disposition of related assets, and $500,000 as a recovery of production costs.

In 2010, the Company received $376,000 as final settlement of compensation which was recorded as proceeds on disposition of related assets.

No further compensation payable to the Company as a result of the AAC reductions is expected.

(c) Softwood Lumber Agreement:

On January 18, 2011 U.S. trade representatives filed for arbitration under the provisions of the Softwood Lumber Agreement ("SLA") over its concern that the Province of British Columbia ("B.C.") is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2010.

(d) 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 it has been difficult to fully assess the extent of the damage and its related costs. The Company continues to pursue provincial and federal government assistance. Certain losses are covered by insurance and as at December 31, 2010, a receivable of $113,000 has been set up for recovery of qualifying expenditures, net of the insurance deductible.

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

15. Commitments and contingencies (continued):

(d) Storm damage (continued):

To December 31, 2010, $103,000 has been expensed in the Statement of Operations as a result of storm damage related expenses.

The Company is actively working with its insurers to ensure maximum recovery of future restoration expenditures and business interruption losses.

(e) Surety Performance Bonds

The Company has posted $8,109,000 in surety performance bonds, with various expiry dates extending through 2014.

(f) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

16. Net earnings per share:

Net earnings (loss) per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	2010			2009		
	Net loss	Weighted average number of Shares	Per share	Net loss	Weighted average number of Shares	Per share
Basic earnings (loss) per share	$ (3,934)	47,134	$ (0.08)	$ (23,887)	47,117	(0.51)
Share options	-	7*	-	-	-	-
Diluted earnings (loss) per share	$ (3,934)	47,134	$ (0.08)	$ (23,887)	47,117	$ (0.51)

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

17. Pension and other post-retirement plans:

In Canada, the Company maintains a number of savings and retirement plans that are available to employees that meet certain eligibility requirements. A Group Registered Retirement Savings Plan ("RRSP") and a Deferred Profit Sharing Plan ("DPSP") is available to salaried employees. A defined benefit pension plan is available to non-union hourly employees at the Adams Lake operations. Based on eligibility, either a defined benefit pension plan and a post retirement medical and life insurance plan or a defined contribution pension plan is available to Canadian Merchant Service Guild ("CMSG") employees in the Interior of B.C. In addition, the Company contributes to an industry-wide defined benefit pension plan for United Steelworkers unionized employees.

In the U.S., the Company maintains a 401(k) plan that is available to all eligible employees.

17. Pension and other post-retirement plans (continued):

The Company also maintains supplementary pension plans for certain senior management in both Canada and the U.S.

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Company to its funded pension plans, cash contributed to the DPSP and 401(k) plans, cash contributed to a multiemployer defined benefit pension plan, and cash paid under senior management supplementary pension plans was $6,018,000 (2009 - $4,675,000).

(a) RRSP AND DPSP for Canada:

In Canada, salaried employees of the Company are provided with the opportunity of making voluntary contributions based on a percentage of an employee's earnings to the RRSP. The Company matches employees' RRSP contributions in the DPSP with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions.

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2010, the pension expense for this plan is equal to the Company's contribution of $1,107,000 (2009 - $1,145,000).

Certain eligible employees of the CMSG are required to make contributions based on a percentage of earnings into the defined contribution plan. For 2010, the pension expense is equal to the Company's contribution of $8,000 (2009 - $nil).

(b) Defined benefit plans:

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the Adams Lake and CMSG pension plans was as of December 31, 2009, and for the CMSG post-retirement benefits obligations was as of April 30, 2008. The next required funding valuations for the defined benefit pension plans is as of December 31, 2012 and the next scheduled valuation for the other post-retirement benefits obligation will be as of April 30, 2011.

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

17. Pension and other post-retirement plans (continued):

(b) Defined benefit plans (continued):

	Other Post-retirement Benefits 2010	Other Post-retirement Benefits 2009	Pension Benefits 2010	Pension Benefits 2009
Accrued benefit obligation:				
Beginning of year	$ 1,025	$ 874	$ 29,136	$ 25,311
Actuarial (gain) loss	-	9	730	-
Service cost	21	15	587	275
Interest cost on accrued benefit obligation	64	62	1,841	1,797
Benefit payments	(54)	(59)	(1,993)	(1,593)
Impact of new discount rate at year-end	113	124	2,925	3,346
End of year	1,169	1,025	33,226	29,136
Plan assets:				
Fair value, beginning of year	-	-	29,881	25,575
Expected return on plan assets	-	-	2,106	1,787
Employer contributions	54	59	2,177	1,379
Employee contributions	-	-	219	125
Benefit payments	(54)	(59)	(1,993)	(1,593)
Actuarial gain (loss)	-	-	578	2,608
Fair value, end of year	-	-	32,968	29,881
Funded status – plan surplus (deficit)	(1,169)	(1,025)	(258)	745
Unamortized actuarial loss (gain)	99	(14)	9,116	6,376
Accrued benefit asset (liability)	$ (1,070)	$ (1,039)	$ 8,858	$ 7,121

Plan assets consist of:

Asset category	2010	2009
	Percentage of plan assets	
Equity securities	63%	55%
Debt securities	37%	42%
Other	0%	3%
Total	100%	100%

The Company's accrued benefit asset (liabilities) are included in the Company's balance sheet as follows (see Investments and other assets, note 4 and Other long-term liabilities, note 9):

	Post-Retirement Benefits 2010	Post-Retirement Benefits 2009	Pension Benefits 2010	Pension Benefits 2009
Investments and other assets	$ -	$ -	$ 8,858	$ 7,121
Accounts payable and accrued liabilities	(54)	(50)	-	-
Other long-term liabilities	(1,016)	(989)	-	-
	$ (1,070)	$ (1,039)	$ 8,858	$ 7,121

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

17. Pension and other post-retirement plans (continued):

(b) Defined benefit plans (continued):

The Company's net expense for the Company's defined benefit pension and post-retirement benefits plans are as follows:

	Post-Retirement Benefits		Pension Benefits	
	2010	2009	2010	2009
Current service cost	$ 21	$ 15	$ 368	$ 150
Interest cost	64	62	1,841	1,797
Expected return on plan assets	-	-	(2,106)	(1,787)
Amortization of actuarial gains (losses)	-	(5)	337	280
	$ 85	$ 72	$ 440	$ 440

Actuarial assumptions used in accounting for the Company maintained benefit plans are:

	Post-Retirement Benefits		Pension Benefits	
	2010	2009	2010	2009
Accrued benefit obligation as of December 31				
Discount rate	5.5%	6.25%	5.5%	6.25%
Compensation increases[1]	-	-	3.25%	3.5%
Pension expense				
Discount rate	6.25%	7.25%	6.25%	7.25%
Expected return on plan assets	-	-	7.0%	7.0%
Compensation increases[1]	-	-	3.25%	3.5%

For measurement purposes at December 31, 2010, the Company has assumed a 6.0% health care cost trend in 2011 grading down to 3.5% in 2014 (2009 – 7.90% health care cost trend in 2010 grading down to 4.27% in 2015).

[1]Compensation increases only relate to the CMSG plan.

(c) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2010, the pension expense for these plans is equal to the Company's contribution of $1,882,000 (2009 - $1,276,000). The Company's liability is limited to its contributions.

(d) 401(k) plan for U.S.:

IPI and Cedarprime Inc., the Company's U.S. operating subsidiaries, match employee contributions based on a percentage of the employee's earnings and vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2010, the pension expense for this plan is equal to the Company's contribution of $589,000 (2009 - $573,000).

In 2005, contributions based on a discretionary profit sharing allocation were replaced with the matching component. Previous contributions under profit sharing allocation component continue to vest in years two through six of employment at a rate of 20% per annum.

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

17. Pension and other post-retirement plans (continued):

(e) Senior management supplementary pension plans:

The Company provides supplementary pension benefits to certain members of its senior management in the form of a notional extension of the Deferred Profit Sharing Plan in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company (note 9), with a portion of the commitments being secured by irrevocable letters of credit.

The Company also maintains a defined benefit pension plan for a former senior executive. The accrued benefit obligation is $839,000 (2009 - $733,000), of which $359,000 (2009 - $361,000) is funded.

During 2010 the Company made cash payments of $202,000 (2009 - $243,000) and recorded an expense of $644,000 (2009 - $459,000) in respect of these plans.

