



# International Forest Products Limited

## First Quarter Report

### For the three months ended March 31, 2011

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## Management's Discussion and Analysis

Dated as of May 17, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three months ended March 31, 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 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 Financing Activities"; 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

The Company recorded a net loss of \$1.7 million, or \$0.04 per share for the first quarter of 2011 as compared to a net loss of \$3.8 million, or \$0.08 per share for the first quarter of 2010. EBITDA and Adjusted EBITDA for the first quarter of 2011 improved to \$12.8 million and \$12.7 million, compared to \$10.0 million for both for the same quarter of 2010.

Before restructuring costs, foreign exchange gains (losses), other one-time items and the effect of unrecognized tax assets, the Company's net loss for the first quarter of 2011 amounted to \$0.5 million or \$0.01 per share as compared to a net loss of \$2.2 million, or \$0.05 per share for the first quarter of 2010. Share-based incentive compensation totalled \$3.5 million or \$0.07 per share in the first quarter, 2011 as compared to \$0.1 million with a negligible impact on per share amounts for the same quarter, 2010.

The first quarter of 2011 continued to be affected by slow North American lumber demand as the U.S. housing starts remained sluggish due to ongoing high unemployment, foreclosures and an ongoing oversupply of homes in the U.S. Seasonally adjusted U.S. housing starts declined to 549,000 units in March 2011, 13.4% lower than the March 2010 pace when homebuyer tax credits were still available. In addition, severe weather conditions through the Northeastern and Midwestern U.S. hampered transportation resulting in lower sales volumes through the quarter.

However, increased demand from Asia, particularly China has helped to offset the reduced demand in North America and the increased sales to those markets helped to keep product prices at reasonable levels through the first quarter, 2011.

Cedar shipments have also been impacted by weather related issues and seasonal demand. Slow markets and a tight log supply resulted in some production curtailments during the first quarter, 2011.

Results quarter-over-quarter have also been impacted by the further strengthened Canadian dollar which, relative to its U.S. counterpart appreciated by over five percent on average for the first quarter, 2011 compared to the same period 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. The closing of the Offering included the exercise in full of the overallotment option of 1,072,500 shares by the Underwriters. 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 Accounting 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 under "Accounting Policy Changes" and in the notes to the condensed consolidated unaudited financial statements as at and for the quarter ended March 31, 2011.

## Sales

Lumber shipments totalled 313 million board feet for the first quarter, 2011, up almost 20% over the same quarter, 2010 with the addition of production from the Castlegar sawmill and higher operating rates at the Company's U.S. mills. Shipments were challenged by weather-related logistical issues during the first quarter, 2011 as well as delays associated with railcar, truck and container availability, particularly in the B.C. Interior.

Excluding wholesale programs, shipments to China more than doubled as compared to the first quarter, 2010 driving the majority of the growth in lumber sales volume this quarter. North American markets remained stagnant in terms of total sales volumes, quarter-over-quarter, but declined to 64% of total lumber shipments in the first quarter, 2011 from 74% of shipments in the first quarter, 2010.

Unit lumber sales values increased by \$15 per mfbm, or 3.7%, for the first quarter, 2011 reflecting improved North American structural lumber product prices relative to the same period in 2010. This more than offset the impact of a change in sales mix away from higher value cedar products and a decline in cedar prices quarter-over-quarter. Sales returns were also negatively impacted by a stronger Canadian dollar.

Pulp chip and other by-product revenues for the first quarter of 2011 at \$16.4 million were up 24.8% compared to the first quarter of 2010, coinciding with an increase in sales volumes reflecting higher sawmill operating rates. Average chip prices were virtually unchanged, quarter-over-quarter as increased prices in the U.S. were offset by the stronger Canadian dollar on translation.

Compared to the same period, 2010, there was an improvement of \$3.4 million or almost 20% in log sales in the first quarter, 2011. Canadian operations, which generate the bulk of log sales, showed an increase of 26.3% in volumes over the same quarter, 2010, primarily as a result of the considerable increase in logging activity in the B.C. Interior. On the B.C. Coast, a threefold increase in export log sales volume offset a reduction in domestic sales by the same amount. This is reflected as well in the average sale price for log sales in B.C. which decreased by \$3 per cubic metre to \$61 per cubic metre with a shift in sales mix towards smaller, lower value logs in the B.C. Interior, partially offset by realizations on higher value export logs.

## Operating Costs

Production costs for the first quarter of 2011 increased \$30.9 million, or 24.7% compared to the same period in 2010.

Overall lumber production increased by 73.4 million board feet, or 28.4% in the first quarter, 2011 as compared to the same period 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 quarter, 2010 and operated throughout the first quarter, 2011. Lumber production on the B.C. Coast was impeded by the availability of fibre supply as a result of reduced logging activity on the B.C. Coast due in part to access issues caused by the storm damage in late 2010.

Compared to the same period in 2010, B.C. log production grew by 25.9% to 815,600 cubic metres from 648,000 cubic metres. Significant logging activity in the B.C. Interior resulting from seasonal logging and increased fibre demands to meet increased operating rates more than offset storm related reductions in logging activity on the B.C. Coast.

Unit cash conversion costs declined on average by 7.0%, quarter-over-quarter as compared to 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 in the U.S. sawmills 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 the first quarter, 2011 as compared to the same quarter 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 fibre through purchase and timber sale agreements. The impact of the increased log costs for the U.S. operations was mitigated in part by the stronger Canadian dollar.

The Company recorded a \$2.2 million advance against its business interruption insurance claim to compensate it for lost profits resulting from the storm damage on the B.C. Coast which occurred in the late fall, 2010. The claim for property damage is not yet finalized as total costs are yet to be determined. The diminished ability to log in storm damaged areas reduced the logs available for external sales and resulted in downtime for the B.C. Coastal sawmills in the first quarter, 2011 and consequently, the advance was netted against production costs.

Export taxes increased by \$0.5 million, or 29.3% greater than the first quarter, 2010. As prices in both years were low enough to attract the maximum rate of 15% tax, the increase in the dollar amount of export taxes corresponds with a 33.7% increase in Canadian shipment volumes to the U.S.

A 68.3% increase in export sales volumes necessitated expansion of export sales administration, resulting in a \$0.8 million increase in selling and administrative costs for the first quarter of 2011 compared to the first quarter of 2010.

Long-term incentive compensation ("LTIC") expense, which reflects changes in the estimated fair value of the share-based compensation plans was an expense of \$3.5 million for the first quarter of 2011 (Quarter 1, 2010 - \$0.1 million). Fair value is estimated based on a number of components including current market price of the underlying shares, strike price, expected volatility, vesting periods and the expected life of the awards. The most significant contributor to the increased fair value of the LTIC liability quarter-over-quarter is the rise in the Company's share price.

First quarter, 2011, depreciation of plant and equipment at \$7.3 million was 12.3% higher than the corresponding quarter in 2010, due to the impact of higher operating rates primarily at the B.C. Interior and the U.S. Pacific Northwest sawmills.

Road amortization and depletion expense for the first quarter of 2011 decreased \$0.2 million vis-à-vis the same quarter of 2010, with significantly less logging activity on the B.C. Coast due to the lack of access to logging areas as a result of damage from severe storms which occurred in the fall of 2010.

Restructuring costs of \$0.8 million resulted from the buyout of a logging contractor's Bill 13 entitlements and severance costs related to early retirement of hourly workers in the first quarter of 2011. Restructuring costs were negligible in the first quarter of 2010.

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

Despite an overall increase in average debt levels, first quarter, 2011, interest expense decreased by \$0.2 million compared to the first quarter of 2010 arising from a decrease in the Company's overall lending rates and the impact of a stronger Canadian dollar on interest on U.S. denominated debt.

