



**2009**

## **Annual Report**

**Includes:**

- **Financial Highlights 2009**
- **Message to Shareholders**
- **Management Discussion and Analysis Dated February 11, 2010**
- **Consolidated Financial Statements**
- **Annual Information Form Dated February 11, 2010**

**International Forest Products Limited**



**International Forest Products Limited****FINANCIAL HIGHLIGHTS**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
	(in millions of dollars, except share and per share amounts)		
<b>Financial Summary</b>			
Sales	389.8	437.2	611.0
EBITDA <sup>(1)</sup>	16.6	13.7	30.8
Net earnings (loss)	(23.9)	(55.4)	(13.3)
<b>Per Share Data</b>			
Net earnings (loss) per common share			
- basic	(0.51)	(1.18)	(0.28)
- diluted	(0.51)	(1.18)	(0.28)
Price range per share			
\$ High	5.00	6.19	9.84
\$ Low	1.24	1.20	5.02
Book value per share	7.60	8.62	9.09
Cash Flow per share before working capital change	(0.46)	0.28	0.51
Weighted average shares outstanding (millions)	47.1	47.1	47.6
<b>Financial Position</b>			
Total assets	582.5	665.3	545.9
Total debt <sup>(2)</sup>	144.5	168.0	34.7
Total shareholders' equity	358.0	406.2	428.3
Invested capital <sup>(1)</sup>	505.6	577.9	463.0
<b>Financial Ratios (%)</b>			
Return on average shareholders' equity <sup>(1)</sup>	(6.3%)	(13.3%)	(2.9%)
Return on average invested capital, adjusted <sup>(1)</sup>	(3.4%)	(10.3%)	(3.5%)
Net debt as a % of invested capital, adjusted <sup>(1)</sup>	28.2%	29.2%	1.9%

## Notes:

1. See Glossary for definition.
2. Total debt, excluding short-term advances from the Seaboard partnership (2009 - \$3.1m, 2008 - \$3.7m, 2007 - nil)

**"2009 was the most difficult year in the lumber business in more than fifty years. The global financial crisis which began in late 2008 had a material impact on our industry and our Company last year. Housing starts in the U.S. fell to the lowest level in decades and lumber prices dropped dramatically. As far as we know, every publicly-traded company in the industry lost money last year, as did Interfor.**

**However, by acting proactively and sticking to our principles, we were able to avoid the major cash losses that many companies incurred in 2009 and we also made significant progress on a number of strategic initiatives."**

**Message to Shareholders – March 2010**

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



**International Forest Products Limited**  
**MESSAGE TO SHAREHOLDERS**

**OVERVIEW**

2009 was the most difficult year in the lumber business in more than fifty years.

The global financial crisis which began in late 2008 had a material impact on our industry and our Company last year. Housing starts in the U.S. fell to the lowest level in decades and lumber prices dropped dramatically. As far as we know, every publicly-traded company in the industry lost money last year, as did Interfor.

However, by acting proactively and sticking to our principles, we were able to avoid the major cash losses that many companies incurred in 2009.

We also made significant progress on a number of strategic initiatives last year:

- The Queensboro property was sold;
- The Adams Lake sawmill was completed in April and achieved pro forma production in record time;
- The Grand Forks sawmill was re-commissioned in October and set new standards for productivity and costs;
- We made important in-roads into the Chinese lumber market; and
- Our financing agreements were extended in February and again in December.

Taken together, these achievements and others will make Interfor a much stronger company in the years ahead.

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

**MARKET COLLAPSE IMPACTS FINANCIAL RESULTS**

The collapse of the North American housing market accelerated in the first part of 2009, with U.S. housing starts falling from an annualized rate of 658,000 units in the fourth quarter of 2008 to an annualized rate of 528,000 units in the first quarter of 2009.

Lumber prices followed suit as falling demand more than outpaced contractions in supply. The price of benchmark SPF 2x4 dropped from US\$185 per thousand board feet in the fourth quarter to US\$155 per thousand board feet in the first quarter.

For the year, housing starts in the U.S. fell by almost 40% from 2008 levels to an annualized rate of 554,000 units, the lowest level in more than fifty years, and a full 73% below the most recent peak in 2005.

For the year, SPF 2X4 averaged US\$182 per thousand board feet, down US\$39 per thousand board feet or 18% from 2008.

If anything, the specialty cedar business – which is normally an important contributor to our bottom line – was hit even harder than the commodity lumber business, with downward price adjustments ranging from 20% to 30% on most key items.

In light of these conditions, our decision in mid-2008 to proactively curtail operations proved to be exactly the right approach as we were able to limit the Company's exposure to falling product prices and inventory write-downs as the market adjusted downwards.

At the end of the day, Interfor recorded a net loss (before one time items) of \$33.7 million or \$0.72 per share on sales of \$389.8 million in 2009. Including a gain on the sale of the Queensboro property and other one-time items, the Company's net loss was \$23.9 million or \$0.51 per share for the year.

### **QUEENSBORO SALE GENERATES \$29.9 MILLION**

In late September, Interfor concluded the sale of its former Queensboro mill site to Port Metro Vancouver for net proceeds of \$29.9 million, resulting in a one-time after-tax gain of \$19.0 million or \$0.40 per share.

The sale of the Queensboro site was a critically important strategic achievement for the Company due to the uncertainty in financial and property markets that existed at the time of the transaction.

Proceeds from the sale were used to repay debt.

### **ADAMS LAKE PROJECT COMPLETED; WORLD CLASS START-UP ACHIEVED**

In spite of the challenges we faced in 2009, we were able to stay focused on our goal of positioning the Company for long-term success.

In that regard, nothing was more important than the Adams Lake Project which was completed on-time and on-budget in April.

Construction of the new sawmill at Adams Lake, which was budgeted at \$100 million, was the final stage of our Master Plan for the operation which began in 2003. Ground was broken for the new mill in August 2007 and took twenty months to complete.

The new mill commenced full operation on April 17<sup>th</sup> and achieved pro forma production on a per-hour basis on its seventeenth shift which, we believe, is the best start-up of a mill of this size anywhere, ever.

Tremendous credit is due to our Capital Projects group and the team at Adams Lake for the successful construction and start-up of the Adams Lake Project.

The operating schedule at the mill was ramped up over the last half of 2009 and by December it was operating on a full two shift basis and running consistently at 10% above pro forma.

### **GRAND FORKS RE-COMMISSIONED**

Another significant achievement in 2009 was the re-commissioning of the Grand Forks sawmill in October.

The Grand Forks mill was acquired along with another mill in the B.C. Southern Interior at Castlegar from Pope & Talbot, Inc. in April 2008.

The Grand Forks mill had operated off and on since its acquisition and had been curtailed since January 2009; the Castlegar mill has been curtailed since its acquisition. Both mills were high cost operations at the time of the acquisition.

A number of changes have been made to the operating regime at Grand Forks which have led to new standards for productivity and costs at the mill.

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

So far, the results at Grand Forks have been encouraging. The mill has made a positive financial contribution to our results since resuming operations and has laid a solid foundation for future reinvestment.

Less progress has been made at Castlegar. As a result, it is unlikely that mill will re-open any time soon. That said, we continue to believe there is an attractive business opportunity at Castlegar and have identified that operation as one of our organizational priorities for 2010.

### **IMPORTANT IN-ROADS MADE INTO CHINA**

Interfor has been working actively for a number of years to make in-roads into China.

These efforts began to bear fruit in 2009 as shipments to that market increased rapidly in the second half of the year, coincidental with the ramping up of activity at Adams Lake and the re-commissioning of Grand Forks. China is also an important market for our Acorn mill located in Delta, B.C.

In our view, the Chinese market holds tremendous potential. The efforts of the B.C. and Canadian governments and by the industry to promote North American construction technology and products fits well with China's rapidly growing housing requirements and their focus on seismic stability, energy efficiency and carbon sequestration.

Shipments to China also help to divert product away from traditional markets in North America.

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

### **BALANCE SHEET REMAINS STRONG; CREDIT FACILITIES RENEWED**

In spite of the losses incurred in 2009, Interfor's balance sheet remains one of the strongest in the sector. We ended the year with net debt of \$140.7 million, \$27.1 million less than year-end 2008, and with a ratio of net debt to invested capital of 28%.

In February 2009 a commitment was obtained from our lending syndicate to realign and extend our credit facilities. The net effect of this agreement, which was finalized in April, was to increase the Company's available liquidity by \$30 to \$35 million.