The amounts accrued are as follows:

	2010	2009
Accrual for defined contribution commitments	$ 3,945	$ 3,629
Accrual for defined benefit commitments	480	372
	$ 4,425	$ 4,001

The accrued liabilities are included in the Company's balance sheet as follows:

	2010	2009
Accounts payable and accrued liabilities	$ 289	$ 284
Other long-term liabilities (note 9)	4,136	3,717
	$ 4,425	$ 4,001

18. Related party transactions:

In 2010 the Company had lumber sales to a significant shareholder in the amount of $751,000 (2009 - $926,000). Shipping services provided by Seaboard totaled $7,005,000 (2009 - $4,650,000). In addition, the Company provided management and other support services to Seaboard totaling $500,000 in 2010 (2009 - $nil) and lumber sales to Seaboard of $148,000 (2009 - $138,000). These transactions were conducted on a normal commercial basis, including terms and prices.

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

19. Segmented information:

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

The Company sells to both foreign and domestic markets as follows:

	2010	2009
Canada	$ 171,113	$ 113,558
United States	244,625	160,955
Japan	80,856	56,403
China/Taiwan	79,625	18,412
Other export	49,399	40,447
	$ 625,618	$ 389,775

Sales by product line are as follows:

	2010	2009
Lumber	$ 481,983	$ 288,627
Logs	79,763	60,443
Wood chips and other by products	56,217	34,349
Other	7,655	6,356
	$ 625,618	$ 389,775

Capital assets, goodwill and other intangibles by geographic location are as follows:

	2010	2009
Canada	$ 302,319	$ 299,365
United States	141,965	158,133
	$ 444,284	$ 457,498

20. Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors the return on average invested capital, which it defines as net earnings (loss) plus after tax interest cost divided by the average of opening and closing invested capital comprised of the total of bank indebtedness, long-term debt and shareholders' equity.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long-term through increases in share value.

In 2009, in the face of the global economic downturn and extremely poor housing markets, the Company's focus was on managing the business for cash, severely curtailing discretionary capital spending and ensuring adequate liquidity was maintained.

20. Capital management (continued):

In 2010, as the global economy showed signs of recovery the Company reassessed its capital spending programs and approved some capital spending on discretionary projects in addition to expenditures related to maintenance of operating capacity and increased expenditures on road construction. In addition, the Company acquired a timber tenure in the B.C. Interior from Weyerhaeuser Company Limited, securing approximately 275,000 cubic metres of allowable annual cut to its interior fibre supply.

There were no changes in the Company's approach to capital management during the period. Under its debt financing agreement, the Company cannot exceed a total debt to total capitalization ratio of 45%, with total debt defined as the total of bank indebtedness, including letters of credit, and long-term debt, net of cash and cash equivalents and total capitalization defined as total debt plus Shareholders' Equity. The financial covenants under the debt financing agreement also carry a minimum working capital and a minimum net worth requirement.

The Company is in compliance with all of its debt covenants and expects to remain in compliance.

21. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2010, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of $156,037,000 (2009 - $144,525,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

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

As at December 31, 2010, the Company has outstanding obligations to sell a maximum of US$22,500,000 at an average rate of CAD$1.0168 to the US$1.00, and sell Japanese ¥75,000,000 at an average rate of ¥83.03 to the USD$1.00 during 2011. All foreign currency gains or losses to December 31, 2010 have been recognized in the Statement of Operations and the fair value of these foreign currency contracts has been measured based on Level 2 of the fair value hierarchy and has been recorded as an asset of $492,000 in accounts receivable and a liability of $18,000 in accounts payable (2009 - $403,000 asset fair value measured based on Level 2 and recorded in accounts receivable).

During September 2005, the Company entered into a cross currency interest rate swap. The Company had agreed to receive US$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company paid an amount based on annual interest of 5.84% on the CAD$23,530,000 and received a 90 day LIBOR plus a spread of 200 basis points on the US$20,000,000. LIBOR was recalculated at set interval dates. The swap matured on September 1, 2009 and total foreign exchange losses of $2,050,000 were recognized in 2009.

(c) Hedge of investment in self-sustaining foreign operation:

On October 1, 2008, the Company designated the US$30,200,000 funds drawn under its Revolving Term Line for the acquisition of its Beaver operations as a hedge against its investment in its self-sustaining U.S. operations. Unrealized foreign exchange gains of $1,703,000 in 2010 (2009 - $5,043,000 gain) have been recorded in Other Comprehensive Income.

21. Financial instruments (continued):

(d) Financial risk management:

Financial instrument assets include cash resources, deposits and accounts receivable. Cash resources and deposits are designated as held-for-trading and measured at fair value, while accounts receivable are designated as loans and receivables and measured at amortized cost.

Financial instrument liabilities include bank indebtedness, accounts payable and accrued liabilities, long-term debt, and certain other long-term liabilities. All financial liabilities are designated as other liabilities and are measured at amortized cost.

There are no financial instruments classified as available-for-sale or held-to-maturity.

The use of financial instruments exposes the Company to credit, liquidity and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through its standards and procedures, management has developed a control environment in which employees are clear on roles and obligations and management regularly monitors compliance with its risk management policies and procedures.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers and from cash.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before standard payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer, and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer on a prepayment basis.

All North American sales are conducted under standard industry terms. All lumber sales outside of the North American markets are either insured by the Export Development Corporation or are secured by irrevocable letters of credit.

Accounts receivable (continued)

The Company regularly reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has managed its credit tightly and experienced minimal bad debts, despite the impacts of the global economic downturn. Based on this past experience and its detailed review of trade accounts receivable past due which were considered uncollectible, a reserve in respect of doubtful accounts of $4,000 was recorded (2009 - $57,000) for specific trade receivables.

Deposits

The Company limits it exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. As such, management does not expect any counterparty to fail to meet its obligations.

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

21. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Guarantees

In 2009, the Company provided a parent guarantee on the U.S. Line utilized by its U.S. operating subsidiary. This was in compliance with the Company's policy to provide financial guarantees only with respect to wholly-owned subsidiary companies. The U.S. Line was not extended when it matured on April 24, 2009 and the guarantee was withdrawn.

The Company did not provide any guarantees in 2010.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As lumber sales outside of the North American markets are insured by the Export Development Corporation to 90% or secured by irrevocable letters of credit, credit exposure for these sales is limited.

Accounts receivable carrying value at the reporting date by geographic region was:

	2010	2009
Canada	$ 15,418	$ 11,626
United States	13,259	11,517
Japan	6,057	5,300
China/Taiwan	7,268	951
Other	3,959	3,557
	$ 45,961	$ 32,951

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations. Given the global economic downturn experienced through most of 2009, Company executive focused on cash management to ensure maintenance of adequate liquidity and continued this discipline through 2010.

The Company also maintains a revolving Canadian Operating Line that can be drawn down to meet short-term financing needs. In early 2009, the Company amended and extended its existing Canadian syndicated credit facilities and as part of the amendment, margining availability was extended to include inventory domiciled in the United States.

As a consequence of the extension of margining coverage, all U.S. working capital is included in the Canadian operating facility and the U.S. Line was not extended when it matured on April 24, 2009 with all outstanding drawings under the U.S. Line repaid.

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

21. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

The estimated cash payments due in respect of contractual and legal obligations are summarized as follows:

		Payments due by period			
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	$ 44,407	$ 44,407	$ -	$ -	$ -
Income taxes payable	230	230	-	-	-
Payable to investee company (note 22(a))	15,738	15,738	-	-	-
Long-term debt	156,037	-	156,037	-	-
Reforestation liability	28,165	9,785	6,949	5,423	6,008
Other long-term liabilities	21,774	4,075	5,419	1,809	10,471
Pension solvency payments	4,214	1,505	1,522	800	387
Operating leases and contractual commitments	19,290	6,070	5,940	4,070	3,210
Total contractual obligations	$289,855	$ 81,810	$175,867	$ 12,102	$ 20,076

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

Currency risk

The Company is exposed to currency risk on cash and deposits, sales, purchases and loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations, primarily Canadian (CAD) and U.S. dollars (USD), but also the Euro, Sterling and Yen. As required, the Company uses forward exchange contracts and cross currency interest rate swaps to manage its currency risk, as described in Note 21(b), Derivative financial instruments. Daily, the Company assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

At December 31, 2010, the Company has US$ drawings under its Revolving Term Line of US$30,200,000 (2009 – US$30,200,000). The US$ drawings under this Line have been designated as a hedge against the investment in the Company's self-sustaining U.S. operations.

In conjunction with 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. Upon repayment of the loan, the realized foreign exchange gain of $966,000 was recognized in Other foreign exchange gain(loss) on the Statement of Operations.

21. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk: (continued):

Currency risk (continued)

At December 31, 2009, the Non-Revolving Term Line was fully drawn at US$35,000,000.