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.

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

Equity income at \$1.4 million for the first quarter, 2010 represented equity participation in the earnings of the

Seaboard General Partnership ("SGP"). On January 5, 2011 all other partners in the partnership withdrew. 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 first quarter of 2011, the Company recorded an income tax recovery of \$0.4 million (Quarter 1, 2010 - \$0.2 million expense) which excludes the benefit of \$0.3 million of certain deferred income tax assets arising from loss carry-forwards available to reduce future taxable income which were not recognized (Quarter 1, 2010 - \$1.6 million). Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities.

### Cash Flow and Financial Position

Cash generated by the Company from operations, before changes in non-cash working capital items, was \$13.0 million in the first quarter, 2011 compared with \$10.1 million a year ago. The increase in cash flow quarter-over-quarter was due to higher overall sales values and volumes, particularly in the B.C. Interior operations.

Upon conversion to IFRS, we now include interest payments in financing activities rather than operating activities in the Company's cash flow statement. Prior period figures have been retroactively restated to reflect this reclassification.

Including changes in non-cash working capital items resulted in cash generated from operations of \$3.9 million for the first quarter of 2011, compared to cash generated of \$11.7 million for the first quarter of 2010. Significant increases in logging activity in the B.C. Interior before spring break-up, increased lumber production as well as weather-related logistical issues causing shipping delays resulted in an inventory build-up of \$12.7 million. The increase in accounts receivable of \$7.2 million, offset by a \$10.4 million rise in accounts payable was the result of the higher operating rates and export shipments in the first quarter, 2011.

Capital expenditures for the first quarter of 2011 totalled \$8.0 million (Quarter 1, 2010 - \$19.7 million) with \$2.2 million spent on high-return discretionary projects, \$2.0 million on business maintenance expenditures and \$3.8 million on road construction. These expenditures were funded by net drawings of \$7.0 million on the Company's Revolving Term Line during the first quarter, 2011. Capital expenditures in the first quarter, 2010 include the acquisition of a timber tenure in the Kamloops region and were funded through net drawings of \$18.3 million on the Revolving Term Line.

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 SGM of \$4.8 million.

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

As at March 31, 2011, the Revolving Term Line was drawn by US\$30.2 million (revalued at the quarter-end exchange rate to \$29.3 million) and \$133.0 million for total drawings of \$162.3 million, leaving an unused available line of \$37.7 million. The Company's Operating Line of \$65 million had no borrowings other than outstanding letters of credit of \$4.9 million, leaving an unused available line of \$60.1 million. Including cash of \$14.9 million and Seaboard's unutilized lines, the Company had available resources of \$114.1 million as at March 31, 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.

In addition, 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. The closing of the Offering included the exercise in full of the over-allotment option of 1,072,500 shares by the Underwriters. For full details of the Offering see the short form prospectus filed on March 31, 2011 on [www.sedar.com](http://www.sedar.com).

Despite some signs of improvement in global market conditions, Interfor continues to monitor discretionary capital expenditures carefully. 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 March 31, 2011, the Company had cash of \$14.9 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the quarter with net debt of \$147.4 million or 29.9% of invested capital.

After completion of the share offering net debt over invested capital improved to approximately 20%.

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

Quarterly Earnings Summary	International Financial Reporting Standards					Previous Canadian GAAP		
	2011	2010				2009 <sup>2</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
	(millions of dollars except share and per share amounts)							
Sales – Lumber	132.5	137.5	113.1	123.7	107.6	93.1	76.8	62.3
– Logs	20.8	20.6	21.9	19.8	17.4	17.3	17.3	13.0
– Wood chips and other by-products	16.4	15.7	14.0	13.3	13.2	12.2	8.9	5.9
– Ocean freight and other <sup>6</sup>	10.0	2.4	2.4	1.0	1.7	2.9	2.2	0.6
Total Sales	179.7	176.3	151.5	157.9	139.9	125.5	105.2	81.8
Operating earnings (loss) before restructuring costs	1.0	1.5	(2.0)	(0.9)	(2.4)	(7.8)	(7.0)	(16.4)
Operating earnings (loss)	0.2	1.5	(2.5)	(2.0)	(2.5)	(7.8)	(10.4)	(16.3)
Net earnings (loss)	(1.7)	0.8	1.4	(3.5)	(3.8)	(5.0)	9.7	(15.0)
Net earnings (loss) per share – basic and diluted	(0.04)	0.02	0.03	(0.07)	(0.08)	(0.11)	0.21	(0.32)
EBITDA <sup>7</sup>	12.8	14.6	15.3	13.7	10.0	6.3	25.3	(7.3)
Adjusted EBITDA <sup>7</sup>	12.7	14.5	10.6	13.3	10.0	5.7	3.6	(7.3)
Cash flow from operations per share <sup>3</sup>	0.27	0.22	0.18	0.25	0.21	0.06	(0.07)	(0.23)
Shares outstanding – end of period (millions) <sup>4</sup>	47.5	47.4	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.4	47.2	47.1	47.1	47.1	47.1	47.1	47.1
Average foreign exchange rate per US\$1.00 <sup>5</sup>	0.9856	1.0131	1.0395	1.0283	1.0401	1.0571	1.0980	1.1669
Closing foreign exchange rate per US\$1.00 <sup>5</sup>	0.9696	0.9946	1.0290	1.0646	1.0158	1.0510	1.0707	1.1630

1 Tables may not add due to rounding.

2 Quarters are not restated for conversion to IFRS.

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

4 As at May 17, 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.

5 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.

6 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.

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

	International Financial Reporting Standards					Previous Canadian GAAP		
	2011	2010				2009 <sup>3</sup>		
	Q1	Q4	Q3	Q2	Q1	Q4 <sup>3</sup>	Q3 <sup>3</sup>	Q2 <sup>3</sup>
	(millions of dollars)							
Net earnings (loss)	(1.7)	0.8	1.4	(3.5)	(3.8)	(5.0)	9.7	(15.0)
Add: Income taxes (recovery)	(0.4)	(0.5)	(0.2)	1.0	0.2	(3.3)	0.1	(3.6)
Finance costs	2.3	2.5	2.6	2.8	2.6	2.0	2.2	2.0
Depreciation, depletion and amortization	11.7	11.7	11.0	12.3	11.1	12.5	9.9	9.5
Other foreign exchange (gains) losses	0.1	0.2	0.1	0.1	-	0.1	-	(0.1)
Restructuring costs, asset write-downs and other	0.8	-	0.5	1.1	-	0.1	3.3	(0.1)
EBITDA	12.8	14.6	15.3	13.7	10.0	6.3	25.3	(7.3)
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	12.7	14.5	10.6	13.3	10.0	5.7	3.6	(7.3)

### Volume and Price Statistics

		2011		2010			2009		
		Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Lumber sales	(million fbm)	313	321	277	270	264	234	181	131
Lumber production	(million fbm)	332	303	272	277	258	245	180	115
Log sales <sup>1</sup>	(thousand cubic metres)	301	292	289	262	239	261	242	216
Log production <sup>1</sup>	(thousand cubic metres)	816	794	595	624	648	533	378	312
Average selling price – lumber <sup>2</sup>	(\$/thousand fbm)	\$423	\$428	\$408	\$459	\$408	\$398	\$424	\$477
Average selling price – logs <sup>1</sup>	(\$/cubic metre)	\$61	\$64	\$73	\$68	\$64	\$62	\$69	\$56
Average selling price – pulp chips	(\$/thousand fbm)	\$40	\$42	\$40	\$37	\$40	\$39	\$38	\$40