In December, our credit facilities were further modified and increased. Once that agreement was finalized in early January, it left the Company with \$265 million in total credit lines and unused credit available of \$116 million.

With our strong balance sheet and renewed credit agreements, Interfor is well-positioned to withstand further market uncertainty and to take advantage of opportunities that are expected to arise in the next year or so.

### **SHARE PRICE BEGINS TO RECOVER BUT STILL BELOW INHERENT VALUE**

Interfor's share price began to recover in 2009, increasing from \$1.70 per share at the end of 2008 to \$4.69 per share at the end of 2009.

While we were pleased with the direction of the stock, we still believe the share price is well below its inherent value.

We fully expect the Company's share price will improve as markets recover and investors come to appreciate the quality of the Company's assets and their cash generating capability.

### **BUSINESS OUTLOOK IMPROVING BUT UNCERTAINTY REMAINS**

Some positive signs are beginning to emerge in the U.S. and offshore laying a foundation for better market conditions in 2010.

In particular, increased demand from China and other offshore markets, along with on-going production curtailments, have contributed to improved demand/supply balances and higher prices on most commodity items.

It is important, however, to keep things in context. The economic recovery is fragile at best and employment has been slow to recover. In our view, it will likely be another year or two before a meaningful recovery takes hold in the North American housing market or in overall product demand.

In the face of this uncertainty we intend to maintain a disciplined approach to production and strict controls on capital spending.

At the same time we will continue to focus on those items within our control which need to be addressed if we expect to reach our goal of becoming one of North America's leading lumber and building products companies.

We look forward to making good progress on these items and others in 2010.

Thank you for your patience and support.

Duncan K. Davies  
President and Chief Executive Officer  
March 2010

**International Forest Products Limited**  
**MANAGEMENT DISCUSSION AND ANALYSIS**  
**Dated as of February 11, 2010**

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2009 relative to 2008, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and Consolidated Financial Statements for the years ended December 31, 2009 and 2008 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 Canadian generally accepted accounting principles ("GAAP"). In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment and timber ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for net U.S. duty refunds, and other income. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

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

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

### **FORWARD LOOKING INFORMATION**

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

### **OVERVIEW OF 2009**

2009 saw extremely weak North American markets continue to challenge the lumber industry. The turbulence in financial markets, particularly in the first half of 2009, combined with the historically low levels of U.S. housing starts and strengthening Canadian dollar had a significant impact on the Company's results. Interfor reported a net loss of \$23.9 million, or \$0.51 per share, for the year ended December 31, 2009, including an after-tax gain of \$19.0 million from the sale of the Company's former Queensboro sawmill site.

Despite the significant challenges of 2009, the Company performed reasonably well under the circumstances. Important 2009 accomplishments included the final completion and impressive ramp-up of the new Adams Lake sawmill, a return to positive EBITDA for the final two quarters of 2009, and a continued strong financial position. Interfor continued to benefit from its diversified product lines and markets, focus on effective cash management and cost control, and investment in core assets. A brief overview of the more significant developments in 2009 is presented below.

### **Markets and Pricing**

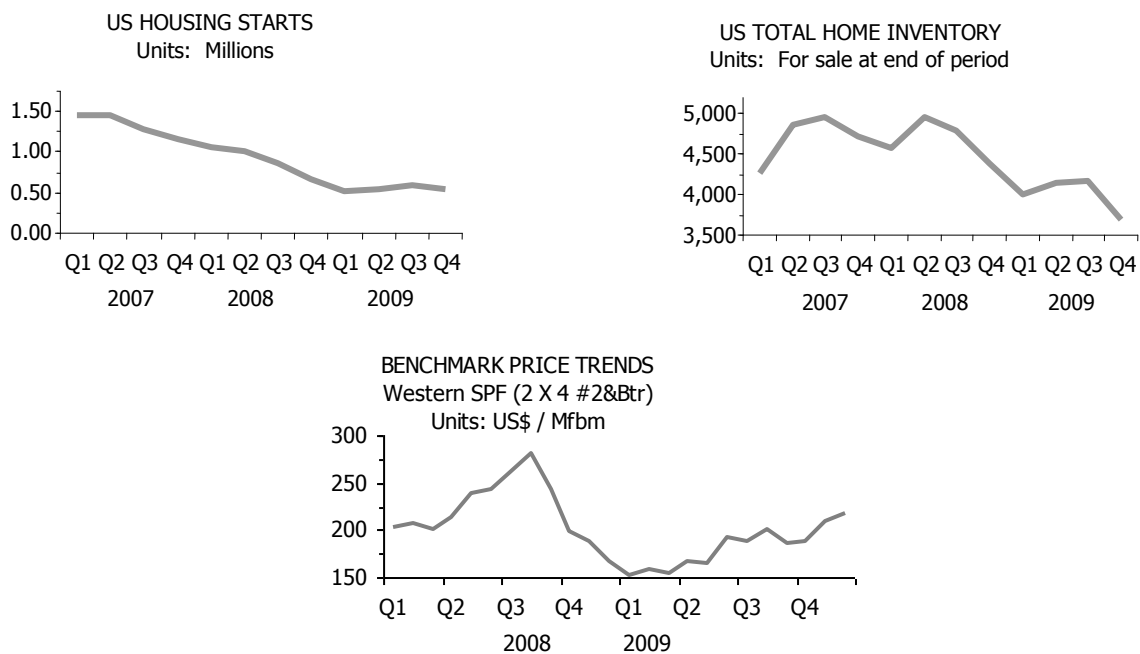
#### Lumber

- North American Structural Lumber

The downturn of the U.S. housing market continued to significantly impact North American structural lumber markets in 2009. Construction activity fell sharply in the second half of 2008 as the impact of

the squeeze on credit availability and the overall economic climate impacted the sector. During 2009, U.S. housing starts remained essentially flat at these challenging levels. Seasonally adjusted housing starts in December 2009 were 557,000 units, almost identical to December 2008's 556,000 units. For the full year of 2009, starts were down 38.7% compared to 2008. As demand for new homes picked up in the second half of 2009 and starts remained low, the total home inventories measure improved to 7.3 months supply, down from 9.5 months supply at December 2008.

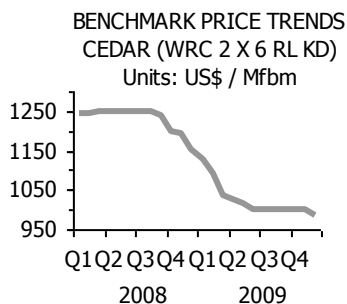
In response to the poor market conditions and uncertainty with respect to the timing or strength of recovery, Interfor actively balanced production against orders with most Interfor operations partially curtailed for periods of 2009. As industry-wide mill curtailments reduced supply, prices came up from the historic lows experienced in late 2008 and early 2009. For 2009, the average price reported by Random Lengths for Western SPF 2x4 #2&Btr was US\$182 per thousand board feet (mfbm), down US\$39 per mfbm, or 17.5%, compared to 2008. Reflecting the historic lows in late 2008 and early 2009, the December 2009 price was up US\$51 per mfbm, or 30.5%, compared to December 2008.



Source: Random Lengths, used with permission

- Cedar

Despite holding up well in 2008, demand for the Company's cedar products weakened significantly in 2009 as poor North American demand resulted in lower prices on North American product lines. The year-over-year average price for knotty Western Red Cedar 2x6 decreased by US\$207 per mfbm.

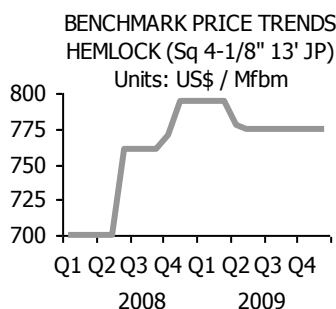


Source: Random Lengths, used with permission



- Japan

Relatively stable economic conditions and the continued strength of the Yen relative to the US\$ supported prices for the Company's products in Japan. Compared to 2008, the average 2009 price for Hemlock Square 4-1/8", as reported by Random Lengths, was up US\$39 per mfbm, or 5.2%.