As at December 31, the Company's accounts receivable were denominated in the following currencies (in thousands):

2010	CAD	USD	Japanese ¥
Accounts receivable	17,351	17,938	44,335
Accounts receivable held by self-sustaining foreign subsidiaries	-	10,480	-
	17,351	28,418	44,335

2009	CAD	USD	Japanese ¥
Accounts receivable	14,661	9,507	46,853
Accounts receivable held by self-sustaining foreign subsidiaries	-	7,362	-
	14,661	16,869	46,853

As at December 31, 2010, the domestic operations of the Company held cash and cash equivalents of US$6,171,000 (2009 – US$1,462,000) and no bank indebtedness (2009 - $nil). Cash and cash equivalents held by self-sustaining and other foreign U.S. subsidiaries totalled US$564,000 (2009 - US$1,348,000).

Based on the Company's net exposure to foreign currencies as at December 31, 2010, including USD denominated cash held in deposits and cash equivalents and USD denominated debt and other USD denominated financial instruments, the sensitivity of the USD balances to the Company's net annual earnings is as follows:

U.S. Dollar	$0.01 increase vs CAD$	$negligible decrease in net income

Based on the Company's net exposure to foreign currencies as at December 31, 2010, in respect of its net investment in its U.S. subidiaries, the sensitivity of the USD balances to the Company's Other comprehensive income (loss) is as follows:

U.S. Dollar	$0.01 increase vs CAD$	$1,315,000 decrease in OCI

Interest rate risk

The Company reduced its exposure to changes in interest rates on borrowings by entering into cross currency interest rate swap, as described in Note 21(b) Derivative financial instruments. This agreement matured on September 1, 2009.

Based on the Company's average debt level during 2010, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $1,135,000 (2009 - $1,140,000) in net annual earnings.

Other market price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

22. Subsequent events:

(a) Seaboard Partnership:

On January 3, 2011, the Seaboard Partnership declared an income distribution to its partners. Interfor's share was $15,738,000 and was settled by way of setoff against the promissory note payable to the Seaboard Partnership (see Payable to investee company, note 8).

(b) Seaboard Partnership windup:

On January 5, 2011, all other partners in the Seaboard Partnership withdrew and the Company became the sole owner of Seaboard. Seaboard Partnership was wound-up on January 7, 2011 and continues operations as Seaboard Shipping Company Limited which is wholly owned by Interfor. Its accounts will be included in the consolidated financial statements of the Company from the date of change in control.

International Forest Products Limited

ANNUAL INFORMATION FORM

Dated as of February 9, 2011

FORWARD LOOKING INFORMATION

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. 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. 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 2010 annual Management's Discussion and Analysis under "Risks and Uncertainties" and in Interfor's current Annual Information Form. 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.

DESCRIPTION OF THE BUSINESS

We are one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world. We have operations in British Columbia ("B.C."), Washington and Oregon, including two sawmills in the Coastal region of B.C., three in the B.C. Interior, two in Washington and two in Oregon. We also operate a value-added remanufacturing facility in Washington.

Our Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963. On December 1, 1979 we amalgamated with our subsidiary, Whonnock Forest Products Limited. On January 1, 1988 we changed our name from Whonnock Industries Limited to International Forest Products Limited. On February 10, 2006 we transitioned under the *Business Corporations Act* (British Columbia). Our head office as well as our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company", "Interfor", "we" or "our" means International Forest Products Limited and its predecessors and all our subsidiaries. Our major subsidiary, Interfor Pacific Inc., owns and operates our U.S. sawmills. It is wholly owned and is incorporated in the State of Washington. Other wholly owned subsidiaries whose operations are described below are CEDARPRIME Inc. (incorporated in the State of Washington), and Interfor Japan Ltd. (incorporated in British Columbia). Effective January 5, 2011, Seaboard Shipping Company Limited became a wholly owned subsidiary of Interfor.

HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometres east of Vancouver B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources from other companies.

2007

2007 was a very challenging year for the Company, with a combination of depressed North American structural lumber prices, a record-high Canadian dollar, and a 15% export tax. In addition, a 15 week strike by the United Steel Workers ("USW") in the second half of 2007 disrupted our B.C. Coastal lumber and logging operations.

In February 2007, the Company completed the installation of a new primary breakdown line at its Port Angeles operation. In late 2007, a new log merchandizer and planer were installed at Port Angeles. By year end, both installations were generating targeted productivity improvements. In April 2007, the Company's Board of Directors (the "Board") approved the construction of a new sawmill at Adams Lake, to replace the existing facility.

2008

2008 was one of the most difficult periods experienced in the lumber industry in recent history. The unprecedented turmoil in financial markets along with the lowest level of U.S. housing starts in over 50 years had a significant impact on the Company's results.

In July 2008, following a prolonged curtailment, the Company permanently closed its Queensboro sawmill division, located in New Westminster, B.C. The property was sold in the third quarter of 2009 for gross proceeds of $30.1 million.

During the course of 2008, we acquired the Castlegar, B.C. and Grand Forks, B.C. sawmills, related timber harvesting rights and other related assets from Pope and Talbot, Inc., and acquired the Beaver and Forks sawmill, planer mill and inventories on the Olympic Peninsula, WA from Portac, Inc.

2009

2009 saw extremely weak North American markets continue to challenge the lumber industry. The turbulence in financial markets, particularly in the first half of 2009, combined with the historically low levels of U.S. housing starts and strengthening Canadian dollar had a significant impact on the Company's results.

Important 2009 accomplishments included the completion and impressive ramp-up of the new Adams Lake sawmill, a return to positive EBITDA for the final two quarters of 2009, and a continued strong financial position.

2010

2010 provided many opportunities and successes for Interfor, despite the challenges faced with continued stagnant U.S. housing starts. A refocus on export markets, particularly China, provided alternate markets for slower U.S. demand, added upward pressure on North American pricing resulting in higher sales values, and supported increased operating rates.

Important accomplishments in 2010 include:

- the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited to support the increased fibre requirements of the Adams Lake sawmill;
- the development of lumber and log export markets to take advantage of increasing demand from China and reduce the reliance on U.S. lumber markets;
- marked improvements to the cost structure at the Castlegar sawmill through changes in the operating configuration which allowed the mill to restart and contribute to 2010 earnings; and
- a continued strong financial position magnified by the return to positive operating earnings in the fourth quarter, 2010 for the first time since 2006.

Strong Financial Position

Despite the extraordinary challenges that the industry faced in 2010, the Company has continued to maintain a strong financial position and experienced some significant successes. Interfor ended 2010 with net debt of $146.7 million (29.7% of invested capital), up $6.0 million from 2009. Cash flow from operations, after working capital changes, for the year was positive at $21.0 million, significantly improved from 2009 at $4.8 million. In the fourth quarter, 2010 the Company generated positive operating earnings for the first time in over four years.

On January 15, 2010, the Company amended and extended its syndicated credit facilities. The Revolving Term Line increased from $150 million to $200 million, and the maturity date was extended from April 24, 2011 to February 28, 2012. The Operating Line remained at $65 million and was extended to February 28, 2011. All other terms and conditions of the lines remain substantially unchanged.

On August 19, 2010 the Company further amended and extended its existing syndicated credit facilities and the maturity of the Revolving Term Line was extended to July 28, 2013 and the Operating Line was extended to July 28, 2012.

In conjunction with the amendments to its credit facilities, the Company repaid and cancelled its existing Non-Revolving Term Line of US$35.0 million on January 15, 2010.

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 into 2011. Recovery in the U.S. new housing market continues to be stagnant but it does appear that U.S. housing starts may have found a floor improving significantly 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.