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 woods closures. Generally, the Company's coastal logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the interior is generally higher in the first half of the first quarter, slows during spring thaw and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

The impact of the global recession in late 2008 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 which continued through the remaining quarters of 2010 and the first quarter, 2011.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's sales are to export markets and priced in \$US. A strong Canadian dollar reduces the lumber sales realizations in Canada, but 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 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 March 31, 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 March 31, 2010 and December 31, 2010 for comparative purposes<sup>1</sup>:

	January 1 2010	March 31 2010	December 31 2010
		(millions of dollars)	
Equity under Canadian GAAP	\$ 358.0	\$ 349.6	\$ 347.3
Transition election to fair value property	15.7	15.7	15.7
Employee future benefits	(6.9)	(7.8)	(9.0)
Decommissioning liabilities	(2.8)	(3.0)	(3.3)
Share based compensation	(2.1)	(1.7)	(2.2)
Equity participation in associate's income	(0.9)	(1.2)	(1.1)
Deferred income taxes	0.3	-	-
<b>Total IFRS adjustments to equity</b>	<b>3.4</b>	<b>2.0</b>	<b>0.2</b>
<b>Equity under IFRS</b>	<b>\$ 361.4</b>	<b>\$ 351.6</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 months ended March 31, 2010 and the year ended December 31, 2010 under IFRS:<sup>1</sup>

	Three months ended March 31, 2010	Year ended December 31, 2010
	(millions of dollars)	
Comprehensive income (loss) under Canadian GAAP	\$ (8.4)	\$ (11.6)
Profit adjustments		
Employee future benefits	-	0.4
Decommissioning liabilities	(0.2)	(0.5)
Share based compensation	0.3	(0.1)
Equity participation in associate's income <sup>2</sup>	-	-
Plant and equipment <sup>2</sup>	-	-
Deferred income taxes	(0.6)	(0.9)
<b>Total IFRS adjustments to net earnings</b>	<b>(0.4)</b>	<b>(1.3)</b>
Other comprehensive income adjustments		
Employee future benefits – actuarial gains (losses)	(1.0)	(2.5)
Equity participation in associate's employee future benefits actuarial gains (losses)	(0.3)	(0.1)
Deferred income taxes	0.2	0.6
<b>Total other comprehensive income adjustments</b>	<b>(1.0)</b>	<b>(2.0)</b>
<b>Comprehensive income (loss) under IFRS</b>	<b>\$ (9.9)</b>	<b>\$ (14.8)</b>

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

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

### *IFRS Impact on Cash Flow Statement*

The only impact of IFRS on the Statement of Cash Flows is in the presentation of cash interest paid as a financing activity. Under previous Canadian GAAP, cash interest paid was included as an operating activity.

As a result, this presentation change will increase the cash flows from operating activities and reduce cash flows from financing activities in future periods by the equivalent amount. For the three months ended March 31, 2010 operating cash flows increased by \$2.5 million compared to Canadian GAAP, with cash flow from financing activities reduced by the same amount. There is no impact on cash and cash equivalents as a result of this presentation change.

### *IFRS Impact on Financial Statement Presentation*

The transition to IFRS has resulted in numerous presentation changes in the financial statements. The significant changes are summarized as follows:

- Other intangible assets include software licences. These licences were previously included in Property, plant and equipment;
- The Statement of Financial Position will present additional disclosure of balances separately including employee future benefits assets and provisions and the investment in associate company;
- Finance costs includes interest on debt, accretion expense for decommissioning provisions, and amortization of prepaid financing costs. Accretion was previously included in Production costs. Amortization of prepaid financing costs was previously included in Depletion and amortization of timber, roads and other; and
- Interest paid will be presented as a financing activity in the Statement of Cash Flows, as previously described.

The above changes are reclassifications within the financial statements and have no impact on net earnings or equity.

### *IFRS Impact on Key Performance Measures*

The transition to IFRS did not significantly impact the Company's financial covenants and key ratios that have an equity component.

### *IFRS Impact on Controls and Information Systems*

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

### *IFRS Future Changes*

The standard-setting bodies that set IFRS have significant ongoing project 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, financial instruments, leases and employee future benefits with Exposure Drafts currently in circulation for comment.

## **Controls and Procedures**

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended March 31, 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 March 31, 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 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outlook**

Despite anticipated seasonal increases in home construction and renovations in the coming months there is little expectation of any significant and sustained improvement in the U.S. housing market through 2011. Canadian housing markets are forecast to show slight improvement over the balance of 2011.

Demand from Asian export markets, strong through the first quarter, 2011, is expected to continue through 2011 though possibly at a slightly less robust pace of growth. The positive price impacts of lumber production being redirected to offshore markets appears to be weakening as increased production has tipped the supply-demand balance resulting in an oversupply of product available to North American markets. Average prices reported by Random Lengths for Western SPF 2x4 #2&Btr dropped by just over 16 percent or US\$46 per mfbm by the end of April, 2011 from the last week of March, 2011.

As Japan deals with unfortunate impacts of the March 2011 earthquake and tsunami, lumber markets are not expected to grow for several quarters until clean-up efforts are well underway and rebuilding of devastated areas can begin.

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

In the face of these challenges Interfor intends to maintain the same disciplined approach to managing its business and focusing on those items that help position Interfor to deliver above average returns on capital invested as markets renew.

## **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 months ended March 31, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars except earnings per share)

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
<b>Sales</b>	<b>\$ 179,745</b>	<b>\$ 139,939</b>
<b>Costs and expenses:</b>		
Production	156,124	125,199
Selling and administration	4,971	4,169
Long term incentive compensation expense	3,541	89
Export taxes	2,364	1,829
Depreciation of plant and equipment (note 10)	7,286	6,489
Depletion and amortization of timber, roads and other (note 10)	4,414	4,594
	<b>178,700</b>	<b>142,369</b>
<b>Operating earnings (loss) before restructuring costs</b>	<b>1,045</b>	<b>(2,430)</b>
Restructuring costs (note 11)	850	33
<b>Operating earnings (loss)</b>	<b>195</b>	<b>(2,463)</b>
Finance costs (note 12)	(2,274)	(2,565)
Other foreign exchange gain (loss)	(75)	7
Other income (expense) (note 13)	29	(25)
Equity in earnings of associate company	-	1,375
	<b>(2,320)</b>	<b>(1,208)</b>
<b>Loss before income taxes</b>	<b>(2,125)</b>	<b>(3,671)</b>
<b>Income taxes (recovery):</b>		
Current	38	40
Deferred	(433)	113
	<b>(395)</b>	<b>153</b>
<b>Net loss</b>	<b>(1,730)</b>	<b>(3,824)</b>
<b>Other comprehensive loss:</b>		
Foreign currency translation differences – foreign operations	(3,297)	(5,005)
Defined benefit plan actuarial gains (losses)	124	(984)
Equity share of associate's defined benefit plan actuarial losses	-	(284)
Income tax recovery (expense) on other comprehensive income	(31)	246
	<b>(3,204)</b>	<b>(6,027)</b>
<b>Total comprehensive loss for the period</b>	<b>\$ (4,934)</b>	<b>\$ (9,851)</b>
<b>Net loss per share, basic and diluted (note 14)</b>	<b>\$ (0.04)</b>	<b>\$ (0.08)</b>

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars)