Source: Random Lengths, used with permission

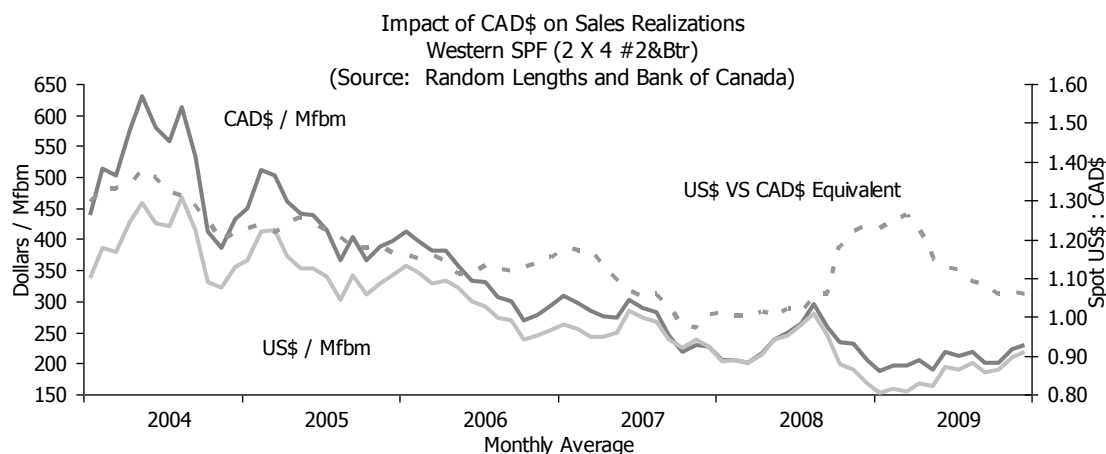
### Logs and Residuals

Log sales revenue declined 41.7% compared to 2008 as the Company partially curtailed logging operations in response to weak lumber markets. Log production was down 31.1% year over year and average pricing declined as pulp fibre made up a larger percentage of sales. Chip and by-products sales revenue increased 12.2% year over year as higher sales volumes were available due to the first full year under Interfor of the Grand Forks and Beaver operations and the ramp-up of the new Adams Lake sawmill, partially offset by lower operating rates at many of the Company's operations.

### **Volatility of the Canadian Dollar**

The Canadian dollar ("CAD\$") strengthened steadily against the US\$ over the final three quarters of 2009, ending the year at CAD\$1.051, up 13.7% from the end of 2008. Year-over-year, the average CAD\$ was weaker at \$1.142 for 2009 compared to \$1.066 in 2008 due to the rapid weakening in late 2008 during the global financial crisis.

The significance of the volatility of the CAD\$ on Canadian lumber producers' sales realizations is highlighted in the following chart, which shows the average US\$ price and CAD\$ equivalent of a thousand board feet of Western SPF 2x4 #2&Btr for the period 2004 through 2009.



### **Export Tax**

As a result of the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the United States on October 12, 2006, Canadian softwood lumber exporters pay an export

charge when the price of lumber is at or below US\$355 per mfbm, as determined by the framing lumber composite price ("RLCI") produced by Random Lengths Publications Incorporated. The Province of B.C. has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). The Province of B.C. chose Option A for both the B.C. Coast and the B.C. Interior which results in the Company's Canadian lumber exports to the United States being subject to the following taxes:

Price <sup>(1)</sup>	Export Tax (%)
Over US \$355	Nil
US \$336 - \$355	5
US \$316 - \$335	10
US \$315 or under	15

<sup>(1)</sup> Based on the prevailing RLCI

The Option A export charge through 2009 and 2008 was 15% as the prevailing RLCI throughout that period was below US\$315 per mfbm.

### **New Adams Lake Sawmill**

In April 2007, the Company's Board of Directors approved the construction of a new \$100 million two-line sawmill at Adams Lake to replace the existing facility. Construction commenced in the summer of 2007 and was substantially complete as at the end of 2008. The project was finalized and completed on budget in early 2009. The first line was commissioned at the end of 2008, and the new sawmill started full operation on April 20, 2009, ramped-up quickly and was immediately performing above expectations. By the end of 2009, the sawmill was operating at 80 hours per week and has a two-shift capacity of 310 million fbm.

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

### **Agreement to Purchase Kamloops Timber Tenure**

In early 2008, the Company entered into an agreement, subject to certain approvals, to acquire a timber tenure in the Kamloops region currently owned by Weyerhaeuser Company Limited. On July 3, 2009, the Company finalized a revised agreement with Weyerhaeuser. The tenure will strengthen the Company's long term timber supply for the new Adams Lake sawmill and will help to offset anticipated declines in future supply as a result of the Mountain Pine Beetle infestation. Subject to receiving the required regulatory approvals, the Company expects to conclude this transaction in early 2010.

### **Sale of Queensboro Property**

In August 2009, the Company sold its Queensboro property, site of the former Queensboro sawmill division that had been permanently closed in July 2008. The property sale resulted in net proceeds of \$29.9 million and an after-tax gain of \$19.0 million.

### **Strong Financial Position**

Despite the extraordinary challenges that the industry faced in 2008 and 2009, the Company has continued to maintain a strong financial position. Interfor ended 2009 with net debt of \$140.7 million (28.2% of invested capital), down \$27.1 million from 2008. Cash flow from operations, after working capital changes, for the year was positive at \$4.8 million. The decrease in the debt during the course of 2009 was due to focused cost control measures, inventory reductions, receipt of cash taxes previously paid, the sale of the Queensboro property in August 2009, and the stronger Canadian dollar.

In April 2009, the Company obtained financing extensions and modifications from its lenders in respect of its syndicated credit facilities. The Revolving Term Line increased \$35.0 million to \$150.0 million, with a maturity of April 24, 2011. The Operating Line decreased \$35.0 million to \$65.0 million and was

extended 364 days to April 23, 2010. Except for an increase in pricing, all other terms and conditions of the lines remained substantially unchanged.

On December 14, 2009, the Company obtained a financing commitment from its lenders extending and modifying its syndicated credit facilities. Effective January 15, 2010, the Revolving Term Line increased from \$150.0 million to \$200.0 million, and the maturity date was extended from April 24, 2011 to February 28, 2012. The Operating Line remains at \$65.0 million and the maturity of the Operating Line was extended from April 23, 2010 to February 28, 2011. All other terms and conditions of the lines remain substantially unchanged.

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

The slow pace of US housing starts continues to colour the near term outlook. While market conditions improved late in the year to the point that we restarted our Grand Forks sawmill in October 2009, we expect it will be some time before the business environment improves in any meaningful way. Currency exchange rates have continued their volatility into 2010 and we expect this to continue for the foreseeable future. Although we continue to balance production against sales and maintain our focus on cost containment, we are actively planning to take advantage of the upturn when it comes.

## **REVIEW OF OPERATING RESULTS**

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

	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(millions of dollars except share and per share amounts)				
Sales –Lumber	288.6	297.4	434.5	625.6	681.1
–Logs	60.4	103.6	118.6	103.2	105.1
–Wood chips and other by-products	34.3	30.6	50.2	41.9	35.6
–Other	6.4	5.6	7.7	53.7	41.9
<b>Total Sales</b>	<b>389.8</b>	<b>437.2</b>	<b>611.0</b>	<b>824.4</b>	<b>863.7</b>
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	(46.5)	(33.5)	(25.1)	15.4	5.5
Operating earnings (loss)	(50.8)	(68.4)	(27.1)	104.7	(36.2)
Net earnings (loss)	(23.9)	(55.4)	(13.3)	96.2	16.6
Net earnings (loss) per share – basic	(0.51)	(1.18)	(0.28)	1.98	0.34
Net earnings (loss) per share – diluted	(0.51)	(1.18)	(0.28)	1.96	0.34
EBITDA <sup>4</sup>	16.6	13.7	30.8	185.7	113.1
Cash flow from operations per share <sup>2</sup>	(0.46)	0.28	0.51	2.95	0.87
Shares outstanding – end of period (millions) <sup>3</sup>	47.1	47.1	47.1	48.1	48.7
– weighted average (millions)	47.1	47.1	47.6	48.5	48.7
Adjusted EBITDA <sup>4</sup>	(6.4)	12.3	24.8	68.6	71.6
Closing foreign exchange rate, per \$1.00 US	1.051	1.218	0.991	1.165	1.163

1 Tables may not add due to rounding.

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

3 As at February 11, 2010, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,101,476 Class B Common shares – 1,015,779, Total – 47,117,255.