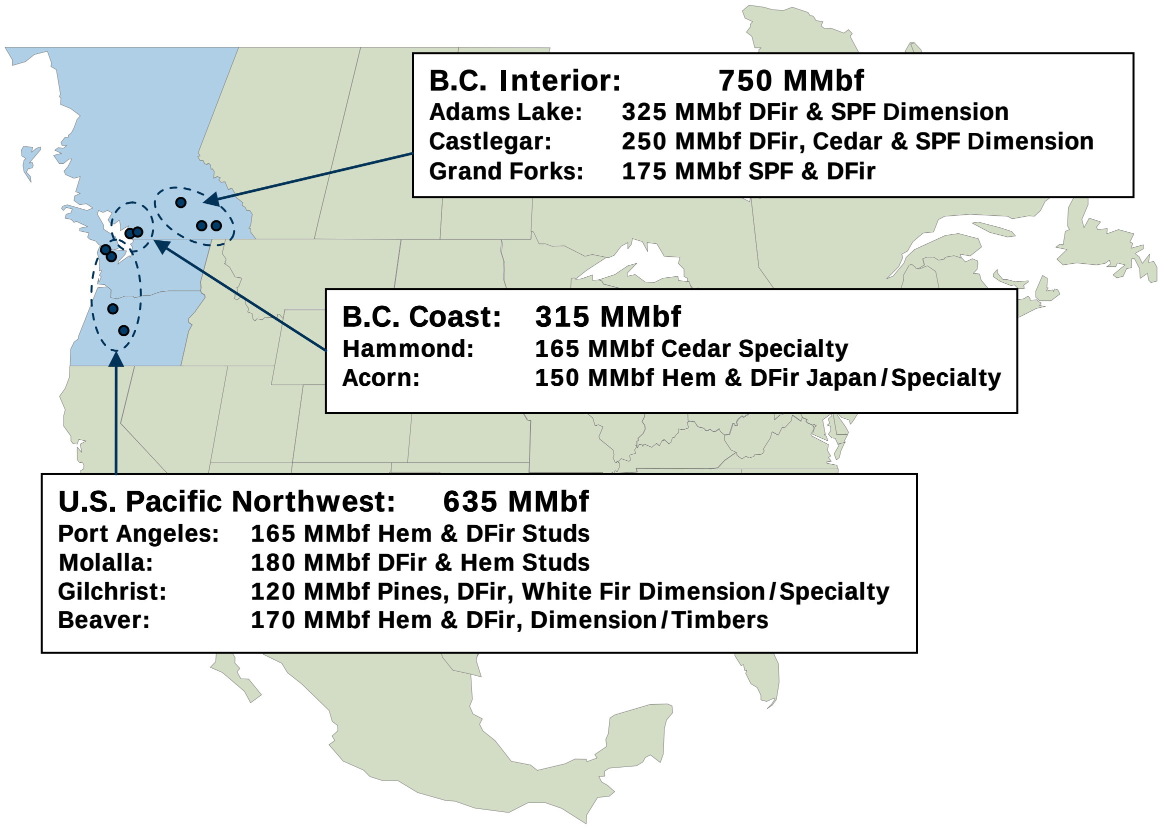
With the prospect of continuing challenges in the North American markets, the Company continues its disciplined approach to production, inventory management and capital spending and looks to continuing to build its relationships with the emerging export markets.

See our Management Discussion and Analysis for the year ended December 31, 2010, a copy of which is available from SEDAR at www.sedar.com.

MANUFACTURING

We operate nine sawmills and one remanufacturing plant in B.C., Washington and Oregon. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

Interfor Sawmills - Capacity
(based on two-shift operation)



The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In addition to improving our manufacturing capability through upgrades, we have increased our efficiency and geographic diversity and expanded our capacity through recent additions of sawmills in Washington and B.C. These acquisitions also enabled us to expand our business while closing several sawmills for which upgrades would not have represented a viable investment.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Number of Shifts	Present Rated Capacity (1)	2010	2009	2008	2007	2006
			Years ended December 31				
	(per day)		(millions of board feet)				
B.C. Coast							
Hammond (2)	2	165	89	80	106	96	158
Acorn (2)	2	150	118	104	108	108	154
B.C. Interior							
Adams Lake (3)	2	325	339	134	48	206	286
Castlegar (4)	2	250	60	—	—	—	—
Grand Forks (4)	2	175	113	28	28	—	—
U.S. Pacific Northwest							
Gilchrist (5)	2	120	90	43	56	127	136
Molalla (6)	2	180	125	110	66	151	194
Port Angeles (5)	2	165	103	79	72	129	96
Beaver (7)	2	170	73	83	14	—	—
Sawmills Closed or Sold							
Queensboro (8)			—	—	—	38	111
MacKenzie (9)			—	—	—	—	43
Total		1,700	1,110	661	498	855	1,178

(1) Based on two shifts per day and 250 operating days per year.
(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond and Acorn management amounting to 16.0 million board feet for Hammond and 1.2 million board feet for Acorn in 2010.
(3) The old Adams Lake sawmill was closed during 2008. The new Adams Lake sawmill began production in April 2009.
(4) Castlegar and Grand Forks were acquired on April 30, 2008. Volumes reported are Interfor only. Castlegar was curtailed until July, 2010. Grand Forks was curtailed from February to September 2009, inclusive.
(5) Gilchrist and Port Angeles were acquired on September 1, 2004.
(6) Molalla was acquired on May 31, 2005.
(7) Beaver was acquired September 30, 2008.
(8) Queensboro (formerly Western Whitewood) was curtailed indefinitely in December 2007 and permanently closed in July 2008.
(9) Volumes include custom-cutting.

B.C. Coast Operations

Hammond

The Hammond operation is located on the Fraser River in Maple Ridge, B.C. The facility is focused on western red cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. The facility consists of a three-line sawmill, a planer mill and dry kilns. In late 2010, the Company spent $2.0 million on a quad upgrade.

Acorn

The Acorn operation is located on leased land in Delta, B.C. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

B.C. Interior Operations

Adams Lake

Adams Lake is located near Kamloops, B.C. The mill manufactures kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets. Adams Lake has the capability to cut Douglas-fir as well as spruce-pine-fir ("SPF"), western red cedar, and hemlock. In 2003, a planer and sorter were installed at a cost of $6.8 million and an additional dry kiln was constructed at a cost of $1.0 million. In 2006 and 2007 we spent $32.1 million on an energy system, new hog and barker and infrastructure improvements to facilitate further growth and cost savings.

In 2007, to complete the overall plan for the site, the Company commenced the construction of a new sawmill at Adams Lake. Construction was completed on time at a cost of $100.3 million. The first line was commissioned in December 2008, had an extremely successful start-up and commenced full operation on April 20, 2009 on a one-shift basis, and has steadily increased operating hours and productivity since. This mill has a two-shift capacity of 325 MMbf.

The new mill has been specifically designed to match the current and future timber resource in the area and to address the challenges of sawing timber affected by the Mountain Pine Beetle. The mill incorporates proven technology that materially improves the operating efficiency and cost structure of the Adams Lake operation.

In 2010, Interfor acquired a timber tenure in the Kamloops region from Weyerhaeuser Company Limited to support the increased fibre requirements of the Adams Lake sawmill, adding approximately 275,000 m^3 of annual allowable cut.

Grand Forks

Our Grand Forks mill was acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. The mill is located in the southern interior of B.C. approximately 100 kilometres from Castlegar on a 75 acre site. We also acquired timber tenures with an allowable annual cut of 502,000 m^3. The two line mill manufactures kiln dried lumber for the U.S. and Canadian construction markets as well as the housing market in Japan. Grand Forks cuts 60% SPF and 40% fir-larch. In 2006, the previous owner completed a modernization and upgrade of the sawmill with a new planermill and two new thermal oil kilns.

Castlegar

Our Castlegar facilities were acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. In addition to timber tenures with an allowable annual cut of 491,000 m^3, the facility includes a sawmill, dry kilns and planer and manufactures fir-larch, SPF, cedar and hemlock dimension lumber. The operation includes a complete transportation system for moving logs on Arrow Lake. The operation of the mill was curtailed from February, 2008 through June, 2010 due to poor market conditions and an unfavourable cost structure. Marked improvements to the cost structure through changes in the operating configuration achieved with the support of the mill's employees and other local stakeholders allowed the mill to restart in July, 2010.

U.S. Operations

Gilchrist

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. In 2001 the previous owner completed modernization of the facility to efficiently convert small diameter logs. The mill primarily processes lodgepole pine, ponderosa pine and white fir to produce a wide range of specialty and dimension lumber products. The mill has an on-site cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill. In 2005 and 2006 we installed six new dry kilns at a cost of US$5.7 million to replace obsolete kilns and increase drying capacity.

Port Angeles

The Port Angeles mill was newly constructed in 1998. It is situated in Port Angeles, Washington on a 64 acre site near a major highway and waterways which are convenient for shipping lumber and chips as well as for receiving logs at the mill. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export. In 2005, we modified the dry kilns at a cost of US$1.1 million to increase drying capacity. We also installed a new planer grade optimizer, trimmer and sorter at a cost of US$5.0 million to increase planer capacity and significantly reduce planing costs. In 2006 and 2007, we constructed a new primary saw line at a cost of US$18.3 million to increase recovery and lumber production. In October 2007, we installed a new log merchandiser, planer and planer infeed at a total cost of US$5.8 million.

Beaver

The Beaver sawmill consists of a single line 20' dimension sawmill on a 45 acre owned site originally constructed in 1991 by Portac Inc. We acquired the assets on September 30, 2008. The boiler, dry kilns, and planermill are situated approximately 15 kilometres south of the sawmill on a 29 acre site leased from the City of Forks. The operation is 75 kilometres west of our Port Angeles facility and is a strong strategic fit with that operation. The mill has traditionally produced hemlock, Douglas-fir and spruce products for domestic markets. Recently we have added some export products to complement the domestic programs.