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
<b>Net loss</b>	\$ (1,730)	\$ (3,824)
<b>Items not involving cash:</b>		
Depreciation of plant and equipment	7,286	6,489
Depletion and amortization of timber, roads and other	4,414	4,594
Deferred income tax expense (recovery)	(433)	113
Income tax expense	38	40
Finance costs	2,274	2,565
Reforestation liability	1,310	1,992
Other liabilities and provisions	43	(286)
Equity in earnings of associate company	-	(1,375)
Unrealized foreign exchange losses (gains)	(212)	(255)
Other (note 13)	(29)	8
	12,961	10,061
<b>Cash generated from (used in) operating working capital:</b>		
Trade accounts receivable and other	(7,172)	1,418
Inventories	(12,713)	(7,070)
Prepayments	567	1,729
Trade accounts payable and accrued liabilities	10,407	5,297
Income taxes refunded (paid)	(117)	227
	3,933	11,662
<b>Investing activities:</b>		
Additions to property, plant and equipment	(4,151)	(573)
Additions to logging roads	(3,799)	(3,756)
Additions to timber and other intangible assets	(42)	(15,333)
Proceeds on disposal of property, plant, and equipment	29	14
Cash received on acquisition of subsidiary (note 5)	4,846	-
Investments and other assets	(1,207)	(1,897)
	(4,324)	(21,545)
<b>Financing activities:</b>		
Issuance of capital stock	876	-
Interest payments	(1,828)	(2,534)
Additions to long-term debt (note 8(b))	25,000	90,819
Repayments of long-term debt (note 8(b))	(18,000)	(72,534)
	6,048	15,751
<b>Foreign exchange loss on cash and cash equivalents held in a foreign currency</b>	(90)	(42)
<b>Increase in cash</b>	5,567	5,826
<b>Cash and cash equivalents, beginning of year</b>	9,301	3,802
<b>Cash and cash equivalents, end of period</b>	\$ 14,868	\$ 9,628

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

March 31, 2011, December 31, 2010 and January 1, 2010 (unaudited)

(thousands of Canadian dollars)	Mar. 31, 2011	Dec. 31, 2010	Jan. 1, 2010 (note 19)
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 14,868	\$ 9,301	\$ 3,802
Trade accounts receivable and other	54,099	45,961	32,951
Income taxes recoverable	-	-	230
Inventories (note 7)	83,924	71,762	60,159
Prepayments	8,288	8,334	7,777
	<u>161,179</u>	<u>135,358</u>	<u>104,919</u>
<b>Investment in associate company (notes 5 and 6)</b>	-	16,074	7,855
<b>Employee future benefits</b>	2,618	515	972
<b>Other investments and assets</b>	2,613	2,636	1,164
<b>Property, plant and equipment</b>	341,537	347,990	370,804
<b>Logging roads and bridges</b>	17,434	17,063	16,485
<b>Timber licences</b>	79,168	80,154	67,010
<b>Other intangible assets</b>	1,602	1,723	2,445
<b>Goodwill</b>	13,078	13,078	13,078
<b>Asset classified as held for sale</b>	-	-	3,424
	<u>\$ 619,229</u>	<u>\$ 614,591</u>	<u>\$ 588,156</u>
<b>Liabilities and Equity</b>			
<b>Current liabilities:</b>			
Trade accounts payable and accrued liabilities	\$ 63,944	\$ 50,053	\$ 38,482
Reforestation liability	10,620	9,785	6,772
Income taxes payable	767	230	-
Payable to associate (note 6)	-	15,738	3,096
	<u>75,331</u>	<u>75,806</u>	<u>48,350</u>
<b>Reforestation liability</b>	18,770	17,325	16,588
<b>Long-term debt (note 8(b))</b>	162,282	156,037	144,525
<b>Employee future benefits</b>	5,835	5,815	5,428
<b>Other liabilities and provisions</b>	11,555	12,158	11,856
<b>Equity:</b>			
Share capital (note 9)			
Class A subordinate voting shares	286,238	285,362	284,500
Class B common shares	4,080	4,080	4,080
Contributed surplus	7,476	5,408	5,408
Reserves	(10,943)	(7,646)	-
Retained earnings	58,605	60,246	67,421
	<u>345,456</u>	<u>347,450</u>	<u>361,409</u>
	<u>\$ 619,229</u>	<u>\$ 614,591</u>	<u>\$ 588,156</u>

**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 three months ended March 31, 2011 and 2010 and year ended December 31, 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, 2010</b>	\$ 284,500	\$ 4,080	\$ 5,408	\$ -	\$ 67,421	\$ 361,409
<b>Net loss for the period:</b>	-	-	-	-	(3,824)	(3,824)
<b>Other comprehensive loss:</b>						
Foreign currency translation differences						
– foreign operations	-	-	-	(5,005)	-	(5,005)
Defined benefit plan actuarial losses, net of tax	-	-	-	-	(738)	(738)
Equity in associate defined benefit plan actuarial losses	-	-	-	-	(284)	(284)
<b>Balance at March 31, 2010</b>	\$ 284,500	\$ 4,080	\$ 5,408	\$ (5,005)	\$ 62,575	\$ 351,558
	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>	-	-	-	-	(1,730)	(1,730)
<b>Other comprehensive income (loss):</b>						
Foreign currency translation differences						
– foreign operations	-	-	-	(3,297)	-	(3,297)
Defined benefit plan actuarial gains, net of tax	-	-	-	-	93	93
<b>Contributions:</b>						
Share options exercised	876	-	-	-	-	876
<b>Changes in ownership interests in investee:</b>						
Acquisition of subsidiary	-	-	2,068	-	(4)	2,064
<b>Balance at March 31, 2011</b>	\$ 286,238	\$ 4,080	\$ 7,476	\$ (10,943)	\$ 58,605	\$ 345,456
	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>	-	-	-	-	(5,193)	(5,193)
<b>Other comprehensive loss:</b>						
Foreign currency translation differences						
– foreign operations	-	-	-	(7,646)	-	(7,646)
Defined benefit plan actuarial losses, net of tax	-	-	-	-	(1,867)	(1,867)
Equity in associate defined benefit plan actuarial losses	-	-	-	-	(115)	(115)
<b>Contributions:</b>						
Share options exercised	862	-	-	-	-	862
<b>Balance at December 31, 2010</b>	\$ 285,362	\$ 4,080	\$ 5,408	\$ (7,646)	\$ 60,246	\$ 347,450

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 months ended March 31, 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 months ended March 31, 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 March 31, 2011. These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Company's first IFRS condensed consolidated interim financial statements for part of the period covered by the first IFRS annual financial statements and 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 is provided in note 19. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition reported under Canadian GAAP to those reported for those periods and at the date of transition under IFRSs.

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 May 17, 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 set out below are the policies that the Company has adopted in its consolidated financial statements for the year ended December 31, 2011. These policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS statement of financial position as at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

#### (a) Principles of consolidation:

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

For business acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net earnings. Transaction costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

As part of its transition to IFRSs, the Company elected not to restate those business combinations that occurred prior to January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous accounting framework, Canadian GAAP.

#### (b) Use of estimates and judgements:

The preparation of the condensed consolidated interim financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates.

## 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 months ended March 31, 2011 and 2010 (unaudited)

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### 3. Significant accounting policies (continued):

#### (b) Use of estimates and judgements (continued):

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Company's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements. Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, share-based compensation, recoverability of assets, rates for depreciation, depletion and amortization, and determination of fair values of assets and liabilities acquired in business combinations and impairment analysis of non-financial assets including goodwill.

