



## International Forest Products Limited

Vancouver, B.C.

August 4, 2011

### **Lower Prices Impact Interfor's Q2 Results Equity issue bolsters the Company's balance sheet; credit facilities extended to 2015**

**INTERNATIONAL FOREST PRODUCTS LIMITED** ("Interfor" or the "Company") (TSX: IFP.A) reported a net loss of \$5.3 million or \$0.10 per share for the second quarter of 2011. Included in the Company's accounts for the quarter was the effect of unrecognized tax assets of \$2.2 million and other one-time items of \$0.2 million.

Excluding these items, Interfor recorded a net loss of \$2.9 million or \$0.05 per share compared to a net loss of \$0.5 million or \$0.01 per share in the immediately preceding quarter and a loss of \$0.6 million or \$0.01 per share in the second quarter of 2010.

Also included in the Company's accounts in the second quarter was a recovery of share-based compensation expense of \$3.1 million or \$0.06 per share compared with a provision of \$3.5 million (\$0.07 per share) in the first quarter and a recovery of \$0.7 million (\$0.01 per share) in the second quarter of 2010.

EBITDA for the quarter (adjusted to exclude one-time items and "other income") was \$11.6 million, down \$1.1 million from the first quarter and down \$1.7 million from the second quarter of 2010.

Lumber production in the second quarter was 325 million board feet, down 7 million board feet versus the first quarter as log availability affected operating rates at a number of the Company's mills in the quarter. Sales volumes, including wholesale activities, increased 21 million board feet to 324 million board feet versus 313 million board feet in the first quarter.

Sales to China increased to 39% of the Company's non-wholesale shipments versus 28% in the first quarter as shipping capacity was added to address the issues which impacted shipments in the first quarter.

In the quarter, SPF 2X4 in the North American market was US\$240, down US\$56 versus the first quarter and Hem-Fir studs were down US\$43. The drop in market price levels was compounded by the rising value of the C\$ which averaged US\$1.033 in the second quarter versus US\$1.015 in the first quarter.

The compression of price spreads between higher grade products, standard framing lumber and utility and economy grades continued in the second quarter. The price of key Japanese grades increased 2-3% in the quarter while the price of certain cedar grades remained under pressure.

In the quarter, Interfor generated \$11.9 million in cash from operations after changes in working capital, up \$8.0 million versus the immediately preceding quarter. Capital spending in the quarter amounted to \$11.6 million including \$4.1 million on high return discretionary projects.

On April 8<sup>th</sup>, Interfor closed the bought deal equity issuance which had been announced March 18<sup>th</sup>. The transaction resulted in the issuance of 8,222,500 Class A Shares at a price of \$7 per share for gross proceeds of \$57.6 million (net \$54.9 million).

Net debt closed the quarter at \$93.1 million or 19% of invested capital versus \$147.4 million or 30% of invested capital at the end of the first quarter.

Subsequent to the end of the second quarter Interfor entered into an agreement with the members of its banking syndicate to extend its credit facilities to July 2015. All other terms and conditions remain substantially unchanged except for a reduction in pricing.

Business conditions remain uncertain. Sovereign debt issues in Europe and the U.S. continue to impact financial markets and the value of the C\$ while conditions in the U.S. housing market remain stagnant. Offshore activity levels remain strong although the impact of tighter credit conditions in China will need to be monitored going forward. Log

prices in the U.S. Pacific Northwest have dropped in recent weeks, as pressure from offshore markets has lessened. Log costs in the B.C. Interior will benefit from increased activity levels over the balance of the year.

In the face of ongoing market uncertainty Interfor will continue to balance production rates against market demand; capital spending will be managed relative to cash flow.

On August 2<sup>nd</sup>, Interfor was notified by B.C. Hydro ("Hydro") that its proposal under Hydro's Phase 2 Power Call to construct a 20 MW power plant at Grand Forks was not successful. The Company is continuing to review options to upgrade the Grand Forks sawmill. A decision in that regard is expected later this year.

### **FORWARD-LOOKING STATEMENTS**

This release contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words "will" and "is expected" and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign-currency exchange rates, and other factors referenced herein and in Interfor's 2010 Annual Report and Management Information Circular available on [www.sedar.com](http://www.sedar.com). The forward-looking information and statements contained in this report are based on Interfor's current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

### **ABOUT INTERFOR**

Interfor is one of the Pacific Northwest's largest producers of quality wood products. The Company has operations in British Columbia, Washington and Oregon, including two sawmills in the Coastal region of British Columbia, three in the B.C. Interior, two in Washington and two in Oregon. For more information about Interfor, visit our website at [www.interfor.com](http://www.interfor.com).

There will be a conference call on Friday, August 5, 2011 at 8:00 AM (Pacific Time) hosted by **INTERNATIONAL FOREST PRODUCTS LIMITED** for the purpose of reviewing the Company's release of its Second Quarter, 2011 Financial Results.

The dial-in number is **1-866-323-8540**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until August 19, 2011. The number to call is **1-866-245-6755 Passcode 963552**.

For further information:

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# International Forest Products Limited

## Second Quarter Report

### For the three and six months ended June 30, 2011

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## Management's Discussion and Analysis

Dated as of August 4, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and six months ended June 30, 2011 relative to 2010, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2011 and 2010 and for the three months ended March 31, 2011 and 2010, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2010 and 2009 filed on SEDAR at [www.sedar.com](http://www.sedar.com). The financial information contained in this MD&A has been prepared in accordance with IAS 34 *Interim Financial Reporting* and International Financial Reporting Standards ("IFRS") except as noted herein. In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for other income (expense) and other income of an associate company. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is not a defined term under IFRS, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

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

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

### Forward-Looking Statements

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

### Review of Operating Results

#### Overview

Interfor recorded a net loss of \$5.3 million, or \$0.10 per share for the second quarter of 2011 as compared to a net loss of \$3.5 million, or \$0.07 per share for the second quarter of 2010. For the first six months, 2011, the Company recorded a net loss of \$7.0 million, or \$0.14 per share as compared to a net loss of \$7.4 million, or \$0.16 per share for the first six months, 2010.

EBITDA and Adjusted EBITDA for the second quarter of 2011 were \$11.6 million and \$11.6 million, respectively,

compared to \$13.7 million and \$13.3 million for the second quarter, 2010. EBITDA and Adjusted EBITDA for the first half of 2011 were \$24.4 million and \$24.3 million, respectively, compared to \$23.7 million and \$23.3 million for the same period in 2010.

For the second quarter, 2011 the Company's net loss before restructuring costs, foreign exchange gains (losses), other one-time items and the effect of unrecognized tax assets was \$2.9 million, or \$0.05 per share as compared to a net loss of \$0.6 million, or \$0.01 per share for the second quarter of 2010. The Company recorded a recovery of share-based incentive compensation of \$3.1 million, or \$0.06 per share in the second quarter, 2011 as compared to a recovery of \$0.7 million, or \$0.01 per share for the same period, 2010.

For the first six months, 2011 the Company's net loss before restructuring costs, foreign exchange gains (losses), other one-time items and the effect of unrecognized tax assets was \$3.4 million, or \$0.07 per share as compared to a net loss of \$2.8 million, or \$0.06 per share for the first half, 2010. The Company recorded an expense of share-based incentive compensation of \$0.5 million, or \$0.01 per share for the first six months, 2011 as compared to a recovery of \$0.6 million, or \$0.01 per share for the same period, 2010.

North American lumber demand continued to be weak through the first half of 2011 and buyers remained cautious. U.S. housing starts returned to the lowest levels since the downturn began in 2008. In addition, severe weather conditions through the West, Midwest and East coast of North America hampered building starts, transportation and seasonal buying resulting in lower sales volumes through the first six months.

The surge in export markets, particularly China, has helped to offset reductions in domestic demand and provided some stability for pricing. In the second quarter, 2011 North American prices dropped with the average price reported by Random Lengths for Western SPF 2x4 #2&Btr reaching a low of US\$227 in May 2011, a decline of US\$65 from March 2011. Lower domestic prices impacted export pricing as well, particularly as China's consumption slowed toward the end of the quarter.

Results have also been impacted by a stronger Canadian dollar which, relative to its U.S. counterpart appreciated by 6% on average for both the second quarter, 2011 and for the six months, 2011 as compared to the same periods of 2010.

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for gross proceeds of \$57.6 million. For full details of the Offering see the short form prospectus filed on March 31, 2011 on [www.sedar.com](http://www.sedar.com).

The Company's results are now being prepared in accordance with International Financial Reporting Standards ("IFRS"). Several of the Company's accounting policies have changed and the presentation, financial statement captions and terminology used in this discussion and the accompanying unaudited financial statements may differ from that used in previously issued financial statements and quarterly and annual reports. The new policies have been consistently applied to all of the quarters presented and comparative information has been restated or reclassified unless otherwise noted. Further details on the conversion to IFRS are provided in the First Quarter Report for the three months ended March 31, 2011 in the Management's Discussion and Analysis under "Accounting Policy Changes" and in the notes to the Condensed Consolidated Unaudited Financial Statements as at and for the three months ended March 31, 2011 filed on [www.sedar.com](http://www.sedar.com).

## Sales

Lumber shipments improved by 65 million board feet for the second quarter, 2011, up 24% over the same quarter, 2010 and by 114 million board feet for the first half, 2011, up 21% over the first half, 2010. Increases reflect the impact of strong export demand. Shipments were challenged by weather-related logistical issues during the first quarter, 2011 but delays associated with railcar, truck and container availability did not impact the second quarter, 2011.