Molalla

The Molalla mill was acquired in May 2005. It is located in Molalla, Oregon approximately 50 kilometres southeast of Portland. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market. The mill's machine centres were fully optimized by the previous owners. A number of infrastructure improvements were undertaken in 2005 and 2006 at a cost of US$5.8 million. In 2006, we also completed the construction of two dry kilns for US$2.4 million and a new planermill complex with grade optimization for US$10.3 million.

Cedarprime

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. The plant has a siding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 20 million board feet of finger-jointed and cut-stock products for both offshore and North American markets. Some of the products are sold under the brand name CEDARPRIME®.

SALES, MARKETING AND COMPETITIVE POSITION

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number may be, in certain product lines, lower cost producers than Interfor.

The following table shows our lumber sales by geographic area and total sales by product line for the past five years:

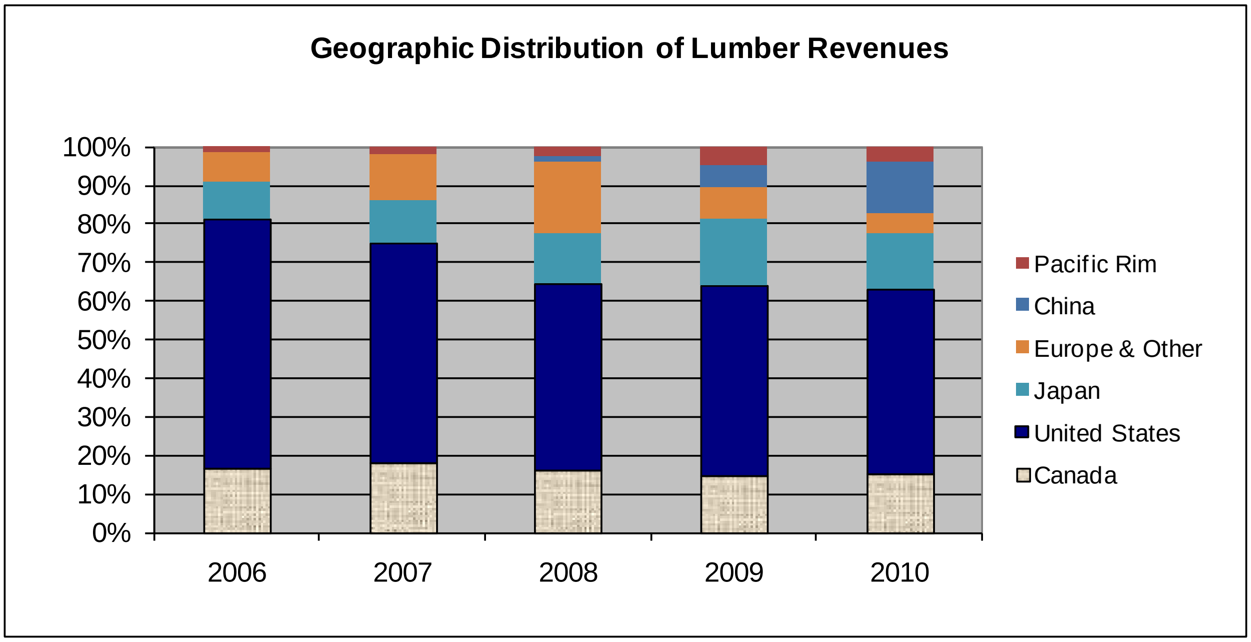
	Years ended December 31				
	2010	**2009**	**2008**	**2007**	**2006**
	(thousands of dollars)				
Lumber					
— Canada	$ 70,247	$ 40,886	$ 45,996	$ 76,909	$ 102,996
— U.S.A	214,965	135,576	139,394	241,398	393,222
— Japan	65,314	48,726	35,766	46,237	59,235
— China	61,384	16,305	3,251	282	222
— Other export	40,437	34,369	61,554	57,873	55,480
Offshore transportation and handling	29,636	12,765	11,473	11,769	14,397
	481,983	288,627	297,434	434,468	625,552
Logs	79,763	60,443	103,620	118,571	103,250
Wood chips and other by-products	56,217	34,349	30,610	50,260	41,868
Contract services and other	7,655	6,356	5,557	7,709	53,769
Total sales	$625,618	$389,775	$437,221	$611,008	$824,439

Lumber Sales

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodeling market in North America has become a significant consumer of lumber and has lessened the impact of fluctuations in new housing starts. In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and maintain product diversification. The Company has a particular customer and product base in various countries, providing us with a diversified sales profile, including targeting the rapidly growing Wood Frame Construction market in China. Product and market diversification is particularly important for B.C. Coast producers where the variability inherent in the log resource produces a much wider spectrum of product sizes and quality than is the case in the B.C. Interior or U.S. Pacific Northwest (the “PNW”). A continuing priority for us is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into two sales groups to leverage global expertise: i) Export and ii) North American Sales Groups. Interfor Japan Ltd., with an office in Tokyo, has developed niche markets and has increased sales directly to end users. We also have an office in France. The major market for our cedar lumber continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, China, Japan, and Australia. North American dimension and stud lumber produced in Canada and the U.S. is sold out of our office in Bellingham, Washington to leverage our U.S. expertise and to provide a more diverse customer base for the Canadian mills in terms of geographic and market sectors.

The following graph shows the percentage of lumber sales revenue to our major markets in the past five years:



Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade, and species of log to suit market conditions and each mill's cutting preferences. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chip and Sawmill Residuals Sales

As a by-product of lumber production, our sawmills produce wood chips. Essentially all of our wood chips produced in B.C. are sold under short and long-term contracts to pulp producers. In general, wood chips produced on the B.C. Coast are sold at prices related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the wood chips produced in the B.C. Interior are sold at current market prices for chips.

Chips from our Washington and Oregon operations are sold to pulp producers or fibre board manufacturers under short-term arrangements.

DISTRIBUTION

We use various modes of surface transportation to deliver our lumber products. Shipments to export markets are made in container and breakbulk vessels while shipments of lumber within North America are made by truck and rail. The majority of breakbulk shipments are carried by Seaboard International Shipping Company Limited (Barbados) which is a wholly-owned subsidiary of Seaboard Shipping Company Limited in which we have a 60.5% interest as at December 31, 2010. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C., we own short line railroads to connect to mainlines for shipping lumber and chips.

In January, 2011 Seaboard Shipping Company Limited became a wholly-owned subsidiary of Interfor.

TIMBER SUPPLY

British Columbia

The Province of British Columbia (the "Crown") owns about 95% of the timberlands from which the majority of timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest landowners.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for management obligations and stumpage fees payable to the Crown.

Our timber supply needs are met by a combination of internal logs harvested from our own timber tenures, long-term trade and supply agreements, and by purchases on the open market. When operating at normal capacity, our mills in BC would require approximately one-third of their log supply from external sources.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an allowable annual cut ("AAC") of approximately of 3.7 million cubic metres (m^3). The majority of Interfor's tenures are long-term (15 and 25 year) renewable agreements that are generally replaced every five years.

On the Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the Interior, the species mix consists of SPF, Douglas-fir, fir-larch and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-third of the harvest currently comes from second growth stands on the coast, this amount is expected to increase significantly over the next several decades.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FLs and TFLs and other cutting rights in each region for the periods specified. They also show the volume of purchases and sales during that period.

	Years ended December 31					
B.C. Operations	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**
	(thousands of cubic metres)					
Allowable Annual Cut (1)						
— Forest Licences	2,701	2,426	2,418	2,084	2,105	2,325
— Non Replaceable Forest Licences	220	313	313	375	155	155
— Tree Farm Licences	801	854	867	196	262	272
— Discretionary Annual Harvest Levels (2)	40	40	40	40	40	65
	3,762	3,633	3,638	2,695	2,562	2,817
Log Production						
— Coast		1,522	1,081	1,754	1,655	2,082
— Interior		1,139	214	127	112	299
Total Log Production		2,661	1,295	1,881	1,767	2,381
Log Purchases		1,343	794	447	1,316	1,487
Log Sales		1,081	919	1,319	1,223	1,190

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).
(2) Volumes not included in AAC.

U.S. Pacific Northwest

Timber supply in the PNW is sourced from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. About 70% of the log supply in the PNW comes from land that is owned by industrial and small private landowners, while the remainder is sourced from State, Federal and tribal lands.

Our timber supply requirements in Washington are heavily weighted to western hemlock with smaller volumes of Douglas-fir and sitka spruce. In Molalla, the specie mix is weighted to Douglas-fir with smaller volumes of western hemlock and white fir. Both the Washington mills and Molalla depend on private industrial landowners and small private landowners for the majority of their supply. This timber is supplemented with State, Federal, and tribal volumes in the case of the Washington mills.