4 The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for net U.S. duty refunds and other income.

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

	2009	2008	2007	2006	2005
	(millions of dollars)				
Net earnings (loss)	\$(23.9)	\$(55.4)	\$(13.3)	\$96.2	\$16.6
Add: Income taxes (recovery)	(9.9)	(11.0)	(13.6)	42.5	(8.8)
Net interest (income) expense	7.8	5.1	(1.3)	3.4	4.7
Interest income on U.S. duty refunds, net of special charge	-	-	-	(12.7)	-
Depletion and amortization	38.2	41.0	49.7	51.0	59.0
Other foreign exchange (gains) losses	-	(0.9)	7.3	(2.3)	-
Restructuring costs, asset write-downs and other	4.4	34.9	2.0	7.6	41.7
EBITDA	16.6	13.7	30.8	185.7	113.1
Deduct:					
U.S. duty refunds, net	-	-	-	96.9	-
Other income	23.0	1.4	6.0	20.2	41.6
Adjusted EBITDA	\$(6.4)	\$12.3	\$24.8	\$68.6	\$71.6

### Volume and Price Statistics

		2009	2008	2007	2006	2005
Lumber sales	(million fbm)	668	503	870	1,172	1,203
Lumber production <sup>1</sup>	(million fbm)	661	498	856	1,165	1,143
Log sales <sup>2</sup>	(thousand cubic metres)	919	1,319	1,223	1,190	1,360
Log production <sup>2</sup>	(thousand cubic metres)	1,295	1,881	1,767	2,381	2,558
Average selling price – lumber <sup>3</sup>	(\$/thousand fbm)	\$432	\$591	\$499	\$534	\$566
Average selling price – logs <sup>2</sup>	(\$/cubic metre)	\$61	\$74	\$95	\$86	\$76
Average selling price – pulp chips	(\$/thousand fbm)	\$40	\$49	\$49	\$33	\$26

1 Excludes lumber produced on a custom cutting basis for customers who have previously purchased the logs

2 B.C. operations

3 Gross sales before duties and export taxes

### Comparison of Year ended December 31, 2009 to Year ended December 31, 2008

The Company recorded a net loss of \$23.9 million, or \$0.51 per share, for the year ended December 31, 2009, compared to a net loss of \$55.4 million, or \$1.18 per share, for the year ended December 31, 2008.

Included in 2009 results is an after-tax gain on the sale of the former Queensboro sawmill site of \$19.0 million, and a valuation charge of \$7.4 million against future tax assets, to net \$11.5 million or \$0.24 per share. Included in 2008 results are restructuring charges of \$24.2 million after-tax and a valuation charge of \$15.2 million against future tax assets, for a total of \$39.5 million, or \$0.84 per share.

Before restructuring costs, foreign exchange gains, other income and the valuation allowance, the Company's net loss for 2009 amounted to \$33.7 million or \$0.72 per share, as compared to a net loss of \$17.5 million or \$0.37 per share for 2008.

EBITDA for the year ended December 31, 2009 was \$16.6 million, compared to \$13.7 million in 2008. Adjusted EBITDA for the year ended December 31, 2009 was negative \$6.4 million, compared to \$12.3 million in 2008.

### Sales

Total sales revenues were \$389.8 million in 2009, down \$47.4 million from \$437.2 million in 2008.

Lumber sales revenue decreased marginally by \$8.8 million, or 3.0%, in 2009 compared to 2008, due to a full year of the extremely weak structural lumber markets, partially offset by increased sales volume.

Average unit sales values for lumber in 2009 were down 26.9% reflecting the poor structural lumber markets and a weakening cedar market. Lumber shipments were up 32.7% compared to 2008 despite the decline in demand in the U.S. structural lumber market. A significantly lower cost structure at the new Adams Lake sawmill, lower variable costs at several other mills and lower fibre costs allowed the Company to increase overall lumber production despite the challenging market conditions. In addition, concentrated efforts to increase the customer base through both geographic and product diversification resulted in increased shipments. Also impacting shipment volume was a full year of production from the Beaver operation acquired on September 30, 2008.

Log sales revenue in 2009 was down \$43.2 million, or 41.7%, compared to 2008, mostly due to a significant decrease in both production and B.C. average log prices driven by falling demand from lumber producers as their operations were curtailed to varying extents. Chip and other by-product revenues increased by \$3.8 million, or 12.2%, in 2009 compared to 2008. This increase was due to higher available sales volumes arising from acquired productive capacity at Grand Forks and Beaver, as well as the commencement of full operations at the new Adams Lake sawmill, offset partially by lower average sales values.

#### Operating Costs

Production costs for the year ended December 31, 2009 were \$374.5 million, down \$37.0 million, or 9.0%, compared to 2008. The decline was primarily due to a significant drop in log costs in B.C. and the U.S. Pacific Northwest in 2009 compared to 2008 as reduced demand from lumber producers impacted the log market pricing. This factor more than offset an increase of 163,000 mfbm, or 32.8%, in lumber production volumes from the 2008 volumes. Although the Company took significant downtime during the first half of the year, overall it operated 11.6% more shifts at its sawmills in 2009 as compared to 2008. The new Adams Lake sawmill commenced full operations in early 2009, and price and cost improvements resulted in the restarting of the Grand Forks sawmill and increased production at other sawmills in the last quarter of 2009. The increased volume drove the Company's per unit cost of conversion down with the additional volume available to absorb fixed costs.

Export taxes increased by \$0.5 million, or 13.7% from 2008. 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 is mainly related to an 11.8% increase in Canadian shipments to the U.S. and a 7.1% weaker average Canadian dollar compared to its U.S. counterpart for 2009 as compared to 2008.

Selling and administration costs in 2009 were \$16.4 million, down from \$16.9 million in 2008, as the Company focused on cost containment. Long-term incentive compensation ("LTIC"), which is impacted by the Company's share price, the number of grants made under the various plans and vesting periods, showed an expense of \$3.2 million in 2009 (2008 - LTIC recovery of \$2.0 million) due mainly to the Company's rising share price.

Amortization of plant and equipment at \$24.8 million in 2009 was higher than the \$21.3 million in 2008 as the new Adams Lake sawmill ramped up in April 2009. Timber depletion and amortization of roads and other items was \$13.3 million in 2009, a decrease of \$6.3 million, or 32.0%, compared to \$19.6 million in 2008, as conventional logging volumes declined by 17.7% and logging activities in 2009 were focused on areas with easier accessibility and lower road construction costs.

Restructuring costs and asset write-downs totaled \$4.4 million in 2009, compared to \$34.9 million in 2008. The 2009 charge includes \$3.1 million of impairment charges for assets no longer expected to provide future benefit and a \$1.6 million charge for other severance costs, partially offset by a \$0.3 million accrual reversal. Most of the 2008 charge was related to the permanent shutdown of the Queensboro mill.

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

	2009	2008
	(millions of dollars)	
Plant, equipment and timber write-downs	\$ 3.1	\$ 29.0
Severance costs	1.6	4.9
Other (recovery)	(0.3)	1.0
	\$ 4.4	\$ 34.9

#### Interest Expense on Long-term Debt

In 2009, the Company recorded \$6.4 million of interest expense on long-term debt, compared to \$4.5 million in 2008. The change related to the increase in average debt used to fund sawmill and related asset acquisitions from Pope and Talbot, Inc. ("P&T") and Portac, Inc. ("Portac") during 2008 and for completion of the new Adams Lake sawmill. Also impacting interest expense was the volatility of the Canadian dollar which averaged 1.142 in 2009 as compared to 1.066 in 2008, and an increase in pricing on the extension of the debt facilities in April 2009. Overall declines in borrowing rates in early 2009, however, resulted in a lower effective interest rate than in 2008, despite the increase in pricing.

#### Other Interest Expense

Net other interest expense was \$1.4 million in 2009 compared to \$0.6 million in 2008.

#### Other Foreign Exchange Gain

Other net foreign exchange gain was \$nil in 2009 compared to a net foreign exchange gain of \$0.9 million in 2008, which arose due to the following items.

	2009	2008
	(millions of dollars)	
Gain (loss) on:		
Revaluation/settlement of forward exchange contracts	\$ (3.6)	\$ 3.7
Interest rate swap	(2.1)	4.2
Revaluation of US\$ denominated debt	5.8	(7.9)
Other	(0.1)	0.9
	\$ 0.0	\$ 0.9

#### Other Income

Other income was \$23.0 million in 2009 compared to \$1.4 million in 2008. In 2009, \$21.2 million arose on the sale of the Queensboro property and related surplus equipment.