In the second quarter, 2011 shipments to China surpassed shipments to the U.S. and for the first half, 2011 shipments to China more than tripled those for the same period, 2010, driving the majority of growth in lumber sales volume. North American shipments declined almost 10% for the first half, 2011 as compared to 2010, as the protracted downturn continued to impact demand.

Relative to the same periods in 2010, unit lumber sales values declined by \$58 per mfbm, or 13% for the second quarter, 2011 and by \$22 per mfbm, or 5% for the first half, 2011.

2010 saw a rapid surge in lumber prices in the first four months with North American structural lumber prices peaking in April 2010. Industry-wide production curtailments in place through early 2010 resulted in inadequate inventories to

meet an uptick in demand caused by government spending incentives and a slight upward movement in U.S. housing starts. As producers ramped up supply, production quickly outpaced demand bringing the market back into a position of excess supply and by the end of the first half, 2010 lumber prices were falling rapidly.

In the first quarter, 2011 high export demand helped bolster North American prices. In the second quarter, with reports of U.S. housing starts returning to the lowest levels since the downturn began in 2008 and an exceptionally long and harsh winter, demand faded and prices dropped. The decline in domestic prices impacted export prices in China as well, particularly as China entered a seasonal slowdown in consumption.

Unit sales values were further impacted, though to a lesser extent, by the change in sales mix away from higher value cedar products and a decline in cedar prices in 2011 as compared to 2010. The stronger Canadian dollar also negatively affected sales returns.

In comparison to the same periods of 2010, pulp chip and other by-product revenues improved by \$3.4 million for the second quarter of 2011 and \$6.7 million for the first half, 2011, up by over 25% and corresponding to higher lumber production levels. Average chip prices improved by 17% in the second quarter, 2011 and 9% in the first half, 2011 as compared to the same periods, 2010, due to increasing prices in the pulp markets. Increased prices in the U.S. sawmills were offset by the stronger Canadian dollar on translation.

Compared to the same period, 2010, log sales improved by 45% or \$8.8 million and by 33% or \$12.3 million for the second quarter and first half, 2011 respectively. An increase of 20% in Canadian log sales volume in the second quarter, 2011 and 23% year-to-date relative to the same periods, 2010 reflects the impact of increased domestic demand for fibre, but is driven primarily by the considerable demand for logs from export markets. On the B.C. Coast, export log sales volume increased by 75% in the second quarter, 2011, and more than doubled in the first half, 2011 as compared to 2010.

The increase in export log shipments is reflected as well in the average sale price for log sales in B.C. In the second quarter, 2011 a shift in sales mix towards much higher value export logs as well as an increase of over 40% in sales realizations on export logs over the same period in 2010 resulted in an improvement of 21% to \$82 per cubic metre. In the first half, 2011 the impact of the shift in sales mix and increases in sales realizations over 2010 were tempered somewhat by sales in the first quarter, 2011 of smaller, lower value logs in the B.C. Interior as reflected in a smaller 9% increase to \$72 per cubic metre.

#### Operating Costs

Production costs for the second quarter of 2011 increased \$31.0 million, or 22%, and \$62.0 million, or 23%, for the first half of 2011, compared to the same periods in 2010.

Lumber production increased by 48 million board feet, or 17% in the second quarter, 2011 and by 122 million board feet, or 23% in the first half, 2011 as compared to the same periods of 2010. This was driven by increased operating rates in the U.S. Pacific Northwest and B.C. Interior divisions, particularly the Castlegar sawmill, which had been curtailed in the first half, 2010 and operated throughout the first half, 2011. Lumber production on the B.C. Coast was impeded in 2011 by the availability of logs as a result of reduced logging activity on the B.C. Coast in the first quarter, 2011 due in part to access issues caused by storm damage in late 2010.

Compared to the same period in 2010, B.C. log production grew by 27% to 796,000 cubic metres from 624,000 cubic metres in the second quarter, 2011 and by 27% to 1.6 million cubic metres from 1.3 million cubic metres for the first half, 2011. Increased logging activity on the B.C. Coast resulted in a 30% increase in log production in the second quarter, 2011 as compared to 2010 as the Company sought to catch up lost production due to storm related reductions and to take advantage of strong export markets. For the first half, 2011 this was coupled with significant increases in B.C. Interior logging resulting from increased fibre demands to meet increased operating rates and seasonality.

Unit cash conversion costs declined on average by 10%, quarter-over-quarter as compared to 2010 and by 9% for the first half, 2011 as compared to the first half, 2010. Increased per unit conversion costs resulting from reduced activity on the B.C. Coast were offset by improved unit costs in the U.S. sawmills as their increased production volumes drove down the Company's per unit cost of conversion. Unit costs for the U.S. sawmills were further improved by a stronger Canadian dollar on average for 2011 as compared to the periods in 2010.

As a result of strong export markets for logs in the U.S. Pacific Northwest, fibre supply remains tight and resulted in increases in log costs for the U.S. sawmills who source their logs through purchase and timber sale agreements. Competition for logs has increased their U.S.\$ log costs by 9%, quarter-over-quarter, and 13%, year-over-year as compared to the second quarter and first half, 2010. The impact of the increased log costs for the U.S. operations

was slightly mitigated by the stronger Canadian dollar.

In June, 2011 the Company finalized an insurance claim as compensation for lost profits and reimbursement of costs resulting from storm damage on the B.C. Coast which occurred in the late fall, 2010. The Company recorded \$0.5 million in the second quarter, 2011 and \$2.7 million for the first half, 2011. The diminished ability to log in storm damaged areas reduced the logs available for external sales and resulted in downtime for the B.C. Coastal sawmills and consequently, the insurance proceeds were netted against production costs.

Export taxes for the second quarter, 2011 increased by \$0.4 million, or 31% over the second quarter, 2010 despite the drop in Canadian shipment volumes to the U.S. by almost a third over the same period. For the first half, 2011, export taxes increased \$0.9 million, or 30% as compared to the same period, 2010 although there was a slight year-over-year decline in Canadian shipment volumes to the U.S.

Higher commodity lumber prices in the second quarter, 2010 drove export tax rates down from 15% to 10% on May 1, 2010, and from 10% to 0% on June 1, 2010. The decline in export tax rates prompted a surge in Canadian shipments to the U.S. in the second quarter, 2010 to take advantage of the lower or no export taxes. Export tax rates for 2011 remained constant at 15%.

Relative to the same periods of 2010, selling and administrative costs increased by \$1.0 million and \$1.8 million for the second quarter and first half, 2011 respectively. Increased staffing, particularly in selling and export market administration was the main contributor to the increased costs.

Long-term incentive compensation ("LTIC") expense, which reflects changes in the estimated fair value of the share-based compensation plans was a recovery of \$3.1 million for the second quarter, 2011 (Quarter 2, 2010 - \$0.7 million recovery) and an expense of \$0.5 million for the first half, 2011 (1<sup>st</sup> Half, 2010 - \$0.6 million recovery). Fair value is estimated based on a number of components including current market price of the underlying shares, strike price, expected volatility, vesting periods and the expected life of the awards. The decline in the Company's share price over the second quarters, 2011 and 2010 and the first half, 2010 is the most significant cause of the decreased fair value of the LTIC liability. Similarly, the improvement in the Company's share price is the greatest contributor to the increased fair value of the LTIC liability over the first half, 2011.

Second quarter and first half, 2011 depreciation of plant and equipment was essentially unchanged over the corresponding periods in 2010.

Road amortization and depletion expense increased \$1.2 million and \$1.1 million for the second quarter and first half, as compared to the same periods in 2010. This corresponds to 30% and 9% respective increases in logging activity on the B.C. Coast as logging plans impacted by 2010 storm damage access issues were modified and the Company moved to take advantage of a strong export log market.

Payments in relation to the buyout of logging contractor's Bill 13 entitlements together with severance costs, primarily for early retirement of hourly workers, resulted in the recognition of \$0.2 million and \$1.1 million in restructuring costs for the second quarter and first half, 2011 respectively. A revision of an estimate for other accrued restructuring reduced restructuring expenses for both periods by \$0.1 million.

Restructuring costs in the comparative periods of 2010 totalled \$1.1 million as the Company restructured certain of its manufacturing operations and accrued severance costs.

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

Net proceeds of \$54.9 million received from a public offering of Class A Subordinate Voting shares on April 8, 2011 reduced the Company's debt levels for the second quarter, 2011. This, together with a decrease in the Company's overall lending rates and the impact of a stronger Canadian dollar on interest on U.S. denominated debt, resulted in a decline of 37% and 23% in interest expenses for the second quarter and first half, 2011 respectively vis-à-vis the same periods, 2010.

Under IFRS finance costs also include accretion expense on decommissioning liabilities and amortization of prepaid financing costs. Prior year figures have been retroactively restated to conform to this presentation.

The Company reported a slight gain in Other income (expense) for the second quarter and first half, 2011 arising from the minor disposals of surplus equipment. This compares to a gain of \$0.4 million for the second quarter and first half, 2010 arising primarily from the final settlement of compensation under the *Forest Act* for timber and other assets resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast.

Other foreign exchange gains (losses) and Other income (expense) were negligible for both quarters and halves of

2011 and 2010.