In Gilchrist, log purchases consist primarily of lodgepole pine, ponderosa pine and white fir that have come from second growth harvesting and the thinning of young stands from surrounding National Forests.

The total 2011 log supply requirement for the mills in the U.S. is projected to be supplied from various sources, estimated to be as follows:

U.S. Pacific Northwest Operations	**Expected Sources of Timber 2011**
State and Federal Lands	45%
Industrial Lands	46
Private Lands	9
	100%

Forestry and Logging in B.C.

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*. The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

Our Company is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We pay stumpage to the Province for timber harvested on Crown land according to market pricing systems in place on the Coast and in the Interior. In addition the Crown charges an annual rent based on the AAC for each licence to cover general administration and fire preparedness.

Our Coastal logging operations are widely dispersed in primarily remote locations between Vancouver and Prince Rupert. Our woodlands harvesting activities are performed entirely by independent logging contractors.

Our Interior woodlands operations are located at Adams Lake, northeast of Kamloops, and in the Kootenay region at Nakusp and Grand Forks.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. These and other factors are described in the Selected Quarterly Financial Information section of our Management Discussion and Analysis for the year ended December 31, 2010, a copy of which is available on SEDAR at www.sedar.com.

CAPITAL EXPENDITURES

Our acquisitions and capital expenditures on sawmill and logging operations and timber holdings are as shown in the following table:

	Years ended December 31				
	2010	**2009**	**2008**	**2007**	**2006**
	(thousands of dollars)				
Acquisitions					
Land, buildings, equipment					
— Manufacturing	—	—	$52,885	—	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	40,148	—	—
	—	—	$93,033	—	—
Other capital expenditures					
Land, buildings, equipment					
— Manufacturing and other	$10,897	$20,752	$72,911	$47,948	$71,176
— Forestry and logging	15	29	1,365	130	733
Logging roads and timber	31,398	6,811	17,512	28,340	18,694
	42,310	27,592	91,788	76,418	90,603
Total	$42,310	$27,592	$184,821	$76,418	$90,603

Our capital expenditures over the five years ended December 31, 2010 were financed through internally generated funds, through our bank lines and through proceeds generated from the sale of surplus land and other non-core and surplus logging and manufacturing assets.

HUMAN RESOURCES

In B.C., we directly employ approximately 950 people in our logging and manufacturing operations and corporate offices. The United Steel Workers (USW) is the certified bargaining agent for approximately 500 of these people. The agreement with the USW for the B.C. Coast expired on June 14, 2010, while the Southern Interior USW agreement expired on June 30, 2009. The Canadian Marine Service Guild (CMSG) represents 16 employees, and their collective agreement expires September 30, 2011. Negotiations with the USW regarding renewal of the expired Southern Interior USW agreement are ongoing, but employees continue to work under the terms of the expired agreement with no workplace disruptions.

In the U.S., we employ approximately 415 employees in our sawmill and remanufacturing operations in Washington and Oregon and in our office located in Bellingham, Washington.

Our employees are governed by a Policy Manual, including a Code of Conduct, Environment Policy, Health and Safety Policy, Disclosure Policy, Whistleblower Policy, Financial Reporting Policy, Internet, Email and Computer Use Policy, Compensation Policy, and Insider Trading Policy. The Code of Conduct may be found on SEDAR at www.sedar.com. The Environment and Safety Policies are described below. Employees are also protected by a Privacy Policy. Our employees, management and directors have adopted the following Core Values:

Core Values

We will conduct ourselves with honesty, integrity and professionalism.

- **People:** People are the foundation of our business.
- **Safety:** Safety is a prerequisite for work.
- **Environment:** Environmental integrity must be maintained in everything we do.
- **Customers:** Customers pay our way.
- **Shareholders:** Returns to our shareholders facilitate investment, employment, and public benefits.

We Are Responsible For Our Own Success

HEALTH AND SAFETY

Our Health and Safety Policy embodies our commitment to the health, safety and well-being of all employees.

Our Board approved the policy and established a committee of the Board to monitor these safety commitments. The Environment and Safety Committee of the Board (the "E&S Committee") is mandated to monitor the implementation and maintenance of our policy of ongoing commitment to health and safety values and principles with continuous operational improvement. The E&S Committee ensures that our management develops, implements and maintains a comprehensive safety program.

Safety is a core value for us. We maintain an active and comprehensive safety program at each of our operations.

We continued to make good progress at each of our operations and our injury metrics in 2010 were comparable to 2009. Our Medical Incident Rate ("MIR") increased to 3.2 from 2.5 and our Lost Time Accident ("LTA") frequency decreased to 1.1 from 1.2 when compared to 2009.

Health and Safety Policy

Health and Safety is the uncompromised right and responsibility of all employees.

- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations.
- We will monitor and report regularly on our Health and Safety performance.

International Forest Products Limited is committed to the health, safety, and well being of all employees.

THE ENVIRONMENT

Our Environmental Policy embodies our commitment to responsible stewardship of the environment.

Our Board approved the policy and established a committee of the Board to monitor our commitment to principles, values and policies on environment matters.

Management has implemented an environmental compliance program. Audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

Our Coast and Adams Lake woodlands have been certified to the Sustainable Forestry Initiative® Program ("SFI") as an international standard for certification of forest land. The SFI program is a comprehensive system of principles, objectives and performance measures that combine the perpetual growing and harvesting of trees with the protection of wildlife, plants, soil and water quality.

Interfor has obtained Forest Stewardship Council certification in the mid-coast Timber Supply Area as part of the Coast Forest Conservation Initiative.

We maintain an Environmental Management System ("EMS") for all of our manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Each manufacturing business unit is responsible for compliance and ensuring the EMS is functioning as intended.

We have also received Chain-of-Custody certification that tracks certified logs coming from sustainable forests through the manufacturing process for certain mills.

We are a global leader in environmental management through the application of science–based principles, collaborative approaches, sustainable forest practices and independent certifications. We were a recipient of the 2000 Millennium Business Award from the United Nations Environmental Programme and the International Chamber of Commerce, a co-recipient of World Wildlife Fund's Gift to the Earth award in 2007 and a recipient of an SFI Conservation Leadership award in 2009 for a partnership with Aboriginal people along British Columbia's Pacific Coast.

Additional information about our environmental work, audit summaries and Forest Sustainability Report is available on our website at www.interfor.com.

Environment Policy

We are committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

RESEARCH AND DEVELOPMENT

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques, and anti-sapstain applications. We also are committed to applied research and development in the areas of environment, health and safety, forest management and product and market development. We also conduct product and market research on our own in Canada and the U.S.

CAPITAL STRUCTURE

The authorized share structure of the Company consists of:

- 100,000,000 Class "A" Subordinate Voting shares without par value ("Subordinate Voting Shares");
- 1,700,000 Class "B" Common shares without par value ("Multiple Voting Shares"); and
- 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof ("Preference Shares").

The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

Subordinate Voting Shares

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Equity Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board except in certain circumstances where the holders of Preference Shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference Shares.

Multiple Voting Shares

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes on a poll for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board except one member to be elected by the holders of the Subordinate Voting Shares and, in certain circumstances, two Directors to be elected by the holders of Preference Shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference Shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

Rights on Take-Over Bids and Conversion of Multiple Voting Shares

Any transfer of a Multiple Voting Share:

a. by any of W.L. Sauder's executors, administrators, or other trustee or legal representative with respect to his personal estate, members of his immediate family, their descendants and controlled companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Preference Shares, and Multiple Voting Shares at an equivalent price; or

b. by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the Multiple Voting Shares into Subordinate Voting Shares.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

a. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or

b. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own equity shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding equity shares, or (ii) the issue of equity shares by way of a stock dividend other than an ordinary course stock dividend.

Preference Shares

The Preference Shares of each series rank on a parity with the Preference Shares of every other series, and are entitled to preference over the Equity Shares and over any other shares ranking junior to the Preference Shares with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

MARKET FOR SECURITIES OF THE COMPANY

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A. The following table sets out the market price ranges and trading volumes for the Subordinate Voting Shares on the Toronto Stock Exchange for each month during 2010 (January 1, 2010 through December 31, 2010).