#### (c) Financial instruments:

##### i. Non-derivative financial instruments:

Non-derivative financial instruments are comprised of trade and other receivables, cash and cash equivalents, trade accounts payable and accrued liabilities, provisions, and loans and borrowings including long-term debt. The Company recognizes receivables, payables and loans on the date that they are originated at fair value plus, for instruments not at fair value through earnings or loss, any direct transaction costs. All other financial assets, including assets designated at fair value through earnings or loss, are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

Assets designated as at fair value through earnings or loss are measured at fair value and changes therein are recognized in net earnings or loss with transaction costs recognized when incurred. Assets designated as at fair value include cash which consists of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

Trade and other receivables are designated as loans and receivables and measured at amortized cost using the effective interest rate method, less any impairment losses.

Trade payables and accrued liabilities, provisions, and loans and borrowings including long-term debt are designated as other financial liabilities and are measured at amortized cost using the effective interest rate method.

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

##### ii. Derivate financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign currency exposures. Foreign exchange exposure to foreign currency receipts and related receivables, primarily U.S. currency, is managed through the use of foreign exchange forward contracts and options.

The Company has chosen not to designate its derivative forward foreign exchange contracts as hedges. These derivate financial instruments are designated as held for trading and, consequently, are carried on the Statement of Financial Position at fair value, with changes in fair value being recorded as an adjustment to Sales in net earnings.

The Company also trades lumber futures in managing price risk and which are designated as held for trading with changes in fair value being recorded in Other income (expense) in net earnings. Trading activities are closely monitored and restricted including a maximum number of outstanding contracts outstanding at any point in time.

The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis.

#### (d) Inventories:

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

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

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

#### (e) Investments in associates:

Investments over which the Company is able to exert significant influence but not control are accounted for on the equity basis and are recognized initially at cost. The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that it ceases.

Until January 5, 2011, the Company held 60% of the outstanding common shares of Seaboard Shipping Company Ltd. ("Seaboard") with the remaining common shares held by other British Columbia forestry companies. Although the Company owned over 50% of the common shares of Seaboard, the shareholders had entered into agreements that limited the Company's ability to control Seaboard's strategic decisions. In addition, net earnings of Seaboard were distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership. The Company accounted for its investment in Seaboard using the equity method with the investment adjusted for earnings of Seaboard based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by Seaboard.

## 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 months ended March 31, 2011 and 2010 (unaudited)

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### 3. Significant accounting policies (continued):

#### (e) Investments in associates (continued):

On January 5, 2011 Seaboard became a wholly owned subsidiary of the Company and its accounts were consolidated from the date of change in control.

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

Property, plant and equipment and logging roads and bridges are recorded at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Depreciation on machinery and equipment is provided on the basis of hours operated relative to the asset's lifetime estimated operating hours. Depreciation on all other assets is provided on a straight-line basis (ranging from 2.5% to 33%) over the estimated useful lives of the assets.

Road and bridge amortization is computed on the basis of timber cut relative to available timber.

Depreciation and amortization methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Maintenance costs are recorded as expenses during the period as incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized.

As part of its transition to IFRSs, the Company elected to measure a property at its Hammond sawmill site at its fair value and use that fair value as its deemed cost at the date of transition, January 1, 2010.

#### (g) Borrowing costs:

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

#### (h) Timber licences and other intangible assets:

Timber licences and other intangible assets are recorded at cost less accumulated depletion or amortization and accumulated impairment losses. Timber licence depletion is computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization on other intangible assets is provided on a straight-line basis over five years being the estimated useful lives of the assets. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

#### (i) Goodwill:

Goodwill is measured at cost less accumulated impairment losses. See note 3(a) for the policy on measurement of goodwill at initial recognition. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recognized under previous Canadian GAAP.

#### (j) Reforestation and other decommissioning provisions:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences and to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of reforestation and road deactivation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

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. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimate and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities in terms of reforestation; and road structure and terrain for road deactivation.

Discount rates 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.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time (accretion expense) are recognized as Finance costs and revisions to fair value calculations are recognized as Production costs in net earnings as they occur.

#### (k) Environmental costs:

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

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 using a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance Cost in net earnings.

## 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 months ended March 31, 2011 and 2010 (unaudited)

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### 3. Significant accounting policies (continued):

#### (l) Income taxes:

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the substantive enactment date. Deferred tax assets are recognized to the extent that it is considered to be probable that they will be realized.

#### (m) Share-based compensation:

The Company has a Share Option Plan, a Share Appreciation Rights ("SAR") Plan, a Deferred Share Unit ("DSU") Plan and a Total Shareholder Return ("TSR") Plan for directors, officers and certain other eligible employees. The Company follows the fair value method of accounting for share options, SARs, DSUs and TSRs.

Compensation expense is recorded for share options over the vesting period based on the estimated fair market value of the option at the date of grant with a corresponding increase to contributed surplus. In accordance with IFRS 2, *Share-based Payment*, no compensation cost has been recognized for share options granted prior to November 7, 2002. No share options have been granted after November 7, 2002.

Compensation expense is recorded for SARs over the vesting period based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest.

Compensation expense is recorded for DSUs at the time of the grant, as the DSU Plan allows for immediate vesting, based on the fair value at the date of the grant.

Compensation expense is recorded for TSRs over the performance period based on the estimated fair value of the TSRs at the date of the grant. Fair value is measured using a combination of call options which are valued using a Black-Scholes pricing model.

The fair value of the SARs, DSUs and TSRs are subsequently measured at each reporting date with any changes in fair value reflected in the Long-term incentive compensation in net earnings. Liabilities are recorded in Trade accounts payable and accrued liabilities and in Other liabilities on the Statement of Financial Position.

#### (n) Employee future benefits:

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

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

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

Actuarial gains and losses arise from actual experience being different from the assumptions, or changes in actuarial assumptions used to determine the actuarial liability. Actuarial gains and losses are recognized in Retained earnings through Other comprehensive income in the year they arise.

All actuarial gains and losses at January 1, 2010, the date of transition to IFRSs, were recognized in Retained earnings.

#### (o) Sales recognition and presentation policies:

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

#### (p) Finance income and finance costs:

Finance income comprises net interest income on funds invested.

Finance costs comprise net interest expense on borrowings, the unwinding of the discount on decommissioning provisions, the amortization of prepaid finance costs and other related transaction costs.

#### (q) Functional currency:

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

#### (r) Foreign currency transactions:

Transactions in foreign currencies are effectively translated at exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are revalued at each reporting date.

Foreign currency gains or losses arising on revaluation are recognized in Net earnings. Where revaluations relate to trade accounts receivable those foreign currency gains or losses adjust sales revenue; where revaluations relate to trade accounts payable those foreign currency gains or losses adjust production costs.

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### 3. Significant accounting policies (continued):

#### (s) Foreign operations:

- i. Foreign operations with a functional currency of the Canadian dollar:

Transactions in foreign currencies are effectively translated at exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are revalued at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated using the transaction date exchange rate.

Foreign currency gains or losses arising on revaluation are recognized in Net earnings. Where revaluations relate to trade accounts receivable those foreign currency gains or losses adjust sales revenue; where revaluations relate to trade accounts payable those foreign currency gains or losses adjust production costs.

- ii. Foreign operations with a functional currency of the U.S. dollar:

Revenues and expenses denominated in foreign currencies are translated to Canadian dollars at average rates for the period, which approximate the transaction date.

Foreign currency denominated assets and liabilities are translated into Canadian dollars at exchange rates in effect at the reporting date. Since January 1, 2010, related unrealized gains and losses are included in the Foreign currency translation differences – foreign operations in Other comprehensive income and in the Translation Reserve in equity.

Unrealized foreign exchange gains and losses residing in the Translation Reserve will be released to net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in the foreign operation and are recognized in Other comprehensive income and presented in the Translation Reserve in equity.