Equity income at \$1.9 million for the second quarter, 2010 and \$3.3 million for the first half, 2010 represented equity participation in the earnings of the Seaboard General Partnership ("the SGP"). The SGP was wound-up on January 7, 2011 and continues operations as Seaboard Shipping Company Limited ("Seaboard") which became a wholly owned subsidiary of Interfor. Seaboard's accounts are included in the consolidated financial statements of the Company from the date of change in control.

#### Income Taxes

In the second quarter of 2011, the Company recorded an income tax expense of \$1.2 million (Quarter 2, 2010 - \$1.0 million) which excludes the benefit of \$2.2 million of certain deferred income tax assets arising from loss carry-forwards available to reduce future taxable income which were not recognized (Quarter 2, 2010 - \$2.2 million). For the first six months, 2011, the income tax expense of \$0.8 million excluded the benefit of \$2.5 million of deferred tax assets (1<sup>st</sup> Half, 2010 - \$3.8 million). Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities.

#### Cash Flow and Financial Position

The Company generated \$11.9 million from operations, before changes in working capital during the second quarter, 2011 and a total of \$24.5 million for the first half, 2011. This compares to \$11.6 million for the second quarter, 2010 and \$21.7 million for the first half, 2010.

Quarter-over-quarter, cash flows remained relatively constant as higher export sales volumes drove cash earnings in the second quarter, 2011 while a spike in North American sales values impacted results in the same quarter, 2010. Year-over-year, the increase in cash flow was due to higher export sales volumes partially offset by lower overall sales realizations.

Cash generated by the Company from operations, after changes in working capital, was \$15.5 million for the six months ended June 30, 2011 compared to cash generated of \$18.2 million in the first half, 2010. Significant increases in lumber production for export markets resulted in an inventory build-up of \$11.0 million. The increase in accounts receivable of \$8.9 million, offset by a \$10.9 million rise in accounts payable was the result of the higher operating rates and the increase and timing of export shipments through the first half of 2011.

Capital expenditures for the second quarter of 2011 totalled \$11.6 million and \$19.6 million year-to-date (Quarter 2, 2010 - \$6.0 million; 1<sup>st</sup> Half, 2010 - \$25.7 million). For the first half, 2011 spending on high-return discretionary projects totalled \$6.2 million, with \$3.7 million spent on business maintenance and \$9.7 million on road construction. Capital expenditures in the first half, 2010 include the acquisition of a timber tenure in the Kamloops region in the first quarter, 2010.

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

In the second quarter, 2011 the Company also settled an insurance claim in respect of severe storm damage to logging roads and bridges in the fall, 2010. Net cash proceeds of \$4.8 million were received in June 2011, with \$2.7 million reflected in net earnings, \$0.5 million applied against receivables, and the remainder set up as provisions for future remediation.

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net proceeds of \$54.9 million. The closing of the Offering included the exercise in full of the overallotment option of 1,072,500 shares by the Underwriters. In addition, in the first half, 2011 several stock option holders exercised their options generating \$1.4 million in cash.

Funds received from the issuance of shares enabled the Company to reduce its drawings under its Revolving Term Line by \$56.0 million over the first half, 2011. As at June 30, 2011, the Revolving Term Line was drawn by US\$30.2 million (revalued at the quarter-end exchange rate to \$29.1 million) and \$70.0 million for total drawings of \$99.1 million, leaving an unused available line of \$100.9 million. The Company's Operating Line of \$65.0 million was drawn by \$0.6 million and outstanding letters of credit of \$4.9 million, leaving an unused available line of \$59.5 million. Including cash of \$7.3 million and Seaboard's unutilized lines, the Company had available resources of \$167.5 million as at June 30,

2011.

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

On July 11, 2011 the Company extended and modified its syndicated credit facilities. The maturity date of the Operating Line was extended from July 28, 2012 to July 28, 2015 and the maturity date of the Revolving Term Line was extended from July 28, 2013 to July 28, 2015. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

Based on current pricing and cash flow projections and existing credit lines the Company believes it has sufficient resources to meet all of its financial obligations.

At June 30, 2011, the Company had cash of \$7.3 million. After deducting the Company's drawings under its Operating Line and Revolving Term Line, the Company ended the second quarter, 2011 with net debt of \$93.1 million or 19% of invested capital down from 30% of invested capital at December 31, 2010.

### **Selected Quarterly Financial Information<sup>1</sup>**

Quarterly Earnings Summary	International Financial Reporting Standards						Previous Canadian GAAP	
	2011			2010			2009 <sup>2</sup>	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(millions of dollars except share and per share amounts)							
Sales – Lumber	134.0	132.5	137.5	113.1	123.7	107.6	93.1	76.8
– Logs	28.6	20.8	20.6	21.9	19.8	17.4	17.3	17.3
– Wood chips and other by-products	16.8	16.4	15.7	14.0	13.3	13.2	12.2	8.9
– Ocean freight and other <sup>3</sup>	8.7	10.0	2.4	2.4	1.0	1.7	2.9	2.2
Total Sales	188.2	179.7	176.3	151.5	157.9	139.9	125.5	105.2
Operating earnings (loss) before restructuring costs	(2.0)	1.0	1.5	(2.0)	(0.9)	(2.4)	(7.8)	(7.0)
Operating earnings (loss)	(2.1)	0.2	1.5	(2.5)	(2.0)	(2.5)	(7.8)	(10.4)
Net earnings (loss)	(5.3)	(1.7)	0.8	1.4	(3.5)	(3.8)	(5.0)	9.7
Net earnings (loss) per share – basic and diluted	(0.10)	(0.04)	0.02	0.03	(0.07)	(0.08)	(0.11)	0.21
Net earnings (loss), adjusted for one-time items <sup>4</sup>	(2.9)	(0.5)	0.5	(1.1)	(0.6)	(2.2)	(4.4)	(5.3)
Net earnings (loss), adjusted for one-time items – per share <sup>4</sup>	(0.05)	(0.01)	0.01	(0.02)	(0.01)	(0.05)	(0.09)	(0.11)
EBITDA <sup>8</sup>	11.6	12.8	14.6	15.3	13.7	10.0	6.3	25.3
Adjusted EBITDA <sup>8</sup>	11.6	12.7	14.5	10.6	13.3	10.0	5.7	3.6
Cash flow from operations per share <sup>5</sup>	0.22	0.27	0.22	0.18	0.25	0.21	0.06	(0.07)
Shares outstanding – end of period (millions) <sup>6</sup>	55.9	47.5	47.4	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	55.2	47.4	47.2	47.1	47.1	47.1	47.1	47.1
Average foreign exchange rate per US\$1.00 <sup>7</sup>	0.9680	0.9856	1.0131	1.0395	1.0283	1.0401	1.0571	1.0980
Closing foreign exchange rate per US\$1.00 <sup>7</sup>	0.9645	0.9696	0.9946	1.0290	1.0646	1.0158	1.0510	1.0707

1 Tables may not add due to rounding.

2 Quarters are not restated for conversion to IFRS.

3 Other revenues include ocean freight revenues of Seaboard which are included in the consolidated results from the date of change in control on January 5, 2011. The Company's share of Seaboard results were previously recognized in equity income.

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

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

6 As at August 4, 2011, the number of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176; Class B Common shares – 1,015,779; Total – 55,862,955.

7 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.

- 8 EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is not a defined term under IFRS, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for other income and other income of the associate company. EBITDA and Adjusted EBITDA can be calculated from the Statements of Operations as follows<sup>4</sup>:

	International Financial Reporting Standards						Previous Canadian GAAP	
	2011		2010				2009 <sup>3</sup>	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4 <sup>3</sup>	Q3 <sup>3</sup>
	(millions of dollars)							
Net earnings (loss)	(5.3)	(1.7)	0.8	1.4	(3.5)	(3.8)	(5.0)	9.7
Add: Income taxes (recovery)	1.2	(0.4)	(0.5)	(0.2)	1.0	0.2	(3.3)	0.1
Finance costs	1.9	2.3	2.5	2.6	2.8	2.6	2.0	2.2
Depreciation, depletion and amortization	13.6	11.7	11.7	11.0	12.3	11.1	12.5	9.9
Other foreign exchange (gains) losses	0.1	0.1	0.2	0.1	0.1	-	0.1	-
Restructuring costs, asset write-downs and other	0.1	0.8	-	0.5	1.1	-	0.1	3.3
EBITDA	11.6	12.8	14.6	15.3	13.7	10.0	6.3	25.3
Deduct:								
Other income (expense)	-	-	(0.3)	(0.1)	0.4	-	0.6	21.7
Other income of associate company	-	-	0.4	4.8	-	-	-	-
Adjusted EBITDA	11.6	12.7	14.5	10.6	13.3	10.0	5.7	3.6

#### Volume and Price Statistics

		2011		2010			2009		
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Lumber sales	(million fbm)	334	313	321	277	270	264	234	181
Lumber production	(million fbm)	325	332	303	272	277	258	245	180
Log sales <sup>1</sup>	(thousand cubic metres)	314	301	292	289	262	239	261	242
Log production <sup>1</sup>	(thousand cubic metres)	796	816	794	595	624	648	533	378
Average selling price – lumber <sup>2</sup>	(\$/thousand fbm)	\$401	\$423	\$428	\$408	\$459	\$408	\$398	\$424
Average selling price – logs <sup>1</sup>	(\$/cubic metre)	\$82	\$61	\$64	\$73	\$68	\$64	\$62	\$69
Average selling price – pulp chips	(\$/thousand fbm)	\$44	\$40	\$42	\$40	\$37	\$40	\$39	\$38

1 B.C. operations

2 Gross sales before export taxes

3 Quarters are not restated for conversion to IFRS

4 Tables may not add due to rounding

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

The impact of the global recession on overall demand and poor lumber sales realizations increased the operating losses through the third quarter, 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, with rapid export market growth through the remaining quarters of 2010 and the first two quarters, 2011.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to export markets and priced in \$US. A strong Canadian dollar reduces the lumber sales realizations in Canada, but reduces the impact of losses in U.S. operations when converted to Canadian dollars. No deferred tax assets arising from loss carry-forwards were recognized during 2010 or 2011. The third quarter of 2009 includes an after-tax gain of \$19.0 million from the sale of the former Queensboro sawmill site.