Toronto Stock Exchange (TSX) 2010 Trading Volumes Ticker: IFP.A			
Month	**High**	**Low**	**Volume**
January	5.10	4.14	837,283
February	4.90	4.10	2,204,801
March	5.44	4.27	1,282,963
April	6.25	5.22	2,128,620
May	5.60	4.90	1,830,036
June	5.50	3.92	775,663
July	4.40	3.71	520,873
August	4.30	3.21	1,260,196
September	4.10	3.22	1,582,505
October	5.19	3.78	3,574,166
November	5.27	4.33	1,158,547
December	5.60	4.50	1,200,935

TRANSFER AGENTS

The transfer agent for our Subordinate Voting Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

DIRECTORS AND OFFICERS

Directors as of February 9, 2011

The following table sets out the Company's directors as of February 9, 2011, their respective municipalities of residence, principal occupations within the past five years and the period during which each director has served as a director.

Name and Municipality of Residence	Director Since	Principal Occupations	From	To
LAWRENCE I. BELL* Vernon, BC, Canada	April 1998	Corporate Director	2007	Present
		Non-executive Chairman British Columbia Hydro and Power Authority	2003	2007
		Chairman and Chief Executive Officer British Columbia Hydro and Power Authority	2001	2003
DUNCAN K. DAVIES Vancouver, BC, Canada	November 1998	President and Chief Executive Officer International Forest Products Limited	2000	Present
		President and Chief Operating Officer International Forest Products Limited	1998	2000
HAROLD C. KALKE West Vancouver, BC, Canada	July 2000	President and Founder Kalico Developments Ltd., a real estate development and management company	1971	Present
PETER M. LYNCH Toronto, ON, Canada	October 2006	Corporate Director	2010	Present
		Executive Vice President and Director Grant Forest Products Inc. (and its predecessor)	1993	2010
GORDON. H. MacDOUGALL West Vancouver, BC, Canada	February 2007	Vice Chairman and Director Connor, Clark & Lunn Investment Management Ltd., an asset management firm	2007	Present
		Partner Connor, Clark & Lunn Investment Management Partnership	1996	2006
		Head of Portfolio Strategy Team and Head of Client Solutions Team Connor, Clark & Lunn Investment Management Ltd.	1996	2006
J. EDDIE McMILLAN Perdido Key, Florida, USA	October 2006	Independent Business Consultant	2002	Present
		Executive Vice President – Wood Products Group Willamette Industries, Inc.	1998	2002
E. LAWRENCE SAUDER Vancouver, BC, Canada	April 1984	Non-Executive Chairman International Forest Products Limited	2008	Present
		Chief Executive Officer Sauder Industries Limited, a manufacturer and distributor of building products	2010	Present
		Chairman Sauder Industries Limited	2007	Present
		Non-executive Chairman Hardwoods Distribution Income Fund	2008	Present
		Non-executive Vice Chairman International Forest Products Limited	2004	2008
		President Sauder Industries Limited	1988	2004

JOHN P. SULLIVAN Vancouver, BC, Canada	May 2001	Corporate Director	2003	Present
		Vice President International Forest Products Limited	2001	2003
DOUGLAS W.G. WHITEHEAD North Vancouver, BC, Canada	April 2007	Non-Executive Chairman Finning International Inc., a distributor of Caterpillar products and support services	2008	Present
		President and Chief Executive Officer Finning International Inc.	2000	2008

*Lead Director

To our knowledge, only one of the Company's directors has in the last 10 years been an officer or director of a company that, while the person was acting in that capacity, was subject to bankruptcy or similar proceedings or securities regulatory sanctions described in National Instrument 51-102 *Continuous Disclosure Obligations*. From 1993 to 2010, Mr. Lynch was an executive director of Grand Forest Products Inc. ("Grant Forest"). On June 25, 2009, Grant Forest filed and obtained protection under the Companies' Creditors Arrangement Act in order to restructure its business affairs.

The term of office for all current directors will end on the day of the next Annual General Meeting of the Company's shareholders. The next Annual General Meeting is scheduled for May 17, 2011.

Committees of the Board

The Company currently has 4 Committees of the Board of Directors: Audit Committee, the Corporate Governance & Nominating Committee, the Management Resources & Compensation Committee and the Environment & Safety Committee. The members of each Committee are indicated below.

	Audit Committee	Management Resources & Compensation Committee	Corporate Governance & Nominating Committee	Environment & Safety Committee
Lawrence I. Bell	x		x	
Duncan K. Davies				
Harold C. Kalke			x	x
Peter M. Lynch	x			Chair
Gordon H. MacDougall	Chair	X		
James E. McMillan		X	Chair	
E. Lawrence Sauder				x
John P. Sullivan		X	x	
Douglas W.G. Whitehead	x	Chair		

Officers as of February 9, 2011

The following table sets out the Company's officers as of February 9, 2011, their respective municipalities of residence and their principal occupations for at least the last five years:

Name and Municipality of Residence	Positions Held	From	To
DUNCAN K. DAVIES Vancouver, BC, Canada	President and Chief Executive Officer International Forest Products Limited	2000	Present
JOHN A. HORNING West Vancouver, BC, Canada	Senior Vice President, Chief Financial Officer and Corporate Secretary International Forest Products Limited	2007	Present
	Senior Vice President and Chief Financial Officer International Forest Products Limited	2002	2007
SANDY M. FULTON Blaine, Washington, USA	Senior Vice President and Chief Operating Officer International Forest Products Limited	2007	Present
	Senior Vice President, U.S. Operations International Forest Products Limited	2004	2007
OTTO F. SCHULTE Black Creek, BC, Canada	Vice President, Coastal Woodlands International Forest Products Limited	2000	Present
RICHARD J. SLACO Delta, BC, Canada	Vice President and Chief Forester International Forest Products Limited	2002	Present
STEPHEN D.A. WILLIAMS North Vancouver, BC, Canada	Vice President, Finance and Administration	2010	Present
	Vice President and Corporate Treasurer International Forest Products Limited	2006	2010

SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As at December 31, 2010, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 2,674,157 Subordinate Voting Shares representing approximately 5.77% of the outstanding Subordinate Voting Shares and 1,011,735 Multiple Voting Shares representing approximately 99.6% of the outstanding Multiple Voting Shares. In respect of the foregoing, the outstanding Multiple Voting Shares are owned by Sauder Industries Limited. Sauder Industries Limited is indirectly owned in part by Mr. Sauder, the non-executive Chairman of the Company. Mr. Sauder controls or directs the exercise of the voting rights attached to the voting securities of the Company held by Sauder Industries Limited with respect to routine matters such as the election of directors and appointment of auditors.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the commencement of our most recently completed financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

LEGAL PROCEEDINGS

We are not a party to, and our property is not the subject of, any material legal proceedings which are currently in place or which we know to be contemplated.

INTEREST OF EXPERTS

KPMG LLP are the external auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Accountants of British Columbia and the applicable rules and regulations thereunder.

AUDIT COMMITTEE INFORMATION

The Audit Committee Terms of Reference

The Audit Committee (the "Committee") is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to:

a. the integrity of the Company's financial statements,

b. the financial reporting process,

c. the systems of internal accounting and financial controls,

d. the professional qualifications and independence of the external auditors,

e. the performance of the external auditors, risk management processes,

f. financial plans,

g. pension plans, and

h. compliance by the Company with ethics and legal and regulatory requirements.

The Committee's Terms of Reference, attached as Appendix "A" to this Annual Information Form, sets out its responsibilities and duties.

The Committee met 4 times in 2010 in conjunction with regularly scheduled Board meetings.

Composition of the Audit Committee

The Committee consists of 4 directors: Gordon H. MacDougall (Chair), Lawrence I. Bell, Peter M. Lynch and Douglas W.G. Whitehead. Each Committee member is independent and financially literate in compliance with *Multilateral Instrument 52-110 – Audit Committees*.

Relevant Education and Experience

The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his responsibilities as a member of the Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Company to prepare its annual and interim financial statements.

Mr. Gordon H. MacDougall

Mr. MacDougall is the Chairman of the Committee. Mr. MacDougall is Vice Chairman and Partner of Connor, Clark & Lunn Investment Management Ltd., an asset management firm. From 1996 to 2006, he was a Partner at Connor, Clark & Lunn Investment Management Partnership and Director, Head of Portfolio Strategy Team and Head of Client Solutions Team of Connor, Clark & Lunn Investment Management Ltd. He previously served as lead director for Intrawest Corporation. Mr. MacDougall is currently the Chairman of the Investment Committee and a director of Vancouver Foundation.

He holds a CFA from the University of Virginia, a MBA from the University of Pittsburgh and a B.Comm. in Finance from Sir George Williams University (now Concordia University).

Mr. MacDougall has served on the Committee since April 2007 and chaired the Committee since April 2009.