- iii. Hedge of a net investment in a foreign operation:

Long-term obligations denominated in foreign currencies are from time to time designated as a hedge of the Company's investments in foreign operations and with resulting unrealized foreign exchange gains and losses recognized in Other Comprehensive Income in to the extent that the hedge is effective and presented in the Translation Reserve in equity. To the extent that the hedge is ineffective, such differences are recognized in Other foreign exchange gain (loss) in net earnings. When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting any accumulated unrealized foreign exchange gains and losses remain in the Translation Reserve. Unrealized foreign exchange gains and losses arising subsequent to termination of the designation of the hedge relationship are recorded in Other foreign exchange gain (loss) in net earnings. When the hedged net investment is disposed of, the relevant amount in the Translation Reserve is reclassified to Net earnings as part of the gain or loss on disposal.

#### (t) Net earnings (loss) per share:

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

#### (u) Impairment of non-financial assets, goodwill and related measurement uncertainty:

At each reporting date, the Company assesses its non-financial assets to determine whether there are any indications of impairment. Impairment tests are carried out annually for goodwill.

The Company conducts a review of external and internal sources of information to assess for any indications of impairment. External factors include adverse changes in expected future prices, costs and other market and economic factors. Internal factors include changes in the expected useful life of the asset or changes to the planned capacity of the asset. If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell for the asset and the asset's value in use. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to net earnings to reduce the carrying amount in the Statement of Financial Position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use of the asset and cannot take into account future capital enhancements.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units ("CGUs"). CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

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### 3. Significant accounting policies (continued):

#### (u) Impairment of non-financial assets, goodwill and related measurement uncertainty (continued):

Impairment assessments are based on a range of estimates and assumptions, including lumber and chip sales prices, operating rates of the assets, raw material and conversion costs, sales volumes, the level of export taxes, and an appropriate discount rate. The Company has analyzed external data in determining appropriate assumptions.

For non-financial assets other than goodwill, impairments previously recognized may be reversed if the internal and external factors and estimates that led to the initial recognition of an impairment in a prior period indicate that the loss has decreased or no longer exists. An impairment loss is reversed if the recoverable amount exceeds the current carrying amount. The reversal is only to a maximum of the carrying amount that would have been recorded had the impairment loss not been recognized originally. An impairment loss for goodwill is not reversed.

#### (v) 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. This standard is in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements.

### 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		1,333
		8,129
Liabilities assumed:		
Current liabilities		(5,422)
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
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.

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### 7. Inventories:

	Mar. 31, 2011	Dec. 31, 2010	Jan. 1, 2010
Logs	\$ 41,578	\$ 39,107	\$ 31,011
Lumber	37,295	27,353	24,301
Other	5,051	5,302	4,847
	\$ 83,924	\$ 71,762	\$ 60,159

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at March 31, 2011 was \$7,339,000 (December 31, 2010 - \$6,253,000; January 1, 2010 - \$8,483,000).

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

#### (a) Bank indebtedness:

	Canadian Operating Facility	SSCo Operating Facility	SISCO Operating Facility	Total
March 31, 2011				
Available line of credit	\$ 65,000	\$ 2,000	\$ 3,000	\$ 70,000
Maximum borrowing available	65,000	1,403	153	66,556
Operating Line drawings	-	-	-	-
Outstanding letters of credit included in line utilization	4,945	-	128	5,073
Unused portion of line	60,055	1,403	25	61,483
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 and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The maturity date is July 28, 2012. As at March 31, 2011, there were no drawings under the Operating Line (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 March 31, 2011 there were no drawings under these lines other than letters of credit.

#### (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 March 31, 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 \$29,282,000 (December 31, 2010 - \$30,037,000), and \$133,000,000 (December 31, 2010 - \$126,000,000) for total drawings of \$162,282,000 (December 31, 2010 - \$156,037,000) leaving an unused available line of \$37,718,000.

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 \$755,000 (March 31, 2010 - \$1,063,000) arising on revaluation of the Revolving Term Line for the quarter ending March 31, 2011 were recognized in Other comprehensive income.

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

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### 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	
March 31, 2012	\$ -
March 31, 2013	-
March 31, 2014	162,282
March 31, 2015	-
March 31, 2016	-
	<u>\$ 162,282</u>

### 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	187,000	-	187,000	876
Balance, March 31, 2011	46,524,676	1,015,779	47,540,455	\$ 290,318

### 10. Depreciation, depletion and amortization:

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

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
Production	\$ 11,453	\$ 10,837
Selling and administration	247	246
	<u>\$ 11,700</u>	<u>\$ 11,083</u>

### 11. Restructuring costs:

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
Severance costs	\$ 185	\$ 33
Contractor buyout	665	-
	<u>\$ 850</u>	<u>\$ 33</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.

During the first quarter, 2010 the Company revised estimated severance accruals and recorded \$33,000 in additional restructuring costs.

### 12. Finance costs:

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
Interest on borrowing	\$ 1,860	\$ 2,043
Accretion expense	178	201
Amortization of prepaid finance costs	236	321
	<u>\$ 2,274</u>	<u>\$ 2,565</u>

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### 13. Other income (expense):

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
Gain (loss) on disposal of surplus property, plant and equipment	\$ 29	\$ (8)
Other (expense)	-	(17)
	\$ 29	\$ (25)

In the first quarter, 2011, the Company disposed of surplus equipment which generated \$29,000 in proceeds and a gain of \$29,000.

In the first quarter of 2010, minor disposals of surplus equipment resulted in proceeds of \$14,000 and a loss of \$8,000.

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

	3 Months Mar. 31, 2011			3 Months Mar. 31, 2010		
	Net loss	Shares	Per share	Net loss	Shares	Per share
Basic loss per share	\$ (1,730)	47,389	\$ (0.04)	\$ (3,824)	47,117	\$ (0.08)
Share options	-	19*	-	-	57*	-
Diluted loss per share	\$ (1,730)	47,389	\$ (0.04)	\$ (3,824)	47,117	\$ (0.08)

\*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.

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 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 Mar. 31, 2011	3 Months Mar. 31, 2010
Canada	\$ 51,115	\$ 40,597
United States	64,882	60,528
China and Taiwan	31,324	13,897
Japan	20,667	11,809
Other export	11,757	13,108
	\$ 179,745	\$ 139,939

Sales by product line are as follows:

	3 Months Mar. 31, 2011	3 Months Mar. 31, 2010
Lumber	\$ 132,528	\$ 107,618
Logs	20,849	17,435
Wood chips and other by products	16,413	13,151
Ocean freight and other	9,955	1,735
	\$ 179,745	\$ 139,939

### 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.

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### 16. Financial instruments (continued):

As at March 31, 2011, the Company has outstanding obligations to sell a maximum of US\$36,500,000 at an average rate of CAD\$0.9876 to the USD\$1.00 and sell Japanese ¥145,000,000 at an average rate of ¥82.62 to the US\$1.00 during 2011. All foreign currency gains or losses to March 31, 2011 have been recognized in net earnings and the fair value of these foreign currency contracts being an asset of \$686,000 (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 March 31, 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 has been difficult to fully assess the extent of the damage and its related costs. The Company continues to pursue provincial and federal government assistance. Certain losses are covered by insurance and as at March 31, 2011, a receivable of \$486,000 has been set up for recovery of qualifying expenditures, net of the insurance deductible. 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 and an additional receivable. These advances were received in April 2011, together with an additional \$439,000 which was recorded against insurance receivable for property damage. The Company is actively working with its insurers to ensure maximum recovery of future restoration expenditures and business interruption losses.

### 18. Subsequent event:

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 to Interfor of \$57,557,500.