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

### **Softwood Lumber Agreement 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.

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 June 30, 2011.

### **Accounting Policy Changes**

#### **Adoption of International Financial Reporting Standards**

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010. The Company's first reporting period under IFRS is the quarter ended March 31, 2011.

While IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles ("GAAP"), there are significant differences on recognition, measurement, and disclosures. The Company identified a number of key areas impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and other decommissioning obligations; share-based payments; employee future benefits; and deferred income taxes.

Note 19 to the consolidated interim financial statements provides more detail on key Canadian GAAP to IFRS differences, accounting policy decisions and *IFRS 1, First-Time Adoption of International Financial Reporting Standards* optional exemptions for significant or potentially significant areas that have had an impact on Interfor's financial statements on transition to IFRS or may have an impact in future periods.

#### *IFRS Transitional Impact on Equity*

As a result of the policy choices selected and changes required under IFRS, Interfor has recorded an increase in equity of \$3.4 million as at the date of transition, January 1, 2010. The table below outlines adjustments to equity on adoption of IFRS on January 1, 2010, and at June 30, 2010 and December 31, 2010 for comparative purposes<sup>1</sup>:

	January 1 2010	June 30 2010	December 31 2010
		(millions of dollars)	
Equity under Canadian GAAP	\$ 358.0	\$ 353.9	\$ 347.3
Transition election to fair value property	15.7	15.7	15.7
Employee future benefits	(6.9)	(11.3)	(9.0)
Decommissioning liabilities	(2.8)	(3.5)	(3.3)
Share based compensation	(2.1)	(1.3)	(2.2)
Equity participation in associate's income	(0.9)	(1.5)	(1.1)
Deferred income taxes	0.3	-	-
<b>Total IFRS adjustments to equity</b>	<b>3.4</b>	<b>(1.8)</b>	<b>0.2</b>
<b>Equity under IFRS</b>	<b>\$ 361.4</b>	<b>\$ 352.1</b>	<b>\$ 347.5</b>

<sup>1</sup> Table may not add due to rounding

### IFRS Impact on Comprehensive Income

The following is a summary of the adjustments to Comprehensive Income for the three and six months ended June 30, 2010 under IFRS:<sup>1</sup>

	Three months ended June 30, 2010	Six months ended June 30, 2010
	(millions of dollars)	
Comprehensive income (loss) under Canadian GAAP	\$ 4.3	\$ (4.1)
Profit adjustments		
Employee future benefits <sup>2</sup>	-	-
Decommissioning liabilities	(0.5)	(0.7)
Share based compensation	0.5	0.8
Equity participation in associate's income <sup>2</sup>	-	-
Deferred income taxes	(0.9)	(1.4)
<b>Total IFRS adjustments to net earnings</b>	<b>(0.9)</b>	<b>(1.3)</b>
Other comprehensive income adjustments		
Employee future benefits – actuarial gains (losses)	(3.5)	(4.4)
Equity participation in associate's employee future benefits actuarial gains (losses)	(0.3)	(0.6)
Deferred income taxes	0.9	1.1
<b>Total other comprehensive income adjustments</b>	<b>(2.9)</b>	<b>(3.9)</b>
<b>Comprehensive income (loss) under IFRS</b>	<b>\$ 0.5</b>	<b>\$ (9.4)</b>

<sup>1</sup> Table may not add due to rounding

<sup>2</sup> Due to rounding, amount appears to have no impact

- *IFRS Future Changes*

The standard-setting bodies that set IFRS have significant ongoing projects that could impact the IFRS accounting policies selected. Specifically, it is anticipated that there will be additional new or revised IFRS or IFRIC standards in relation to consolidation, and leases with Exposure Drafts currently in circulation for comment. Currently the following standards have been issued:

IFRS 9, Financial Instruments, replaces the multiple classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement, with a single model that has only two classification categories: amortized cost and fair value.

IAS 19, Employee Benefits, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option.

Both standards are in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. As at the reporting date, no assessment has been made of the impact of these standards on the Company's financial statements other than the effect of the elimination of the corridor method.

### **Controls and Procedures**

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended June 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **Critical Accounting Estimates**

There were no material changes to the Company's critical accounting estimates during the quarter ended June 30, 2011. For a full discussion of critical accounting estimates, please refer to the Company's discussion in its MD&A for the year ended December 31, 2010 and to the First Quarter, 2011 Report for the three months ended March 31, 2011 for the impact of changes on accounting estimates due to the adoption of IFRS. Both documents are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outlook**

The near-term outlook for recovery in the U.S. housing sector remains uncertain as residential construction activity in the U.S. housing market has not moved appreciably from the recessionary lows. There is little expectation of any significant improvement in the U.S. housing market through 2012 and any price movements will likely result from short term supply-demand related imbalances. Canadian housing starts are expected to slow slightly over the balance of 2011.

Strong demand from Asian export markets is expected to continue through 2011 but likely at a slower rate of growth and at lower prices.

Japan continues its clean-up efforts after the effects of the March 2011 earthquake and tsunami, but rebuilding of devastated areas with increased demand for building materials is unlikely to start until 2012.

The Canadian dollar remains strong and is expected to remain above par against its U.S. counterpart through 2011.

With the prospect of continuing challenges in the North American markets, Interfor continues its disciplined approach to production, inventory management and capital spending to help position the Company to deliver above average returns on capital invested as markets improve.

## **Additional Information**

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



E. Lawrence Sauder  
Chairman



Duncan K. Davies  
President and Chief Executive Officer



**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the three and six months ended June 30, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars except loss per share)

	3 Months June 30, 2011	3 Months June 30, 2010	6 Months June 30, 2011	6 Months June 30, 2010
<b>Sales</b>	\$ 188,154	\$ 157,883	\$ 367,899	\$ 297,822
<b>Costs and expenses:</b>				
Production	172,661	141,613	328,785	266,812
Selling and administration	5,269	4,283	10,240	8,452
Long term incentive compensation expense (recovery)	(3,081)	(698)	460	(609)
Export taxes	1,742	1,328	4,106	3,157
Depreciation of plant and equipment (note 10)	6,625	6,551	13,911	13,040
Depletion and amortization of timber, roads and other (note 10)	6,943	5,700	11,357	10,294
	<b>190,159</b>	<b>158,777</b>	<b>368,859</b>	<b>301,146</b>
<b>Operating loss before restructuring costs</b>	<b>(2,005)</b>	<b>(894)</b>	<b>(960)</b>	<b>(3,324)</b>
Restructuring costs (note 11)	(139)	(1,074)	(989)	(1,107)
<b>Operating loss</b>	<b>(2,144)</b>	<b>(1,968)</b>	<b>(1,949)</b>	<b>(4,431)</b>
Finance costs (note 12)	(1,895)	(2,802)	(4,169)	(5,367)
Other foreign exchange loss	(55)	(51)	(130)	(44)
Other income (note 13)	28	413	57	388
Equity in earnings of associate company	-	1,923	-	3,298
	<b>(1,922)</b>	<b>(517)</b>	<b>(4,242)</b>	<b>(1,725)</b>
<b>Loss before income taxes</b>	<b>(4,066)</b>	<b>(2,485)</b>	<b>(6,191)</b>	<b>(6,156)</b>
<b>Income tax expense (recovery):</b>				
Current	352	(6)	390	34
Deferred	844	1,051	411	1,164
	<b>1,196</b>	<b>1,045</b>	<b>801</b>	<b>1,198</b>
<b>Net loss</b>	<b>(5,262)</b>	<b>(3,530)</b>	<b>(6,992)</b>	<b>(7,354)</b>
<b>Other comprehensive income (loss):</b>				
Foreign currency translation differences – foreign operations	(675)	6,889	(3,972)	1,884
Defined benefit plan actuarial losses	(782)	(3,464)	(658)	(4,448)
Equity share of associate's defined benefit plan actuarial losses	-	(287)	-	(571)
Income tax recovery on defined benefit plan actuarial losses	196	866	165	1,112
	<b>(1,261)</b>	<b>4,004</b>	<b>(4,465)</b>	<b>(2,023)</b>
<b>Total comprehensive income (loss) for the period</b>	<b>\$ (6,523)</b>	<b>\$ 474</b>	<b>\$ (11,457)</b>	<b>\$ (9,377)</b>
<b>Net loss per share, basic and diluted (note 14)</b>	<b>\$ (0.10)</b>	<b>\$ (0.07)</b>	<b>\$ (0.14)</b>	<b>\$ (0.16)</b>

See accompanying notes to consolidated financial statements



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2011 and 2010 (unaudited)

(thousands of Canadian dollars)