	2009	2008
	(millions of dollars)	
Gain on disposal of surplus property, plant and equipment, and investment	\$ 22.1	\$ 0.8
Gain on settlement of timber takeback	1.0	0.7
Other	(0.1)	(0.1)
	\$ 23.0	\$ 1.4

### Equity Income

The Company recorded equity income of \$1.9 million in 2009 compared to \$4.8 million in 2008. The decrease was attributable to the volatility of the Canadian dollar and the unutilized capacity on both outbound and inbound shipments as the global recession impacted shipments of lumber and other cargoes.

### Income Taxes

The Company recorded an income tax recovery of \$9.9 million for 2009 (2008 – recovery of \$11.0 million) with an overall effective rate of 29.3% (2008 – 16.6%). The rate in 2009 differed slightly from the Canadian statutory rate of 30.0% mainly due to the non-taxable portion of capital gains and of income that is accounted for by the equity method, and different tax rates for U.S. subsidiaries, offset by a valuation allowance of \$7.4 million against U.S. future income tax assets.

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totaling approximately \$216 million (2008 - \$133 million) expire between 2014 and 2029, and are available to reduce future taxable income. Although the Company expects to realize the full benefit of the loss-carryforwards, due to the cyclical nature of the wood products industry and current economic conditions, the Company has provided a valuation allowance in respect of approximately \$62 million (2008 - \$49 million) of its U.S. operating loss carry-forwards, net of temporary differences.

### Net Loss

As a result of the above factors, the Company recorded net loss of \$23.9 million, \$0.51 per share, for the year ended December 31, 2009 compared to a net loss of \$55.4 million, \$1.18 per share, for the year ended December 31, 2008.

## **Cash Flows**

### Operating Activities

Total cash generated from operations after changes in working capital was \$4.8 million for the year (2008 - \$13.7 million).

Before working capital changes, cash used in operations was \$21.6 million for 2009 (2008 - \$13.0 million cash generated from operations). The net loss for the year of \$23.9 million contained a significant number of non-cash items including amortization and depletion of \$38.2 million and the \$21.2 million gain on the sale of the Queensboro property and related equipment.

Cash generated from working capital was \$26.4 million (2008 – \$0.7 million) as a focus on reducing inventories contributed \$16.9 million and income taxes receivable decreased by \$16.0 million as the Company collected a refund of taxes paid in prior years. Offsetting the generation of cash was an \$8.6 million increase in accounts receivable as year-end operating levels in 2009 were higher than at the end of 2008.

### Investing Activities

Cash invested in property, plant and equipment, timber and logging roads totaled \$27.6 million (2008 - \$158.9 million). Expenditures on plant and equipment comprised \$20.8 million, mainly for the completion of the new Adams Lake sawmill. The 2008 investment net cash outflow included \$68.0 million for the acquisition of the P&T and Portac assets.

Cash proceeds from the sale of non-core assets in 2009 totaled \$37.0 million (2008 - \$5.1 million) of which \$29.9 million was from the sale of the Queensboro property and \$4.1 million was from the sale of surplus property and buildings in Maple Ridge, B.C.

### Financing Activities

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

On January 3, 2008, the Company received approval to commence a Normal Course Issuer Bid ("NCIB"), entitling it to purchase up to 1,300,000 Class A Shares through the facilities of the Toronto Stock Exchange. The program commenced on January 8, 2008 and terminated on January 7, 2009. The Company did not repurchase any Class A shares through the NCIB in 2008 or 2009.

In December 2009, the Seaboard Limited Partnership ("Seaboard") made an advance to its partners, with Interfor's share being \$3.1 million, which was repaid by way of set-off on January 4, 2010 when Seaboard declared an income distribution to its partners.

## FINANCIAL POSITION

### Summary of Financial Position

	2009	2008	2007	2006	2005
	(millions of dollars)				
Current assets	107.9	131.5	158.3	289.7	173.7
Current liabilities	<u>46.6</u>	<u>79.4</u>	<u>50.0</u>	<u>123.8</u>	<u>145.4</u>
Working capital	<u>61.3</u>	<u>52.1</u>	<u>108.3</u>	<u>165.9</u>	<u>28.3</u>
Total assets	<u>582.5</u>	<u>665.3</u>	<u>545.9</u>	<u>673.8</u>	<u>597.3</u>
Total long-term liabilities and future income taxes	<u>177.9</u>	<u>179.7</u>	<u>67.6</u>	<u>72.1</u>	<u>66.0</u>
Operating debt	0.0	30.6	0.0	0.6	8.1
Payable to investee company	3.1	3.7	0.0	0.0	54.3
Long-term debt	<u>144.5</u>	<u>137.4</u>	<u>34.7</u>	<u>40.8</u>	<u>40.7</u>
Total debt	147.6	171.7	34.7	41.4	103.1
Shareholders' equity	<u>358.0</u>	<u>406.2</u>	<u>428.3</u>	<u>478.0</u>	<u>385.8</u>
Invested capital	<u>505.6</u>	<u>577.9</u>	<u>463.0</u>	<u>519.4</u>	<u>488.9</u>

### Ratio and Investment Information

Current ratio	2.3	1.7	3.2	2.3	1.2
Net debt as a percentage of invested capital, adjusted <sup>1</sup>	28.2%	29.2%	1.9%	(29.1)%	7.1%
Total debt as a percentage of invested capital	29.2%	29.7%	7.5%	8.0%	21.1%
Return on average shareholders' equity <sup>1</sup>	(6.3)%	(13.3)%	(2.9)%	22.3%	4.4% <sup>4</sup>
Return on average invested capital, adjusted <sup>1</sup>	(3.4)%	(10.3)%	(3.5)%	25.1%	4.6% <sup>4</sup>
Pre-tax return on total assets <sup>1</sup>	(9.0)%	(5.1)%	(4.3)%	2.1%	1.3% <sup>3</sup>
Cash flow from operations as a percentage of total debt <sup>1</sup>	(14.6)%	7.6%	70.2%	345.8%	41.0%
Equity per share	\$7.60	\$8.62	\$9.09	\$9.93	\$7.93

	2009	2008	2007	2006	2005
	(millions)				
Weighted average shares outstanding for the year	47.1	47.1	47.6	48.5	48.7
Number of shares outstanding at year end:					
Class A subordinate voting <sup>2</sup>	46.1	46.1	46.1	47.1	47.7
Class B common <sup>2</sup>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>	<u>1.0</u>
	<u>47.1</u>	<u>47.1</u>	<u>47.1</u>	<u>48.1</u>	<u>48.7</u>



	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Re-investment of Cash</b>	(millions of dollars)				
Cash flow from operations <sup>1</sup>	(21.6)	13.0	24.4	143.1	42.3
Cash generated from (used in) operating working capital	26.4	0.7	(70.3)	43.3	23.3
Proceeds on disposal of assets	37.0	5.1	8.3	49.2	47.8
Capital expenditures and acquisitions	(27.6)	(158.9)	(81.8)	(90.6)	(153.8)

1 See Glossary in Annual Information Form for definition.

2 As at February 11, 2010, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,101,476 Class B Common shares – 1,015,779, Total – 47,117,255.

3 Amount has not been restated for retrospective restatement of equity in earnings of investee company as result of 2008 accounting change as information is not available from investee company.

4 Amount has not been restated for retrospective restatement of investment and equity in earnings of investee company as result of 2008 accounting change as information is not available from investee company.

### Current Assets

Cash on hand and deposits at December 31, 2009 totaled \$3.8 million compared to \$0.2 million from 2008.

Accounts receivable at December 31, 2009 were \$33.0 million, 29.5% higher than 2008, primarily as a result of higher year-end sales volumes and sales values.

The Company had current income taxes recoverable of \$0.2 million at December 31, 2009 (2008 - \$16.2 million recoverable).

Lumber inventory levels at December 31, 2009 were \$24.3 million, up \$1.8 million compared to 2008. Lumber inventory volumes increased by 26.3% due to the additional volume from the new Adams Lake sawmill and higher year-end operating rates for several mills. Lumber inventory unit values decreased primarily due to the drop in market value of the cedar component of 2009 year-end inventories.

Log inventory levels at December 31, 2009 were \$31.0 million, down \$20.1 million compared to 2008, as focused management of B.C. Coastal cedar inventories resulted in a significant decrease in volume from the prior year, partially offset by an increase in the B.C. Interior due to higher operating rates at Grand Forks and Adams Lake.

### Investments and Other Assets

Investments and Other Assets decreased to \$17.1 million, down \$2.3 million from the prior year end. This was due mainly to a reduction in the Company's share of undistributed profits from Seaboard.

### Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of \$444.4 million for property, plant and equipment, timber, logging roads, and assets held for sale was a decrease of \$56.9 million over 2008. Capital expenditures were \$27.6 million, mainly related to construction of the new Adams Lake sawmill and investments in road building. The stronger Canadian dollar at the end of 2009 compared to the end of 2008 resulted in reduction in capital assets of U.S. operations of \$25.9 million due to foreign currency revaluations. Offsetting the investments in capital assets were amortization and depletion expense of \$37.5 million, the sale of the Queensboro property, and various other minor write-downs and disposals.

For 2009, cash spending related primarily to the construction of the new Adams Lake sawmill, which totalled \$18.8 million, and road construction, which totalled \$6.8 million. Construction of the new sawmill at Adams Lake is complete and the mill recommenced operations on April 20, 2009 on a one-shift basis with steadily increased operating hours and productivity since.

### Current Liabilities

As at December 31, 2009, the Company had a Canadian operating line of credit ("Operating Line") of \$65.0 million. Drawings under these lines are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company had no borrowings under its Operating Line, and its maximum available Operating Line was \$56.9 million, after outstanding letters of credit of \$5.0 million. The Company's working capital ratio at December 31, 2009 was 2.3 to 1.

On December 14, 2009, the Company obtained a financing commitment from its lenders in respect of its syndicated credit facilities. See further description below under Long-Term Liabilities.

Accounts payable levels at December 31, 2009 were \$43.5 million, a decrease of \$1.7 million. The decline in trade accounts payable resulted from a reduction in accruals required for restructuring and for reforestation due to decreased levels of logging activity. These factors were partially offset by higher operating rates in the latter part of 2009 compared to 2008.

In December 2009, the Company received an advance of \$3.1 million from Seaboard, which compares to \$3.7 million received in December, 2008. In January 2009, Seaboard declared an income distribution to its partners, of which Interfor's share of \$3.7 million was received by way of setoff against the advance payable to Seaboard. Similarly, in January 2010, the \$3.1 million advance payable to Seaboard was fully repaid by way of setoff when Seaboard declared an income distribution to its partners.

### Long-Term Liabilities

As part of its amendment and extension of existing syndicated credit facilities in April, 2009, the Company's Canadian revolving term line (the "Revolving Term Line") was increased from \$115.0 million to \$150.0 million, with no change to its maturity date of April 24, 2011. Except for an increase in pricing, all other terms and conditions of the line remained unchanged. The Revolving Term Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans.

The Company drew \$59.0 million on the Revolving Term Line during the year to fund the construction of the new Adams Lake sawmill, road construction and operations. Upon sale of the Queensboro property, receipt of compensation advances from the Crown for timber takeback settlements, and receipt of a refund of taxes paid in a previous year, the Company was able to make cash payments of \$41.0 million against the Revolving Term Line during the year. At December 31, 2009, the Revolving Term Line was drawn by \$107.7 million, leaving an unused available line of \$42.3 million. This compares to net drawings and an outstanding balance at December 31, 2008 of \$94.8 million, which had provided partial funding of the P&T and Portac acquisitions, and the construction of the new Adams Lake sawmill in 2008.

The US\$ non-revolving term line (the "Non-Revolving Term Line") remained fully drawn at US\$35.0 million (2008 – US\$35.0 million) and was revalued at the year-end exchange rate to \$36.8 million (2008 - \$42.6 million). The Non-Revolving Term Line bears interest at rates based on bank prime plus a premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans, and has a maturity of September 1, 2010.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, and mortgage security on sawmills and charges against timber tenures. The lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization, and a minimum net worth requirement.

On December 14, 2009, the Company obtained a financing commitment from its lenders extending and modifying its syndicated credit facilities. Effective January 15, 2010, the Revolving Term Line increased from \$150 million to \$200 million, and the maturity date was extended from April 24, 2011 to February 28, 2012. The maturity of the Operating Line was extended from April 23, 2010 to February 28, 2011. All other terms and conditions of the lines remain substantially unchanged.

In conjunction with the amendments to its credit facilities, the Company drew on its new Revolving Term Line, being a long-term facility, and repaid and cancelled its existing Non-Revolving Term Line of US\$35.0 million on January 15, 2010. Accordingly, the Non-Revolving Term Line has been classified as long-term.

Overall, long-term liabilities excluding long-term debt increased by \$1.9 million, with a decline in reforestation obligations due to reduced logging activities, more than offset by an increase in long-term incentive compensation as the Company's closing share price rose from \$1.70 at December 31, 2008 to \$4.69 at December 31, 2009.

### Liquidity and Capital Resources

As at December 31, 2009, the Company had working capital of \$61.3 million (2008 - \$52.1 million) and \$99.2 million available on its operating and term lines. In addition, on January 15, 2010, the Revolving Term Line was increased from \$150 million to \$200 million and the maturity dates of the Operating Line and the Revolving Term Line were extended to February 28, 2011 and February 28, 2012, respectively. The Non-Revolving Term Line facility of US\$35.0 million was cancelled on January 15, 2010 after drawings were fully repaid.

These resources, in addition to cash generated from operations, will be used to support our working capital requirements, debt servicing commitments including repayment of the Non-Revolving Term Line of US\$35.0 million, acquisition of the timber tenure from Weyerhaeuser, essential capital expenditures and any shortfall from operations.

Interfor has had positive EDITDA in each of the past five years in total, and, despite the difficult economic climate over the last two years, for six of the past eight quarters.

Interfor believes that its existing credit lines will be sufficient to satisfy the funding of operating and capital requirements for the year ending December 31, 2010. The Company continues to maintain its disciplined approach to production, focus on managing the business for cash, ensure adequate liquidity is maintained and realize on the benefits of recent strategic activities and investments. Discretionary capital spending remains largely curtailed.

### Summary of Contractual Obligations

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

	Payments due by period				
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
	(millions of dollars)				
Operating Line	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	33.0	33.0	-	-	-
Payable to investee company <sup>1</sup>	3.1	3.1	-	-	-
Long-term debt <sup>2</sup>	144.5	36.8	107.7	-	-
Reforestation liability	21.5	6.8	7.1	4.1	3.6
Other long-term liabilities	19.0	3.7	5.6	1.4	8.3
Pension solvency payments	1.8	1.1	0.7	-	-
Operating leases and contractual commitments	16.7	4.7	5.5	3.7	2.8
<b>Total contractual obligations <sup>3</sup></b>	<b>\$ 239.7</b>	<b>\$ 89.1</b>	<b>\$ 126.7</b>	<b>\$ 9.1</b>	<b>\$ 14.7</b>

<sup>1</sup> On January 4, 2010, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share was \$3.1 million and was paid to the company by way of setoff against the promissory note payable to the Seaboard Partnership.

<sup>2</sup> Subsequent to December 31, 2009, the current portion of this debt was refinanced and the maturity date of the entire debt was extended to February 28, 2012. See note 23(b) to the Company's December 31, 2009 Consolidated Financial Statements.

<sup>3</sup> Table may not add due to rounding.

### Related Party Transactions

Lumber sales to a significant shareholder amounted to \$0.9 million (2008 - \$1.0 million). Shipping services provided by Seaboard International Shipping Company Limited totaled \$4.2 million (2008 - \$5.6 million). These transactions were conducted on a normal commercial basis, including terms and prices

and did not result in any ongoing contractual or other commitments.

### Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which encompass letters of credit and surety performance bonds, primarily for timber sales. These are more fully described in Note 8(a) and Note 16(c) to the Consolidated Financial Statements. At December 31, 2009, the total of such instruments aggregated \$12.1 million (2008 - \$11.9 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

### Summary of Issuance of Shares

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

## **SELECTED QUARTERLY FINANCIAL INFORMATION**<sup>1</sup>

### **Quarterly Earnings Summary**

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share and per share amounts)							
Sales – Lumber	93.1	76.8	62.3	56.5	65.6	73.4	82.2	76.2
– Logs	17.3	17.3	13.0	12.8	18.3	28.8	25.7	30.9
– Wood chips and other by-products	12.2	8.9	5.9	7.4	8.8	8.9	7.4	5.5
– Other	2.9	2.2	0.6	0.6	0.8	0.9	2.1	1.8
Total Sales	125.5	105.2	81.8	77.3	93.5	112.0	117.4	114.4
Operating loss before restructuring costs and asset write-downs	(7.8)	(7.0)	(16.4)	(15.2)	(8.1)	(12.8)	(11.7)	(1.0)
Operating loss	(7.8)	(10.4)	(16.3)	(16.3)	(8.9)	(14.1)	(42.2)	(3.2)
Net earnings (loss)	(5.0)	9.7	(15.0)	(13.6)	(18.7)	(8.1)	(27.7)	(0.9)
Net earnings (loss) per share – basic and diluted	(0.11)	0.21	(0.32)	(0.29)	(0.40)	(0.17)	(0.59)	(0.02)
EBITDA <sup>5</sup>	6.3	25.3	(7.3)	(7.7)	2.0	0.7	2.5	8.5
Cash flow from operations per share <sup>2</sup>	0.06	(0.07)	(0.23)	(0.22)	0.12	0.06	(0.06)	0.22
Shares outstanding – end of period (millions) <sup>3</sup>	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.1	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Adjusted EBITDA <sup>5</sup>	5.7	3.6	(7.3)	(8.4)	1.7	0.1	1.9	8.5
Closing foreign exchange rate, per \$1.00 US <sup>4</sup>	1.051	1.071	1.163	1.261	1.218	1.064	1.011	1.022

1 Tables may not add due to rounding.

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

3 As at February 11, 2010, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,101,476 Class B Common shares – 1,015,779, Total – 47,117,255.

4 Accounting quarter-end dates may differ slightly from the reporting date. As such, the foreign exchange rate used to revalue quarter-end balances may differ from the Bank of Canada closing foreign exchange rate as at the reporting date.

5 The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2009				2008			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	(5.0)	9.7	(15.0)	(13.6)	(18.7)	(8.1)	(27.7)	(0.9)
Add: Income taxes (recovery)	(3.3)	0.1	(3.6)	(3.1)	10.4	(5.2)	(13.9)	(2.4)
Interest expense	2.0	2.2	2.0	1.6	2.5	1.5	0.8	0.4
Depletion and amortization	12.5	9.9	9.5	6.3	7.8	11.3	13.0	8.8
Other foreign exchange (gains) losses	0.1	-	(0.1)	-	(0.9)	-	(0.4)	0.4
Restructuring costs, asset write-downs and other	0.1	3.3	(0.1)	1.1	0.8	1.3	30.6	2.2
EBITDA	6.3	25.3	(7.3)	(7.7)	2.0	0.7	2.5	8.5
Deduct:								
Other income	0.6	21.7	-	0.6	0.3	0.6	0.6	-
Adjusted EBITDA	5.7	3.6	(7.3)	(8.4)	1.7	0.1	1.9	8.5

### Volume and Price Statistics

		2009				2008			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	234	181	131	122	133	132	125	113
Lumber production	(million fbm)	245	180	115	121	118	148	128	104
Log sales <sup>1</sup>	(thousand cubic metres)	261	242	216	200	236	372	312	399
Log production <sup>1</sup>	(thousand cubic metres)	533	378	312	72	290	501	679	411
Average selling price – lumber <sup>2</sup>	(\$/thousand fbm)	\$398	\$424	\$477	\$462	\$494	\$555	\$658	\$672
Average selling price – logs <sup>1</sup>	(\$/cubic metre)	\$62	\$69	\$56	\$54	\$69	\$70	\$79	\$75
Average selling price – pulp chips	(\$/thousand fbm)	\$39	\$38	\$40	\$46	\$58	\$48	\$47	\$41

1 B.C. operations

2 Gross sales before duties and export taxes

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

The impact of the global recession on overall demand and poor lumber sales realizations increased the operating losses in the last quarter of 2008 and the first three quarters of 2009. Operating rates increased in the fourth quarter of 2009, as lumber prices rose slightly. The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's sales are to export markets and priced in \$US. A strong Canadian dollar reduces the lumber sales realizations in Canada, but lessens the impact of any losses in U.S. operations. The second quarter 2008 loss reflects a restructuring charge of \$33.0 million primarily for the Queensboro sawmill closure. The fourth quarter of 2008 includes the effect of a valuation charge of \$15.2 million against future tax assets, and additional valuation charges continued through all quarters of 2009. The third quarter of 2009 includes an after-tax gain of \$19.0 million from the sale of the former Queensboro sawmill site.

## **Quarter 4, 2009 Compared to Quarter 4, 2008**

### Overview

The Company recorded a net loss of \$5.0 million, or \$0.11 per share, for the fourth quarter of 2009 as compared to a net loss of \$18.7 million, or \$0.40 per share in the fourth quarter of 2008 and which included a non-cash valuation allowance of \$15.2 million relating to future income tax assets.

EBITDA and Adjusted EBITDA for the fourth quarter of 2009 were \$6.3 million and \$5.7 million, respectively, compared to \$2.0 million and \$1.7 million, for the comparative quarter in 2008.

The operating loss in the fourth quarter of 2009 reflects continued poor U.S. housing starts resulting in low lumber and log sales volumes and prices.

U.S. housing starts remained at historically low levels with average U.S. housing starts for the fourth quarter, 2009 at 554,000 units, down from 658,000 units in the comparable period, 2008. Some price stability was generated by continued industry curtailments with year-to-date highs in lumber prices reached in December 2009 at an average price of SPF 2x4 #2&Btr at US\$218 per mfbm, significantly higher than the price of US\$167 in December 2008. The positive impact of the rising price, however, was offset by the strengthened Canadian dollar which, relative to its U.S. counterpart, closed 2009 at CAD\$1.051 compared to the December 31, 2008 close at CAD\$1.218.

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

The new Adams Lake sawmill continued its impressive ramp-up, averaging in excess of 110% of pro forma production volume on a per hour basis. The mill's operating schedule was increased from 64 hours to 80 hours per week in the fourth quarter, 2009.

### Sales

Compared to the same quarter of 2008, lumber shipments were up 76.5% or 101 million board feet for the fourth quarter of 2009, reflecting additional volumes resulting from the commencement of full operations at the new Adams Lake sawmill, new wholesale programs in 2009, and higher operating rates overall. Unit lumber sales values over the same period were down \$97 per mfbm as the average sales values for cedar products fell, the sales mix was weighted less heavily toward higher value cedar, and the Canadian dollar strengthened. Compared to the average of the fourth quarter of 2008, the Canadian dollar appreciated 15 cents relative to its U.S. counterpart.

Log sales increased by 25,000 m<sup>3</sup> with the average sales value declining \$7 per m<sup>3</sup> in the fourth quarter, 2009 vis-à-vis its comparative in 2008. The fourth quarter of 2008 saw a dramatic decline in demand from lumber and pulp producers in response to the decline in the global economy. External demand for logs continued to be relatively weak in the fourth quarter, 2009.

Fourth quarter, 2009, pulp chip and other by-product revenues increased by \$3.3 million, or 37.4%, compared to the same quarter of 2008 with chip sales volumes slightly more than double the volumes in the same period of 2008. The increase corresponds almost directly with the increase in sawmill operating rates for the fourth quarter, 2009, as compared to the same period, 2008. Average chip prices were down by 32.8% reflecting reduced global demand for pulp.

### Operating Costs

Production costs for the fourth quarter of 2009 increased \$23.3 million, or 25.6% compared to the same period in 2008. Production costs in the fourth quarter, 2008, were low as a result of significant market related curtailments in manufacturing and logging, and the curtailment of the Adams Lake sawmill. In the fourth quarter, 2009, slightly improved demand and North American structural lumber prices, and a significantly lower cost structure at the new Adams Lake sawmill resulted in an increase in operating rates and production costs as compared to 2008. Lumber production rose by 127 million board feet, or 108.1%, as compared to the fourth quarter, 2008 and logging increased by 243,000 m<sup>3</sup> or 83.9%. Unit cash conversion costs declined by 38.9%, primarily as a result of increased operating efficiencies, lower log costs and production increases, particularly at the new Adams Lake sawmill.

The Canada/U.S. lumber export tax remained at 15% through the fourth quarter of 2009. Export taxes increased by \$1.2 million over the fourth quarter, 2008, due to increased shipments from Canada to the U.S. markets. In addition, the fourth quarter, 2008, included \$0.5 million for a refund of export taxes received pursuant to provisions under the *Export Charge Act*.

The Company recorded a LTIC expense of \$1.5 million for the fourth quarter of 2009 (2008 – LTIC recovery of \$0.9 million), reflecting the rise in the Company's share price over the period.

Amortization and depletion expense for the fourth quarter of 2009 increased by \$4.7 million compared to the fourth quarter of 2008 due to the impact of higher operating rates.