### 19. Explanation of transition to IFRS:

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

The accounting policies set out in note 3 have been applied in preparing the interim financial statements for the three months ended March 31, 2011, the comparative information presented in these interim financial statements for both the three months ended March 31, 2010 and year ended December 31, 2010 and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. 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.

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

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

#### Reconciliation of equity

(thousands of Canadian dollars)	Note	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
January 1, 2010					March 31, 2010				December 31, 2010				
<b>Assets</b>													
<b>Current assets:</b>													
Cash and cash equivalents		\$ 3,802	\$ -	-	\$ 3,802	\$ 9,628	\$ -	-	\$ 9,628	\$ 9,301	\$ -	-	\$ 9,301
Trade accounts receivable and other		32,951	-	-	32,951	31,386	-	-	31,386	45,961	-	-	45,961
Income taxes recoverable		230	-	-	230	-	-	-	-	-	-	-	-
Inventories		60,159	-	-	60,159	66,715	-	-	66,715	71,762	-	-	71,762
Prepayments		7,777	-	-	7,777	6,288	-	-	6,288	8,334	-	-	8,334
Deferred tax assets	<b>a</b>	2,974	(2,974)	-	-	2,825	(2,825)	-	-	3,627	(3,627)	-	-
		107,893	(2,974)	-	104,919	116,842	(2,825)	-	114,017	138,985	(3,627)	-	135,358
<b>Investment in associate company</b>	<b>b, j</b>	-	8,775	(920)	7,855	-	7,043	(1,194)	5,849	-	17,124	(1,050)	16,074
<b>Employee future benefits</b>	<b>c, i</b>	-	6,998	(6,026)	972	-	7,156	(6,706)	450	-	8,054	(7,539)	515
<b>Other investments and assets</b>	<b>b, c</b>	17,060	(15,896)	-	1,164	16,872	(14,473)	-	2,399	28,618	(25,982)	-	2,636
<b>Property, plant and equipment</b>	<b>d, k</b>	357,501	(2,445)	15,748	370,804	346,400	(2,077)	15,748	360,071	333,989	(1,723)	15,724	347,990
<b>Logging roads and bridges</b>		16,485	-	-	16,485	16,302	-	-	16,302	17,063	-	-	17,063
<b>Timber licences</b>		67,010	-	-	67,010	82,154	-	-	82,154	80,154	-	-	80,154
<b>Other intangible assets</b>	<b>d</b>	-	2,445	-	2,445	-	2,077	-	2,077	-	1,723	-	1,723
<b>Goodwill</b>		13,078	-	-	13,078	13,078	-	-	13,078	13,078	-	-	13,078
<b>Asset classified as held for sale</b>		3,424	-	-	3,424	3,424	-	-	3,424	-	-	-	-
		\$ 582,451	\$ (3,097)	\$ 8,802	\$ 588,156	\$ 595,072	\$ (3,099)	\$ 7,848	\$ 599,821	\$ 611,887	\$ (4,431)	\$ 7,135	\$ 614,591

**INTERNATIONAL FOREST PRODUCTS LIMITED**

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Three months ended March 31, 2011 and 2010 (unaudited)

**19. Explanation of transition to IFRSs (continued):**
*Reconciliation of equity*

(thousands of Canadian dollars)	Note	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
January 1, 2010					March 31, 2010				December 31, 2010				
<b>Liabilities and Equity</b>													
<b>Current liabilities:</b>													
Trade accounts payable and accrued liabilities	e, n	\$ 43,510	\$ (6,772)	\$ 1,744	\$ 38,482	\$ 48,469	\$ (6,720)	\$ 1,667	\$ 43,416	\$ 58,267	\$ (9,785)	\$ 1,571	\$ 50,053
Reforestation liability	e	-	6,772	-	6,772	-	6,720	-	6,720	-	9,785	-	9,785
Income taxes payable		-	-	-	-	43	-	-	43	230	-	-	230
Payable to associate company		3,096	-	-	3,096	-	-	-	-	15,738	-	-	15,738
		46,606	-	1,744	48,350	48,512	-	1,667	50,179	74,235	-	1,571	75,806
<b>Reforestation liability</b>	m	14,724	-	1,864	16,588	17,078	-	2,139	19,217	15,017	-	2,308	17,325
<b>Long-term debt</b>		144,525	-	-	144,525	161,677	-	-	161,677	156,037	-	-	156,037
<b>Employee future benefits</b>	c, i	-	4,583	845	5,428	-	4,623	1,138	5,761	-	4,348	1,467	5,815
<b>Other liabilities and provisions</b>	c, m, n	15,316	(4,706)	1,246	11,856	15,380	(4,897)	946	11,429	15,695	(5,152)	1,615	12,158
<b>Deferred income taxes</b>	a, p	3,286	(2,974)	(312)	-	2,825	(2,825)	-	-	3,627	(3,627)	-	-
<b>Equity:</b>													
Share capital													
Class A subordinate voting shares		284,500	-	-	284,500	284,500	-	-	284,500	285,362	-	-	285,362
Class B common shares		4,080	-	-	4,080	4,080	-	-	4,080	4,080	-	-	4,080
Contributed surplus		5,408	-	-	5,408	5,408	-	-	5,408	5,408	-	-	5,408
Reserves	h	(24,855)	24,855	-	-	(29,860)	24,855	-	(5,005)	(32,501)	24,855	-	(7,646)
Retained earnings	h, q	88,861	(24,855)	3,415	67,421	85,472	(24,855)	1,958	62,575	84,927	(24,855)	174	60,246
		357,994	-	3,415	361,409	349,600	-	1,958	351,558	347,276	-	174	347,450
		\$ 582,451	\$ (3,097)	\$ 8,802	\$ 588,156	\$ 595,072	\$ (3,099)	\$ 7,848	\$ 599,821	\$ 611,887	\$ (4,431)	\$ 7,135	\$ 614,591

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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Three months ended March 31, 2011 and 2010 (unaudited)