	6 Months June 30, 2011	6 Months June 30, 2010
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
<b>Net loss</b>	\$ (6,992)	\$ (7,354)
<b>Items not involving cash:</b>		
Depreciation of plant and equipment	13,911	13,040
Depletion and amortization of timber, roads and other	11,357	10,294
Deferred income tax expense	411	1,164
Income tax expense	390	34
Finance costs	4,169	5,367
Other assets	3	-
Reforestation liability	1,789	1,922
Other liabilities and provisions	(623)	(287)
Equity in earnings of associate company	-	(3,298)
Write-down of plant and equipment	-	324
Unrealized foreign exchange losses	152	863
Other (note 13)	(57)	(405)
	<b>24,510</b>	<b>21,664</b>
<b>Cash generated from (used in) operating working capital:</b>		
Trade accounts receivable and other	(8,929)	3,072
Inventories	(11,074)	(14,152)
Prepayments	648	2,535
Trade accounts payable and accrued liabilities	10,923	4,685
Income taxes refunded (paid)	(530)	394
	<b>15,548</b>	<b>18,198</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(9,844)	(2,816)
Additions to logging roads	(9,726)	(7,857)
Additions to timber and other intangible assets	(50)	(14,981)
Proceeds on disposal of property, plant, and equipment	86	489
Cash received on acquisition of subsidiary (note 5)	4,846	-
Investments and other assets	(954)	(2,040)
	<b>(15,642)</b>	<b>(27,205)</b>
<b>Financing activities:</b>		
Issuance of capital stock, net of share issue expenses	56,260	39
Interest payments	(3,320)	(4,668)
Increase in bank indebtedness (note 8(a))	1,295	-
Additions to long-term debt (note 8(b))	40,000	100,819
Repayments of long-term debt (note 8(b))	(96,000)	(82,534)
	<b>(1,765)</b>	<b>13,656</b>
<b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b>	<b>(134)</b>	<b>127</b>
<b>Increase (decrease) in cash</b>	<b>(1,993)</b>	<b>4,776</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>9,301</b>	<b>3,802</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 7,308</b>	<b>\$ 8,578</b>

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2011 and December 31, 2010 (unaudited)**

(thousands of Canadian dollars)

	June 30, 2011	Dec. 31, 2010 (note 2)
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 7,308	\$ 9,301
Trade accounts receivable and other	55,768	45,961
Inventories (note 7)	82,472	71,762
Prepayments	8,248	8,334
	<b>153,796</b>	<b>135,358</b>
<b>Investment in associate company (notes 5 and 6)</b>	-	16,074
<b>Employee future benefits</b>	2,328	515
<b>Other investments and assets</b>	2,375	2,636
<b>Property, plant and equipment</b>	339,728	347,990
<b>Logging roads and bridges</b>	17,304	17,063
<b>Timber licences</b>	78,579	80,154
<b>Other intangible assets</b>	1,460	1,723
<b>Goodwill</b>	13,078	13,078
	<b>\$ 608,648</b>	<b>\$ 614,591</b>
<b>Liabilities and Equity</b>		
<b>Current liabilities:</b>		
Bank indebtedness (note 8(a))	\$ 1,295	\$ -
Trade accounts payable and accrued liabilities	64,388	50,053
Reforestation liability	10,926	9,785
Income taxes payable	704	230
Payable to associate (note 6)	-	15,738
	<b>77,313</b>	<b>75,806</b>
<b>Reforestation liability</b>	19,406	17,325
<b>Long-term debt (note 8(b))</b>	99,128	156,037
<b>Employee future benefits</b>	5,912	5,815
<b>Other liabilities and provisions</b>	11,905	12,158
<b>Equity:</b>		
Share capital (note 9)		
Class A subordinate voting shares	342,289	285,362
Class B common shares	4,080	4,080
Contributed surplus	7,476	5,408
Translation reserves	(11,618)	(7,646)
Retained earnings	52,757	60,246
	<b>394,984</b>	<b>347,450</b>
	<b>\$ 608,648</b>	<b>\$ 614,591</b>

**Contingencies (note 17)**  
**Subsequent event (note 18)**

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder  
 Director

G.H. MacDougall  
 Director



**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**For the six months ended June 30, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars)	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
<b>Balance at January 1, 2011</b>	\$ 285,362	\$ 4,080	\$ 5,408	\$ (7,646)	\$ 60,246	\$ 347,450
<b>Net loss for the period:</b>	-	-	-	-	(6,992)	(6,992)
<b>Other comprehensive loss:</b>						
Foreign currency translation differences						
– foreign operations	-	-	-	(3,972)	-	(3,972)
Defined benefit plan actuarial losses, net of income tax benefit	-	-	-	-	(493)	(493)
<b>Contributions:</b>						
Share options exercised	1,370	-	-	-	-	1,370
Share issuance, net of share issue expenses and income tax benefit	55,557	-	-	-	-	55,557
<b>Changes in ownership interests in investee:</b>						
Acquisition of subsidiary	-	-	2,068	-	(4)	2,064
<b>Balance at June 30, 2011</b>	\$342,289	\$ 4,080	\$ 7,476	\$ (11,618)	\$ 52,757	\$ 394,984
	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
<b>Balance at January 1, 2010</b>	\$ 284,500	\$ 4,080	\$ 5,408	\$ -	\$ 67,421	\$ 361,409
<b>Net loss for the period:</b>	-	-	-	-	(7,354)	(7,354)
<b>Other comprehensive loss:</b>						
Foreign currency translation differences						
– foreign operations	-	-	-	1,884	-	1,884
Defined benefit plan actuarial losses, net of income tax benefit	-	-	-	-	(3,336)	(3,336)
Equity in associate defined benefit plan actuarial losses	-	-	-	-	(571)	(571)
<b>Contributions:</b>						
Share options exercised	39	-	-	-	-	39
<b>Balance at June 30, 2010</b>	\$ 284,539	\$ 4,080	\$ 5,408	\$ 1,884	\$ 56,160	\$ 352,071

See accompanying notes to consolidated financial statements

## **INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

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### **1. Nature of operations:**

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

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

The condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2011 comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under Canadian generally accepted accounting principles ("GAAP") are available on [www.sedar.com](http://www.sedar.com).

### **2. Statement of Compliance:**

#### **(a) Statement of compliance and conversion to International Financial Reporting Standards ("IFRS"):**

For fiscal years commencing January 1, 2011 Canadian GAAP were converged with IFRS. Consequently, the Company has prepared current and comparative financial information under IFRSs for the reporting period ending June 30, 2011. These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. As these IFRS condensed consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company as at the date of transition of January 1, 2010 and as at December 31, 2010 have been fully described in note 19 of the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011 as filed on [www.sedar.com](http://www.sedar.com).

Reconciliations of equity as at June 30, 2010 and total comprehensive income for the three and six months ended June 30, 2010 comparative periods reported under Canadian GAAP to those reported for those periods under IFRSs are provided in note 19.

In these financial statements the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors on August 4, 2011.

#### **(b) Basis of measurement:**

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

- (i) Derivative financial instruments are measured at fair value;
- (ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (iii) The employee benefit assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

### **3. Significant accounting policies:**

The accounting policies that the Company has adopted in its consolidated financial statements for the year ended December 31, 2011 have been fully described in note 3 of the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011 and as filed on [www.sedar.com](http://www.sedar.com). These accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

#### ***Future accounting changes:***

IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value.

IAS 19, *Employee Benefits*, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option.

Both standards are in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements other than the effect of the elimination of the corridor method.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 4. Seasonality of operating results:

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

### 5. Acquisition:

On January 5, 2011, all partners in the Seaboard General Partnership ("the SGP") withdrew with the exception of Interfor. The SGP was wound-up on January 7, 2011 and continues shipping operations as Seaboard Shipping Company Limited ("Seaboard") which became a wholly-owned subsidiary of Interfor. Seaboard's accounts are included in the consolidated financial statements of the Company from the date of change in control.

This acquisition has been accounted for using the purchase method. At the date of change in control the identifiable assets acquired and liabilities and residual equity assumed were recorded at fair value based on management's best estimates and allocated as follows:

Assets acquired:		
Cash	\$	4,846
Other current assets		1,950
Employee future benefits		1,659
		<hr/>
		8,455
Liabilities assumed:		
Current liabilities		(5,422)
Employee future benefits		(326)
Deferred income taxes		(307)
Residual equity assumed:		
Contributed surplus		(2,068)
Withdrawing partners' share of actuarial gains and losses recognized through Other Comprehensive Income		4
		<hr/>
Previous carrying value of investment in associate	\$	336

There was no cash consideration provided and the net assets acquired were exactly equal to the existing interest in the SGP at the date of change in control.

### 6. Payable to associate company:

On July 30, 2010 the SGP made an advance to its partners, with the Company's share of the advance being \$6,896,000. A second advance was made on December 30, 2010 and Interfor received an additional \$8,842,000. 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.

On January 3, 2011, the SGP declared an income distribution to its partners, of which the Company's share of \$15,738,000 was received by way of setoff against the promissory note payable to the SGP. In accordance with equity accounting, the income distribution was recorded as a reduction of the investment in associate company.

### 7. Inventories:

	June 30, 2011	Dec. 31, 2010
Logs	\$ 40,113	\$ 39,107
Lumber	36,203	27,353
Other	6,156	5,302
	<hr/>	<hr/>
	\$ 82,472	\$ 71,762

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at June 30, 2011 was \$8,491,000 (December 31, 2010 - \$6,253,000).