Mr. Lawrence I. Bell

Mr. Bell is a Corporate Director. In addition to being a director of the Company, he is a director of Goldcorp Inc., Capstone Mining, Silver Wheaton Corp. and Matrix Asset Management Inc. Mr. Bell is a fellow of the Institute of Corporate Directors. From 2003 until his retirement in 2007, Mr. Bell served as the non-executive Chairman of British Columbia Hydro and Power Authority. From 2001 to 2003, he was Chairman and Chief Executive Officer of British Columbia Hydro and Power Authority. He has also served as the Chairman of the Canada Line (Rapid Transit Project), Chairman of the Board of Governors of the University of British Columbia, Chairman and President of the Westar Group and Chief Executive Officer of Vancouver City Savings Credit Union. In addition, he has served on the boards of a number of private and public companies, including Kimber Resources Inc., B.C. Gas, Canadian Hunter and Miramar Mining Corporation, and as a trustee of Hardwoods Distribution Income Fund. In the British Columbia public sector, Mr. Bell has served as Deputy Minister of Finance and Secretary to the Treasury Board.

Mr. Bell holds a M.A. in Economics and has received numerous awards for his public service.

Mr. Bell has served on the Committee since April 2009.

Mr. Peter M. Lynch

Mr. Lynch is a Corporate Director. From 1993 to 2010, he was the Executive Vice President and a director of Grant Forest Products Inc. (and its predecessor), a producer of OSB and engineered wood products. Prior thereto, he practiced law.

Mr. Lynch holds a LL.B from Osgoode Law School and is a member of the Law Society of Upper Canada, the Canadian Bar Association and the Ontario Bar Association.

Mr. Lynch has served on the Committee since April 2009.

Mr. Douglas W.G. Whitehead

Mr. Whitehead is currently the Chairman of Finning International Inc. ("Finning"), a distributor of Caterpillar products and support services. From 2000 to 2008, he was the President and Chief Executive Officer of Finning. Prior to joining Finning, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. Mr. Whitehead is also currently a director of Ballard Power Systems Inc., Belkorp Industries and Inmet Mining Corporation. Over the years, he has served as director of Terasen Inc., Fletcher Challenge Canada, Finlay Forest Industries and Timberwest Forest Limited.

Mr. Whitehead holds a MBA from the University of Western Ontario and a B.Sc. in Engineering from the University of British Columbia.

Mr. Whitehead has served on the Committee since April 2009.

AUDIT FEES

The Committee annually recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation is approved by the Committee before the services commence.

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2010 and December 31, 2009 were as follows:

	2010 Fees	**2009 Fees**
Total audit fees	451,000	392,500
Audit-related fees (1)	9,300	33,300
Tax fees (2)	266,678	17,875
All other fees	50,500	36,350
TOTAL	777,478	$ 480,025

(1) Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan, subsidiary companies, and advice and assistance related to accounting issues.

(2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border transfer pricing and sales tax.

CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct", can be found on our website at www.interfor.com.

ADDITIONAL INFORMATION

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular.

Additional financial information about the Company is provided in the Company's financial statements and Management's Discussion and Analysis for the year ended December 31, 2010.

Copies of the documents referred to above are available on the SEDAR website at www.sedar.com and may also be obtained upon request from:

International Forest Products Limited
Corporate Secretary
3500-1055 Dunsmuir Street
Vancouver, British Columbia,
Canada, V7X 1H7
Telephone: 604 689 6800
Facsimile: 604 689 6825
E-mail: info@interfor.com

Additional information relating to the Company may be found on the SEDAR website at www.sedar.com.

Appendix "A"

AUDIT COMMITTEE
Terms of Reference

PURPOSE

The Audit Committee has been established by the Board and under powers delegated to it by the Board is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board's objectives.

COMPOSITION AND TERM OF OFFICE

1. The Audit Committee shall consist of four or more Directors.

2. All members of the Audit Committee shall be independent within the meaning of *Multilateral Instrument 52-110-Audit Committees.*

3. All members must be financially literate or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.

4. The Chairman of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.

5. A quorum shall consist of a simple majority.

DUTIES AND RESPONSIBILITIES

The Audit Committee shall perform the following functions, as well as any other functions specifically authorized by the Board:

General

1. Schedule regular meetings and meet, at a minimum, four times per year. Extraordinary meetings may be called by any member of the Audit Committee or at the request of the Chairman of the Board.

2. Appoint a Secretary who shall record the proceedings of the Audit Committee's meetings.

3. Report to the Board activities and recommendations, if any, requiring Board approval.

Financial Disclosure, Risk Management and Internal Controls

4. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company's:

   (a) annual and quarterly financial statements;

   (b) Management's Discussion and Analysis; and

   (c) annual and interim earnings press releases.

The review will involve direct discussions with Management and the Company's external auditor (the "Auditor"), including an opportunity for an in-camera meeting with the Auditor independent of Management.

Review and approve the disclosures required by applicable securities laws to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.

5. Review the process for certification of the interim and annual financial statements by the CEO and Chief Financial Officer ("CFO") and the certification made by the CEO and CFO.

6. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.

7. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.

8. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor's reports.

9. Review the principal risks of the Company and ensure that an effective risk management strategy is in place.

10. Review the Company's derivatives policies and activities, including details of exposures to banks and other counterparties.

External Auditor

11. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor's report and performing other audit, review or attest services for the Company.

12. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.

13. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.

14. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.

15. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor's firm and peer reviews.

16. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.

17. Resolve disagreements between Management and the Auditor regarding financial reporting.

18. Review material written communications between the Auditor and Management.

Non-Audit Services

19. Pre-approve non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval.

Company Policies

20. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.

21. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.

22. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

Insurance

23. Review the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and make recommendations for their renewal or replacement.

AUTHORITY

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.

2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.

GLOSSARY

"Adjusted EBITDA" EBITDA less other income and other income of investee company.

"**Allowable Annual Cut (AAC)"** The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

"Bone Dry Unit (BDU)" A unit of measurement for wood chips and other sawmill by-products, being equal to 2,400 pounds.

"**Cash flow from operations**" Cash generated from operations before considering changes in operating working capital.

"**Custom cutting**" An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

"**EBITDA**" Earnings before interest, income taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of plant and equipment.

"**Forest Licence**" Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

"**Invested Capital**" The total of bank indebtedness, short term advances from the Seaboard partnership, long-term debt and shareholders' equity.

"**Invested Capital, adjusted**" Invested Capital less cash, deposits and short term advances from the Seaboard partnership.

"**m³**" A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

"**Mfbm**" or "**Mbf**" One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

"**Net debt**" Total Debt less cash, deposits and short term advances from the Seaboard partnership.

"Pre-tax return on total assets" Earnings (loss) before taxes, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber, U.S. duty refunds, net and Other income divided by closing total assets.

"**Return on average Invested Capital, adjusted**" Net earnings (loss) plus after tax interest cost (excluding interest income on U.S. duty refund, net of special charge) divided by the average of opening and closing Invested Capital, adjusted.

"**Return on average shareholders' equity**" Net earnings (loss) divided by the average of opening and closing shareholders' equity.

"**Silviculture**" The art and science of controlling the establishment, growth, composition, health and quality of forests.

"**Stumpage**" A charge assessed by the provincial government on all Crown timber harvested.

"**Sustained yield (sustainable log supply)"** The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

"**Timber Licence**" Non-replaceable, area based, Crown timber cutting rights.

"**Total Debt**" The total of bank indebtedness, short-term advances from the Seaboard partnership, long-term debt.

"**Tree Farm Licence**" A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

"**Value-added product**" A commodity or other product that has been further processed to increase financial value.

"**Volumetric unit**" A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet. A volumetric unit represents between 60% and 85% of the chips in a Bone Dry Unit, depending on the species.

"**Whitewood**" Includes the Coastal species hemlock, Balsam Fir, Douglas-fir and spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

DIRECTORS AND OFFICERS

DIRECTORS

L.I. Bell (Lead Director) - Vernon, BC

D.K. Davies - Vancouver, BC

H.C. Kalke - West Vancouver, BC

P.M. Lynch - Toronto, ON

G.H. MacDougall - West Vancouver, BC

J.E. McMillan - Perdido Key, Florida

E.L. Sauder (Chairman of the Board) - Vancouver, BC

J.P. Sullivan - Vancouver, BC

D.W.G. Whitehead - North Vancouver, BC

OFFICERS

E.L. Sauder – Chairman

D.K. Davies - President and Chief Executive Officer

J.A. Horning - Senior Vice President, Chief Financial Officer and Corporate Secretary

S.M. Fulton - Senior Vice President and Chief Operating Officer

S.D.A. Williams - Vice President, Finance and Administration

O.F. Schulte - Vice President, Coastal Woodlands

R.J. Slaco - Vice President and Chief Forester

CORPORATE INFORMATION

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The Toronto Stock
Exchange
Symbol: IFP.A

Auditors
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Transfer Agent
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