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

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

(thousands of Canadian dollars)	Note	Previous	IFRSs	IFRSs	IFRSs	Previous	IFRSs	IFRSs	IFRSs
		GAAP	Reclassify	Adjustment		GAAP	Reclassify	Adjustment	
		<b>Three months ended March 31, 2010</b>				<b>Year ended December 31, 2010</b>			
<b>Sales</b>		\$ 139,939	\$ -	\$ -	\$ 139,939	\$ 625,618	\$ -	\$ -	\$ 625,618
<b>Costs and Expenses:</b>									
Production	f, i, k, m	125,187	(201)	213	125,199	557,122	(787)	216	556,551
Selling and administration		4,169	-	-	4,169	17,508	-	-	17,508
Long term incentive compensation expense	n	415	-	(326)	89	1,873	-	93	1,966
Export taxes		1,829	-	-	1,829	7,427	-	-	7,427
Amortization of plant and equipment		6,489	-	-	6,489	28,117	-	-	28,117
Depletion and amortization of timber, roads and other	f	4,915	(321)	-	4,594	19,008	(1,129)	-	17,879
		143,004	(522)	(113)	142,369	631,055	(1,916)	309	629,448
<b>Operating earnings (loss) before restructuring costs</b>		(3,065)	522	113	(2,430)	(5,437)	1,916	(309)	(3,830)
Restructuring costs		33	-	-	33	1,578	-	-	1,578
<b>Operating earnings (loss)</b>		(3,098)	522	113	(2,463)	(7,015)	1,916	(309)	(5,408)
Finance costs	f	-	(2,565)	-	(2,565)	-	(10,441)	-	(10,441)
Interest expense on long-term debt	f	(1,905)	1,905	-	-	(7,944)	7,944	-	-
Other interest expense	f	(138)	138	-	-	(581)	581	-	-
Other foreign exchange gain (loss)		7	-	-	7	(280)	-	-	(280)
Other income (expense)		(25)	-	-	(25)	(25)	-	-	(25)
Equity in earnings of associate company	j	1,365	-	10	1,375	11,446	-	(15)	11,431
		(696)	(522)	10	(1,208)	2,616	(1,916)	(15)	685
<b>Earnings (loss) before income taxes</b>		(3,794)	-	123	(3,671)	(4,399)	-	(324)	(4,723)
<b>Income taxes (recovery):</b>									
Current		40	-	-	40	60	-	-	60
Deferred	p	(445)	-	558	113	(525)	-	935	410
		(405)	-	558	153	(465)	-	935	470
<b>Net loss</b>		(3,389)	-	(435)	(3,824)	(3,934)	-	(1,259)	(5,193)
<b>Other comprehensive loss:</b>									
Foreign currency translation differences – foreign operations		(5,005)	-	-	(5,005)	(7,646)	-	-	(7,646)
Defined benefit plan actuarial losses	i	-	-	(984)	(984)	-	-	(2,490)	(2,490)
Equity share of associate's defined benefit plan actuarial losses	j	-	-	(284)	(284)	-	-	(115)	(115)
Income tax recovery on other comprehensive losses	p	-	-	246	246	-	-	623	623
		(5,005)	-	(1,022)	(6,027)	(7,646)	-	(1,982)	(9,628)
<b>Total comprehensive loss for the period</b>		\$ (8,394)	\$ -	\$ (1,457)	\$ (9,851)	\$ (11,580)	\$ -	\$ (3,241)	\$ (14,821)
<b>Net loss per share, basic and diluted</b>		\$ (0.07)	\$ -	\$ (0.01)	\$ (0.08)	\$ (0.08)	\$ -	\$ (0.03)	\$ (0.11)

## INTERNATIONAL FOREST PRODUCTS LIMITED

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Three months ended March 31, 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.

##### (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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Reserve increase	\$ 24,855	\$ 24,855	\$ 24,855
Reduction to retained earnings	\$ (24,855)	\$ (24,855)	\$ (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.

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### 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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Employee benefit assets	\$ (6,026)	\$ (6,706)	\$ (7,539)
Employee benefit obligations	(845)	(1,138)	(1,467)
Related tax effect	1,718	1,962	2,251
Reduction to retained earnings	\$ (5,153)	\$ (5,882)	\$ (6,755)

The impact on the Statement of Comprehensive Income was:

	3 months ended Mar. 31, 2010	Year ended Dec. 31, 2010
Production expense (recovery)	\$ (11)	\$ (355)
Other comprehensive loss:		
Defined benefit plan actuarial losses	984	2,490
Reduction to comprehensive income before income taxes	\$ 973	\$ 2,135

##### (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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Investment in associate decrease	\$ (920)	\$ (1,194)	\$ (1,050)
Reduction to retained earnings	\$ (920)	\$ (1,194)	\$ (1,050)

The impact on the Statement of Comprehensive Income was:

	3 months ended Mar. 31, 2010	Year ended Dec. 31, 2010
Equity in losses (income)	\$ (10)	\$ 15
Other comprehensive loss:		
Equity share of associate's defined benefit plan actuarial losses	284	115
Reduction to comprehensive income before income taxes	\$ 274	\$ 130

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### 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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Property, plant and equipment increase	\$ 15,748	\$ 15,748	\$ 15,724
Related tax effect	(1,969)	(1,969)	(1,963)
Increase in retained earnings	\$ 13,779	\$ 13,779	\$ 13,761

The impact on the Statement of Comprehensive Income was:

	3 months ended		Year ended
	Mar. 31, 2010	Dec. 31, 2010	
Production expense increase	\$ -	\$ 24	
Reduction to comprehensive income before income taxes	\$ -	\$ 24	

##### (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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Reforestation liability, non-current increase	\$ (1,864)	\$ (2,139)	\$ (2,308)
Other liabilities and provisions increase	(915)	(864)	(1,018)
Related tax effect	695	751	832
Reduction to retained earnings	\$ (2,084)	\$ (2,252)	\$ (2,494)

The impact on the Statement of Comprehensive Income was:

	3 months ended		Year ended
	Mar. 31, 2010	Dec. 31, 2010	
Production expense increase	\$ 224	\$ 547	
Reduction to comprehensive income before income taxes	\$ 224	\$ 547	

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### 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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Trade accounts payable and accrued liabilities increase	\$ (1,744)	\$ (1,667)	\$ (1,571)
Other liabilities and provisions increase	(331)	(82)	(597)
Related tax effect	519	437	542
Reduction to retained earnings	\$ (1,556)	\$ (1,312)	\$ (1,626)

The impact on the Statement of Comprehensive Income was:

	3 months ended		Year ended
	Mar. 31, 2010	Dec. 31, 2010	
Long term incentive compensation expense (recovery)	\$ (326)	\$ 93	
Reduction to (increase in) comprehensive income before income taxes	\$ (326)	\$ 93	

##### (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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Employee future benefits	\$ 1,718	\$ 1,962	\$ 2,251
Property, plant and equipment	(1,969)	(1,969)	(1,963)
Decommissioning provisions	695	751	832
Share-based payments	519	437	542
Reduction of deferred income tax assets for loss carry-forwards not recognized	(651)	(1,181)	(1,662)
Reduction to deferred income tax liability and increase in retained earnings	\$ 312	\$ -	\$ -

The impact on the Statement of Comprehensive Income was:

	3 months ended		Year ended
	Mar. 31, 2010	Dec. 31, 2010	
Deferred income tax expense increase	\$ 558	\$ 935	
Income tax recovery on other comprehensive losses	(246)	(623)	
Reduction to comprehensive income	\$ 312	\$ 312	

**INTERNATIONAL FOREST PRODUCTS LIMITED**

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**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:

	Jan. 1, 2010	Mar. 31, 2010	Dec. 31, 2010
Employee future benefits	\$ (5,153)	\$ (5,882)	\$ (6,755)
Investment in associate company	(920)	(1,194)	(1,050)
Property, plant and equipment	13,779	13,779	13,761
Decommissioning provisions	(2,084)	(2,252)	(2,494)
Share-based payments	(1,556)	(1,312)	(1,626)
Tax reduction of deferred income tax assets for loss carry-forwards not recognized	(651)	(1,181)	(1,662)
Reduction to retained earnings due to IFRS adjustments	3,415	1,958	174
Reclassifications due to IFRS			
Currency translation adjustments	(24,855)	(24,855)	(24,855)
Reduction to retained earnings	\$ (21,440)	\$ (22,897)	\$ (24,681)

The impact on the Statement of Comprehensive Income was:

	3 months ended		Year ended
	Mar. 31, 2010	Mar. 31, 2010	Dec. 31, 2010
Production expense increase			
Employee future benefits		\$ (11)	\$ (355)
Decommissioning provisions		224	547
Property, plant and equipment		-	24
		213	216
Long term incentive compensation expense (recovery)		(326)	93
Equity in earnings of associate company reduction (increase)		(10)	15
Deferred income tax expense (recovery)		558	935
Increase to net loss		435	1,259
Other comprehensive loss increase:			
Defined benefit plan actuarial losses		984	2,490
Equity share of associate's defined benefit plan actuarial losses		284	115
Income tax recovery on other comprehensive losses		(246)	(623)
Increase in other comprehensive loss		1,022	1,982
Increase in comprehensive loss		\$ 1,457	\$ 3,241



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