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 8. Cash, bank indebtedness and long-term debt:

#### (a) Bank indebtedness:

	Canadian Operating Facility	SSCo Operating Facility	SISCO Operating Facility	Total
June 30, 2011				
Available line of credit	\$ 65,000	\$ 2,000	\$ 3,000	\$ 70,000
Maximum borrowing available	65,000	138	426	65,564
Operating Line drawings	622	-	-	622
Outstanding letters of credit included in line utilization	4,909	-	127	5,036
Unused portion of line	59,469	138	299	59,906
December 31, 2010				
Available line of credit	\$ 65,000	\$ -	\$ -	\$ 65,000
Maximum borrowing available	65,000	-	-	65,000
Operating Line drawings	-	-	-	-
Outstanding letters of credit included in line utilization	4,756	-	-	4,756
Unused portion of line	60,244	-	-	60,244

The Canadian operating line of credit ("Operating Line") may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA<sup>1</sup>. 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. The maturity date is July 28, 2012. As at June 30, 2011, the Operating Line was drawn by \$622,000 (December 31, 2010 - \$nil).

On January 5, 2011 the Company acquired full control of Seaboard and its wholly-owned subsidiaries, Seaboard Shipping Company Limited ("SSCo") and Seaboard International Shipping Company ("SISCO") (see note 5). Seaboard has demand facilities with a Canadian bank which are secured by a general assignment of accounts receivable, inventory and insurance. The demand lines may be drawn in either CAD\$ or US\$ and bear interest at either the bank prime rate plus a margin for CAD\$ borrowings or the U.S. base rate plus a margin for \$US borrowings. Borrowing levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable. As at June 30, 2011 there were no drawings under these lines other than letters of credit.

In addition to drawings under the Operating Line at June 30, 2011 are cheques issued in excess of funds on deposit of \$673,000.

On July 11, 2011, the Company extended and amended its Operating Line, details of which are described in note 18, Subsequent event.

#### (b) Long-term debt:

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

The Revolving Term Line is available to a maximum of \$200,000,000 and is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The line is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The Revolving Term Line matures on July 28, 2013.

As at June 30, 2011, the Revolving Term Line was drawn by US\$30,200,000 (December 31, 2010 - US\$30,200,000) revalued at the quarter-end exchange rate to \$29,128,000 (December 31, 2010 - \$30,037,000), and \$70,000,000 (December 31, 2010 - \$126,000,000) for total drawings of \$99,128,000 (December 31, 2010 - \$156,037,000) leaving an unused available line of \$100,872,000.

The US\$30,200,000 drawing under the line has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of \$909,000 (June 30, 2010 - \$411,000 loss) arising on revaluation of the Revolving Term Line for the quarter ending June 30, 2011 were recognized in Other comprehensive income.

On July 11, 2011, the Company extended and amended its Revolving Term Line, details of which are described in note 18, Subsequent event.

<sup>1</sup>EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

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

#### (b) Long-term debt (continued):

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

Twelve months ending	
June 30, 2012	\$ -
June 30, 2013	-
June 30, 2014	-
June 30, 2015	-
June 30, 2016	99,128 <sup>1</sup>
	<u>\$ 99,128</u>

<sup>1</sup> On July 11, 2011 the Company extended its syndicated credit facilities. The maturity date of the Revolving Term Line has been extended from July 28, 2013 to July 28, 2015.

### 9. Share capital:

The transactions in share capital are described below:

	Number			Amount
	Class A	Class B	Total	
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
Shares issued on exercise of options	287,000	-	287,000	1,370
Share issuance, net of share issue costs and income tax benefit	8,222,500	-	8,222,500	55,557
Balance, June 30, 2011	54,847,176	1,015,779	55,862,955	\$ 346,369

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net cash proceeds of \$54,890,000.

### 10. Depreciation, depletion and amortization:

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

	3 Months	3 Months	6 Months	6 Months
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Production	\$ 13,361	\$ 11,979	\$ 24,814	\$ 22,816
Selling and administration	207	272	454	518
	<u>\$ 13,568</u>	<u>\$ 12,251</u>	<u>\$ 25,268</u>	<u>\$ 23,334</u>

### 11. Restructuring costs:

	3 Months	3 Months	6 Months	6 Months
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Severance costs	\$ 66	\$ 1,074	\$ 251	\$ 1,107
Contractor buyout	175	-	840	-
Other recovery	(102)	-	(102)	-
	<u>\$ 139</u>	<u>\$ 1,074</u>	<u>\$ 989</u>	<u>\$ 1,107</u>

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

Additional payments in the second quarter, 2011 resulted in the recognition of further restructuring costs of \$175,000 for the buyout of Bill 13 entitlements. Further hourly worker early retirements were slightly offset by revisions to previously accrued severances as \$66,000 of expenses were accrued and a revision of an estimate for other accrued restructuring resulted in a recovery of \$102,000 in the second quarter, 2011.

During the first quarter of 2010 the Company revised its estimated severance costs and recorded \$33,000 in additional restructuring costs. In the second quarter of 2010 the Company restructured certain of its manufacturing operations resulting in additional severance costs of \$1,074,000.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 12. Finance costs:

	3 Months June 30, 2011	3 Months June 30, 2010	6 Months June 30, 2011	6 Months June 30, 2010
Interest on borrowing	\$ 1,455	\$ 2,281	\$ 3,315	\$ 4,324
Accretion expense	203	218	381	419
Amortization of prepaid finance costs	237	303	473	624
	\$ 1,895	\$ 2,802	\$ 4,169	\$ 5,367

### 13. Other income (expense):

	3 Months June 30, 2011	3 Months June 30, 2010	6 Months June 30, 2011	6 Months June 30, 2010
Gain (loss) on disposal of surplus property, plant and equipment	\$ 28	\$ 37	\$ 57	\$ 29
Gain on settlement of timber takeback	-	376	-	376
Other (expense)	-	-	-	(17)
	\$ 28	\$ 413	\$ 57	\$ 388

In the first and second quarters, 2011, the Company disposed of surplus equipment which generated \$86,000 in proceeds and a gain of \$57,000.

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

### 14. Net earnings (loss) per share:

	3 Months June 30, 2011			3 Months June 30, 2010		
	Net loss	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Basic loss per share	\$ (5,262)	55,212	\$ (0.10)	\$ (3,530)	47,125	\$ (0.07)
Share options	-	-	-	-	102*	-
Diluted loss per share	\$ (5,262)	55,212	\$ (0.10)	\$ (3,530)	47,125	\$ (0.07)

	6 Months June 30, 2011			6 Months June 30, 2010		
	Net loss	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Basic loss per share	\$ (6,992)	51,322	\$ (0.14)	\$ (7,354)	47,121	\$ (0.16)
Share options	-	-	-	-	74*	-
Diluted loss per share	\$ (6,992)	51,322	\$ (0.14)	\$ (7,354)	47,121	\$ (0.16)

\*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.

### 15. Segmented information:

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

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 15. Segmented information (continued):

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

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

	3 Months June 30, 2011	3 Months June 30, 2010	6 Months June 30, 2011	6 Months June 30, 2010
Canada	\$ 48,981	\$ 42,127	\$ 100,096	\$ 82,724
United States	57,663	69,068	122,545	129,596
China/Taiwan	46,010	10,818	77,334	22,627
Japan	23,443	23,911	44,110	37,808
Other export	12,057	11,959	23,814	25,067
	\$ 188,154	\$ 157,883	\$ 367,899	\$ 297,822

Sales by product line are as follows:

	3 Months June 30, 2011	3 Months June 30, 2010	6 Months June 30, 2011	6 Months June 30, 2010
Lumber	\$ 134,018	\$ 123,713	\$ 266,546	\$ 231,331
Logs	28,645	19,805	49,494	37,240
Wood chips and other by products	16,780	13,335	33,193	26,486
Ocean freight and other	8,711	1,030	18,666	2,765
	\$ 188,154	\$ 157,883	\$ 367,899	\$ 297,822

### 16. Financial instruments:

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

As at June 30, 2011, the Company has outstanding obligations to sell a maximum of US\$40,000,000 at an average rate of CAD\$0.9732 to the USD\$1.00 and sell Japanese ¥171,000,000 at an average rate of ¥80.64 to the US\$1.00 during 2011. All foreign currency gains or losses to June 30, 2011 have been recognized in Sales revenue in net earnings and the fair value of these foreign currency contracts being an asset of \$322,000 (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts receivable and other (December 31, 2010 - \$492,000 asset recorded in Trade accounts receivable and other and \$18,000 liability recorded in Trade accounts payable and accrued liabilities measured based on Level 2 of the fair value hierarchy).

### 17. Contingencies:

#### (a) 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 June 30, 2011.

#### (b) Storm damage:

In the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered severe power outages, mudslides, road washouts and flooding, with a state of emergency declared in several populated areas. Some logging areas were impacted by these severe storms with bridge and culvert damage, road washouts and slides in reforested areas. Due to the remoteness and magnitude of the areas impacted it was difficult to fully assess the extent of the damage and its related costs.

Certain losses were covered by insurance and in June, 2011 the Company settled with its insurers for recovery of qualifying expenditures, net of the insurance deductible for total proceeds of \$4,836,000 of which \$4,815,000 was received in the second quarter, 2011.

During the first quarter, 2011, the Company recorded business interruption insurance recoveries of \$2,211,000 as a reduction in Production costs in net earnings with a further recovery of \$503,000 recognized during the second quarter, 2011 for total recoveries reflected in net earnings of \$2,714,000.

A further \$525,000 was applied against amounts previously set up as receivable for costs already incurred. The remaining \$1,576,000 was set up as a provision for future remediation on roads and bridges, with \$482,000 recorded in Trade accounts payable and accrued liabilities and \$1,094,000 recorded in Other liabilities and provisions.

As at June 30, 2011 these provisions remain unspent.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

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### 18. Subsequent event:

On July 11, 2011 the Company extended and modified its syndicated credit facilities. The maturity date of the Operating Line has been extended from July 28, 2012 to July 28, 2015. The maturity date of the Revolving Term Line has been extended from July 28, 2013 to July 28, 2015. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

### 19. Explanation of transition to IFRS:

As stated in note 2 (a), these consolidated interim financial statements are prepared in accordance with IFRSs.

As described in note 3, the accounting policies adopted by the Company under IFRSs have been applied in preparing the interim financial statements for the comparative information presented in these unaudited condensed consolidated interim financial statements for both the three and six months ended June 30, 2010.

An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

#### *Index to the notes to the reconciliations*

	Page
<i>Presentation reclassifications:</i>	
(a) Deferred taxes	24
(b) Investment in associate company	24
(c) Employee future benefits	24
(d) Other intangible assets, net of accumulated amortization	24
(e) Reforestation liability, current	24
(f) Finance costs	24
(g) Interest paid	24
 <i>First-time adoption elections and changes due to IFRS:</i>	
(h) Currency translation differences	24
(i) Employee future benefits	24
(j) Investment in associate company	25
(k) Property, plant and equipment	26
(l) Borrowing costs	26
(m) Decommissioning provisions	26
(n) Share-based payments	27
(o) Business combinations	27
(p) Income taxes	27
(q) Retained earnings	28

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### Reconciliation of equity

June 30, 2010

(thousands of Canadian dollars)

	Note	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
<b>Assets</b>					
<b>Current assets:</b>					
Cash and cash equivalents		\$ 8,578	\$ -	\$ -	\$ 8,578
Trade accounts receivable and other		29,614	-	-	29,614
Inventories		74,375	-	-	74,375
Prepayments		5,541	-	-	5,541
Deferred tax assets	a	3,023	(3,023)	-	-
		121,131	(3,023)	-	118,108
<b>Investment in associate company</b>	b, j	-	8,958	(1,473)	7,485
<b>Employee future benefits</b>	c, i	-	7,175	(6,954)	221
<b>Other investments and assets</b>	b, c	18,669	(16,566)	-	2,103
<b>Property, plant and equipment</b>	d, k	348,770	(1,956)	15,748	362,562
<b>Logging roads and bridges</b>		15,367	-	-	15,367
<b>Timber licences</b>		81,378	-	-	81,378
<b>Other intangible assets</b>	d	-	1,956	-	1,956
<b>Goodwill</b>		13,078	-	-	13,078
<b>Asset classified as held for sale</b>		3,424	-	-	3,424
		\$ 601,817	\$ (3,456)	\$ 7,321	\$ 605,682
<b>Liabilities and Equity</b>					
<b>Current liabilities:</b>					
Trade accounts payable and accrued liabilities	e, n	\$ 49,120	\$ (7,383)	\$ 1,248	\$ 42,985
Reforestation liability	e	-	7,383	-	7,383
Income taxes payable		215	-	-	215
		49,335	-	1,248	50,583
<b>Reforestation liability</b>	m	17,080	-	2,493	19,573
<b>Long-term debt</b>		163,151	-	-	163,151
<b>Employee future benefits</b>	c, i	-	4,582	4,386	8,968
<b>Other liabilities and provisions</b>	c, m, n	15,321	(5,015)	1,030	11,336
<b>Deferred income taxes</b>	a, p	3,023	(3,023)	-	-
<b>Equity:</b>					
Share capital					
Class A subordinate voting shares		284,539	-	-	284,539
Class B common shares		4,080	-	-	4,080
Contributed surplus		5,408	-	-	5,408
Translation reserves	h	(22,971)	24,855	-	1,884
Retained earnings	h, q	82,851	(24,855)	(1,836)	56,160
		353,907	-	(1,836)	352,071
		\$ 601,817	\$ (3,456)	\$ 7,321	\$ 605,682

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### Reconciliation of comprehensive income (loss):

(thousands of Canadian dollars)	Note	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	
					Three months ended June 30, 2010					
					Six months ended June 30, 2010					
<b>Sales</b>		\$ 157,883	\$ -	\$ -	\$ 157,883	\$ 297,822	\$ -	\$ -	\$ 297,822	
<b>Costs and Expenses:</b>										
Production	f, i, k, m	141,292	(218)	539	141,613	266,479	(419)	752	266,812	
Selling and administration		4,283	-	-	4,283	8,452	-	-	8,452	
Long term incentive compensation expense (recovery)	n	(210)	-	(488)	(698)	205	-	(814)	(609)	
Export taxes		1,328	-	-	1,328	3,157	-	-	3,157	
Amortization of plant and equipment	d	6,887	(336)	-	6,551	13,376	(336)	-	13,040	
Depletion and amortization of timber, roads and other	f	5,667	33	-	5,700	10,582	(288)	-	10,294	
		159,247	(521)	51	158,777	302,251	(1,043)	(62)	301,146	
<b>Operating earnings (loss) before restructuring costs</b>		(1,364)	521	(51)	(894)	(4,429)	1,043	62	(3,324)	
Restructuring costs		(1,074)	-	-	(1,074)	(1,107)	-	-	(1,107)	
<b>Operating earnings (loss)</b>		(2,438)	521	(51)	(1,968)	(5,536)	1,043	62	(4,431)	
Finance costs	f	-	(2,802)	-	(2,802)	-	(5,367)	-	(5,367)	
Interest expense on long-term debt	f	(2,115)	2,115	-	-	(4,020)	4,020	-	-	
Other interest expense	f	(166)	166	-	-	(304)	304	-	-	
Other foreign exchange loss		(51)	-	-	(51)	(44)	-	-	(44)	
Other income		413	-	-	413	388	-	-	388	
Equity in earnings of associate company	j	1,915	-	8	1,923	3,280	-	18	3,298	
		(4)	(521)	8	(517)	(700)	(1,043)	18	(1,725)	
<b>Earnings (loss) before income taxes</b>		(2,442)	-	(43)	(2,485)	(6,236)	-	80	(6,156)	
<b>Income tax expense (recovery):</b>										
Current		(6)	-	-	(6)	34	-	-	34	
Deferred	p	185	-	866	1,051	(260)	-	1,424	1,164	
		179	-	866	1,045	(226)	-	1,424	1,198	
<b>Net loss</b>		(2,621)	-	(909)	(3,530)	(6,010)	-	(1,344)	(7,354)	
<b>Other comprehensive income (loss):</b>										
Foreign currency translation differences – foreign operations		6,889	-	-	6,889	1,884	-	-	1,884	
Defined benefit plan actuarial losses	i	-	-	(3,464)	(3,464)	-	-	(4,448)	(4,448)	
Equity share of associate's defined benefit plan actuarial losses	j	-	-	(287)	(287)	-	-	(571)	(571)	
Income tax recovery on defined benefit plan actuarial losses	p	-	-	866	866	-	-	1,112	1,112	
		6,889	-	(2,885)	4,004	1,884	-	(3,907)	(2,023)	
<b>Total comprehensive income (loss) for the period</b>		\$ 4,268	\$ -	\$ (3,794)	\$ 474	\$ (4,126)	\$ -	\$ (5,251)	\$ (9,377)	
<b>Net loss per share, basic and diluted</b>		\$ (0.06)	\$ -	\$ (0.01)	\$ (0.07)	\$ (0.13)	\$ -	\$ (0.03)	\$ (0.16)	

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### **Presentation reclassifications:**

##### **(a) Deferred taxes:**

Under Canadian GAAP deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability.

Under IFRS deferred tax assets and liabilities are classified as non-current.

Consequently, current deferred tax assets under Canadian GAAP have been reclassified against non-current deferred tax liabilities to conform to IFRS requirements.

##### **(b) Investment in associate company:**

Under Canadian GAAP separate disclosure of investments accounted for on the equity basis is required but may be disclosed in either the financial statements or the notes to the financial statements.

Under IAS 1, *Presentation of Financial Statements*, investments accounted for using the equity method must be disclosed separately in the Statement of Financial Position.

The Company's investment in an associate company has been reclassified from Other investments and assets as a separate line item on the Statement of Financial Position to conform to IFRS requirements.

##### **(c) Employee future benefits:**

Employee benefit plan assets and obligations have been reclassified from Other investments and assets and Other liabilities and provisions to highlight items where there has been a significant transitional IFRS adjustment in accordance with IAS 34, *Interim Financial Reporting*.

##### **(d) Other intangible assets, net of accumulated amortization:**

Under Canadian GAAP computer software acquired or developed for use is treated as a component of Property, plant and equipment.

Under IAS 38, *Intangible Assets*, computer software acquired or developed for use meets the definition of an intangible asset and is therefore reclassified from Property, plant and equipment on the Statement of Financial Position as is the related amortization on the Statement of Comprehensive Income.

##### **(e) Reforestation liability, current:**

IAS 1, *Presentation of Financial Statements*, requires the separate disclosure of provisions, where significant. Consequently, the current portion of reforestation liability has been reclassified from Trade accounts payable and other accrued liabilities.

##### **(f) Finance costs:**

Under IFRS 7, *Financial Instruments: Disclosures*, interest expense on borrowings, the unwinding of the discount on provisions (accretion expense), the amortization of prepaid financing costs and other related transaction costs are disclosed as finance costs.

Under Canadian GAAP, interest expense on borrowings was disclosed separately, accretion expense was included in Production costs and the amortization of prepaid financing costs were included in Depletion and amortization of timber, roads and other.

To comply with IFRS, these items have been reclassified to Finance costs on the Statement of Comprehensive Income.

##### **(g) Interest paid:**

Cash flows relating to interest paid have been classified as financing activities in the Statement of Cash Flows.

#### **First-time adoption elections and changes due to IFRS:**

##### **(h) Currency translation differences:**

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a foreign subsidiary was formed or acquired. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, permits cumulative translation gains and losses to be reset to zero at the transition date. The Company elected to reset all cumulative translation gains and losses to zero in the opening retained earnings at January 1, 2010.

The impact on the Statement of Financial Position is summarized as follows:

	June 30, 2010
Reserve increase	\$ 24,855
Reduction to retained earnings	\$ (24,855)

##### **(i) Employee future benefits:**

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings as at the transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its transition date of January 1, 2010 in opening retained earnings for all of its employee benefit plans.

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### (i) Employee future benefits (continued):

Under Canadian GAAP actuarial gains and losses that arise in calculating the present value of the defined benefit obligations and the fair value of plan assets are recognized on a systematic and consistent basis subject to a minimum required amortization based on a "corridor" approach. The corridor was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The unamortized net actuarial gains and losses in excess of the corridor is amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

Under IFRS the Company elected to recognize all actuarial gains and losses immediately Other comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the income statement but rather are recorded directly to other comprehensive income at the end of each period. Consequently, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses.

Under Canadian GAAP when a defined benefit plan gives rise to an accrued benefit asset, a provision is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the Statement of Financial Position net of the provision. A change in the provision is recognized in earnings for the period in which the change occurs.

IFRS also limits the recognition of the net benefit asset under certain circumstances to the amount that is recoverable. Since the Company has elected to recognize all actuarial gains and losses in Other comprehensive income, changes in the provision are recognized in other comprehensive income in the period in which the change occurs. The Company did not have a provision in respect of its benefit assets for any of the periods presented.

The impact on the Statement of Financial Position was:

	June 30, 2010
Employee benefit assets	\$ (6,954)
Employee benefit obligations	(4,386)
Related tax effect	2,835
Reduction to retained earnings	\$ (8,505)

The impact on the Statement of Comprehensive Income was:

	3 Months June 30, 2010	6 Months June 30, 2010
Production expense	\$ 32	\$ 21
Other comprehensive loss:		
Defined benefit plan actuarial losses	3,464	4,448
Reduction to comprehensive income before income taxes	\$ 3,496	\$ 4,469

##### (j) Investment in associate company:

In applying the equity method of accounting for an investment in an associate company both Canadian GAAP and IFRS require the accounting policies of the associate entity to be consistent with those of the parent company. As such, the employee defined benefit asset of the associate company has been adjusted to reflect the same policies as described in Note 19 (i) for employee future benefits and the Company has reflected its proportionate share of the associate's after-tax adjustments to earnings and comprehensive income.

The impact on the Statement of Financial Position was:

	June 30, 2010
Investment in associate decrease	\$ (1,473)
Reduction to retained earnings	\$ (1,473)

The impact on the Statement of Comprehensive Income was:

	3 Months June 30, 2010	6 Months June 30, 2010
Equity in income	\$ (8)	\$ (18)
Other comprehensive loss:		
Equity share of associate's defined benefit plan actuarial losses	287	571
Reduction to comprehensive income before income taxes	\$ 279	\$ 553

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### (k) Property, plant and equipment:

IFRS 1 allows a company to elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. The Company identified a property at its Hammond sawmill site which it elected to use fair value as its deemed cost. As at January 1, 2010 the fair value of the property was estimated to be \$16,320,000 with a historical cost of \$572,000.

In addition, the Company reversed certain costs related to the transfer of equipment from one sawmill site to another which, under previous GAAP, qualified for capital treatment, but under IFRS do not.

The impact on the Statement of Financial Position was:

	June 30, 2010
Property, plant and equipment increase	\$ 15,748
Related tax effect	(1,969)
Increase in retained earnings	\$ 13,779

The was no impact on the Statement of Comprehensive Income for the three months and six months ended June 30, 2010.

##### (l) Borrowing costs:

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs for qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 contains an exemption allowing companies to apply this standard to assets for which the commencement date is the later of January 1, 2009 and the date of transition. The Company elected to take this IFRS 1 exemption and, therefore, borrowing costs prior to January 1, 2010 are expensed.

##### (m) Decommissioning provisions:

The Company's logging activities give rise to obligations for reforestation and deactivation of logging roads. In addition, the Company has also recognized some environmental provisions.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Canadian GAAP requires the provision to be measured at fair value based on the amount a third party would charge for performing the remediation work. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on "best estimate". The best estimate calculation can be based on internal or external costs, depending upon which is most likely.

Discount rates used under Canadian GAAP for decommissioning provisions (known as asset retirement obligations under Canadian GAAP) are based on the Company's credit-adjusted risk-free rate. Adjustments are made to decommissioning provisions for changes in the timing or amount of the cashflows and the unwinding of the discount. Changes in estimates that decrease provisions are discounted using the discount rate applied upon initial recognition of the liability; changes in estimates that increase the provision are discounted using the current discount rate.

Discount rates used under IFRS reflect the risks specific to the decommissioning provision. Adjustments are made to decommissioning provisions each period for changes in the timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

The impact on the Statement of Financial Position was:

	June 30, 2010
Reforestation liability, non-current increase	\$ (2,493)
Other liabilities and provisions increase	(1,017)
Related tax effect	878
Reduction to retained earnings	\$ (2,632)

The impact on the Statement of Comprehensive Income was:

	3 Months	6 Months
	June 30, 2010	June 30, 2010
Production expense increase	\$ 507	\$ 731
Reduction to comprehensive income before income taxes	\$ 507	\$ 731

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### (n) Share-based payments:

The Company has granted certain cash-settled share-based payments to certain employees. The Company accounted for these share-based payment arrangements by reference to their intrinsic value under Canadian GAAP.

Under IFRSs the related liability has been adjusted to reflect the fair value of the outstanding cash-settled share-based payments. The fair value is estimated by applying an option pricing model and until the liability is settled the fair value of the liability is remeasured at each reporting date, with changes in fair value recognized as the awards vest. Additionally, IFRS requires an estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Company adjusted expenses associated with cash-settled share-based payments to reflect the changes of the fair values of these awards.

The impact on the Statement of Financial Position was:

	June 30, 2010
Trade accounts payable and accrued liabilities increase	\$ (1,248)
Other liabilities and provisions increase	(13)
Related tax effect	315
Reduction to retained earnings	\$ (946)

The impact on the Statement of Comprehensive Income was:

	3 Months June 30, 2010	6 Months June 30, 2010
Long term incentive compensation recovery	\$ (488)	\$ (814)
Increase in comprehensive income before income taxes	\$ (488)	\$ (814)

##### (o) Business combinations:

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the date of transition of January 1, 2010. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. Any goodwill arising on such business combinations prior to the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

##### (p) Income taxes:

Due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of deferred tax assets in excess of deferred tax liabilities under Canadian GAAP or IFRS.

The above changes had the following impact on deferred income tax liabilities based on a tax rate of 25 percent:

	June 30, 2010
Employee future benefits	\$ 2,835
Property, plant and equipment	(1,969)
Decommissioning provisions	878
Share-based payments	315
Reduction of deferred income tax assets for loss carry-forwards not recognized	(2,059)
Reduction to deferred income tax liability and increase in retained earnings	\$ -

The impact on the Statement of Comprehensive Income was:

	3 Months June 30, 2010	6 Months June 30, 2010
Deferred income tax expense increase	\$ 866	\$ 1,424
Income tax recovery on other comprehensive losses	(866)	(1,112)
Reduction to comprehensive income	\$ -	\$ 312

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2011 and 2010 (unaudited)

### 19. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS:*

##### (q) Retained earnings:

The above changes had the following impact on retained earnings:

	June 30, 2010
Employee future benefits	\$ (8,505)
Investment in associate company	(1,473)
Property, plant and equipment	13,779
Decommissioning provisions	(2,632)
Share-based payments	(946)
Tax reduction of deferred income tax assets for loss carry-forwards not recognized	(2,059)
Reduction to retained earnings due to IFRS adjustments	(1,836)
Reclassifications due to IFRS	
Currency translation adjustments	(24,855)
Reduction to retained earnings	\$ (26,691)

The impact on the Statement of Comprehensive Income was:

	3 Months June 30, 2010	6 Months June 30, 2010
Production expense increase		
Employee future benefits	\$ 32	\$ 21
Decommissioning provisions	507	731
	539	752
Long term incentive compensation recovery	(488)	(814)
Equity in earnings of associate company increase	(8)	(18)
Deferred income tax expense	866	1,424
Increase to net loss	909	1,344
Other comprehensive loss increase:		
Defined benefit plan actuarial losses	3,464	4,448
Equity share of associate's defined benefit plan actuarial losses	287	571
Income tax recovery on other comprehensive losses	(866)	(1,112)
Increase in other comprehensive loss	2,885	3,907
Increase in comprehensive loss	\$ 3,794	\$ 5,251



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