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

Fourth quarter, 2009, interest expense decreased by \$0.5 million compared to the fourth quarter, 2008. The additional interest expense from the rise in the Company's average debt level in 2009 was offset by a stronger Canadian dollar and lower overall lending rates in the fourth quarter, 2009, compared to the same period in 2008.

The Company recorded a foreign exchange loss of \$0.1 million for the three months ended December 31, 2009, in contrast to a gain of \$0.9 million for the fourth quarter of 2008. Reduced shipment volumes and the volatility of the Canadian dollar resulted in a decline in equity income of \$1.0 million in the fourth quarter, 2009, as compared to the fourth quarter, 2008.

#### Income Taxes

In the fourth quarter of 2008, the Company recorded income tax expense of \$10.4 million, comprised of a tax recovery of \$4.8 million offset by the non-cash valuation allowance of \$15.2 million taken against future income tax assets. The Company continued to take a valuation allowance against certain future income tax assets through 2009, which decreased its income tax recovery by \$1.0 million in the fourth quarter of 2009.

#### Cash Flow

Cash used by the Company in operations, after changes in working capital, was \$12.7 million for the fourth quarter of 2009, compared to cash used of \$2.6 million for the fourth quarter of 2008. The increase in cash used for inventory build-up and increased accounts receivable partially offset by a rise in accounts payable was the result of the higher operating rates in the fourth quarter of 2009.

In light of the global economic downturn and focus on cash, discretionary capital expenditures continued to be severely curtailed. Capital expenditures for the fourth quarter of 2009 totaled \$4.0 million, primarily for road construction. Capital expenditures for the fourth quarter of 2008 totaled \$31.0 million, primarily for construction of the new Adams Lake sawmill, roads and the preparation of the former Queensboro sawmill site for sale.

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

The Company had cash and deposits at December 31, 2009 totaling \$3.8 million, working capital of \$61.3 million, and total debt of \$147.6 million.

#### **Controls and Procedures**

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures as of December 31, 2009. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2009.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the effectiveness of the Company's internal controls over financial reporting

("ICFR") as of December 31, 2009. The evaluation was carried out within the COSO framework and under the supervision of, and with the participation of the CEO and the CFO. Based on the evaluation, the CEO and CFO concluded that the Company's ICFR were effective as of December 31, 2009.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2009 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

### **Critical Accounting Estimates**

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

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

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

The Company regularly reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and this held true for 2009, despite the impacts of the global economic downturn and historical low housing starts on the forest industry. Based on this past experience and its detailed review of trade accounts receivable past due, a reserve of \$0.1 million (2008 - \$nil) was set up for specific trade receivables.

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

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

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

These projections necessitate the estimation of sales and production volumes, future commodity pricing, operating costs, foreign currency exchange rates, export taxes and other factors. There is a high degree



of uncertainty in such estimations, and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets could not be recovered, which could necessitate a material charge against operating earnings.

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

Interfor assesses the recoverability of Property, Plant and Equipment, and Timber and Logging Roads as conditions and events warrant. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that an impairment may exist. The Company assessed the recoverability of these assets as at December 31, 2009, and concluded that there were no impairments.

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

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

Each of these estimates is reviewed on an ongoing basis.

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

*Pension and Other Post-retirement Benefits.* In Canada, the Company maintains a number of savings and retirement plans that are available to employees that meet certain eligibility requirements. A Group Registered Retirement Savings Plan ("RRSP") and a Deferred Profit Sharing Plan ("DPSP") is available to salaried employees. A defined benefit pension plan is available to non-union hourly employees at the Adams Lake operations. A defined benefit pension plan and a post-retirement medical and life insurance plan is available to Canadian Merchant Service Guild ("CMSG") unionized employees in the Interior of B.C. In addition, the Company contributes to an industry-wide defined benefit pension plan for United Steelworkers unionized employees. In the U.S., the Company maintains a 401(k) plan that is available to all eligible employees. The Company also maintains supplementary pension plans for certain senior management in both Canada and the U.S.

The Company retains independent actuarial consultants to value its defined pension benefit obligations and plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and assumed rates of increase for employee compensation and for health care costs. Actual experience can vary materially from estimates and could

result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

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

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

### **NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES**

Effective January 1, 2009, the Company adopted the two new Canadian Institute of Chartered Accountants ("CICA") accounting standards. The main requirements of these new standards are described below.

(i) Goodwill and Intangible Assets:

Handbook Section 3064, *Goodwill and Intangible Assets* replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27 ("EIC 27"). This change in accounting policy has been given retrospective treatment.

The Company previously deferred start-up costs on major plant construction to the extent these costs met the criteria under EIC 27 and the site met sustainable production levels defined as the earlier of:

- (a) Seventy percent of production capacity for two consecutive months; or
- (b) Six months

and to a maximum of twenty percent of the total project.

Start-up costs were amortized over five years on a straight-line basis.

The following changes to historical financial statements have been made to reflect the new policy:

	As previously reported	Adjustment	As adjusted
Consolidated Balance Sheet as at December 31, 2008:			
Property, plant and equipment	\$ 396,387	\$ (660)	\$ 395,727
Accumulated other comprehensive loss	539	15	554
Retained Earnings, ending	113,393	(645)	112,748

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Operations for the year ended December 31, 2008:			
Amortization of plant and equipment	21,846	(511)	21,335
Restructuring costs and write-downs of plant, equipment and timber	37,305	(2,417)	34,888
Future income tax expense	6,410	1,128	7,538
Net loss	(57,191)	1,800	(55,391)
Net loss per share, basic and diluted	(1.21)	0.03	(1.18)
Consolidated Statement of Retained Earnings for the year ended December 31, 2008:			
Retained Earnings, beginning	170,584	(2,445)	168,139
Retained Earnings, ending	113,393	(645)	112,748
Consolidated Statement of Comprehensive Income for the year ended December 31, 2008:			
Net loss	\$ (57,191)	\$ 1,800	\$ (55,391)
Other comprehensive income	33,353	(135)	33,218
Comprehensive loss	(23,838)	1,665	(22,173)
Consolidated Statement of Accumulated Other Comprehensive Income for the year ended December 31, 2008:			
Accumulated other comprehensive loss, beginning	(33,892)	120	(33,772)
Other comprehensive income	33,353	(135)	33,218
Accumulated other comprehensive loss, ending	(539)	(15)	(554)

## (ii) Financial instruments disclosure:

Handbook Section 3862, *Financial Instruments - Disclosures* establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

This additional disclosure has been provided.

**Future Accounting Policy Changes***Convergence with International Financial Reporting Standards*

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

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company commenced its IFRS conversion project in 2008 with the provision of training to key employees. Early in 2009, the Company developed an implementation plan, assembled a cross functional team, provided additional technical training to team members and commenced a high level review of its financial statement elements to identify major differences between Canadian GAAP and IFRS. Additional team members were engaged in the second quarter and subject matter specialists were identified.

An initial diagnostic has been completed, and a detailed review of the impact of IFRS on Interfor's consolidated financial statements is substantially complete. As required, the Company is engaging outside consultants to provide expertise and assistance. As subject areas reach completion, recommendations are being brought forward to the Company Executive for discussion and approval prior to implementation.

Any changes required to systems and controls, including information technology systems, are being identified as the project progresses. Currently, it is not anticipated that significant changes to computer systems will be required.

An opening balance sheet prepared under IFRS at the date of transition, January 1, 2010, is currently planned for substantial completion in the first half of 2010. Adjustments will be finalized during 2010 as details of some adjustments, as in the case of pensions, will not be available until in the latter half of 2010. Financial statements and notes will be prepared for each quarter of 2010 to be used for comparative purposes in 2011. Amendments will be made as adjustments become final.

While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; and employee future benefits.

Progress is on schedule.

### *Business Combinations*

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

- (a) Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Goodwill and Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with IFRS standards.
- (b) Handbook Section 1601, *Consolidated Financial Statements* and Handbook Section 1602, *Non-Controlling Interests*, which replace Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

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

## **RISKS AND UNCERTAINTIES**

### **Pricing**

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada and Japan), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products.

Based on 2009 levels of operations, a \$10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	\$10 increase per thousand fbm	\$5.0 million increase in net income
Chips	\$10 increase per unit <sup>1</sup>	\$2.4 million increase in net income

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

## Competition

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

Factors which affect the Company's competitive position include:

- the foreign exchange rate;
- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the cost of export taxes payable on sales to the U.S.; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

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

## Availability of Log Supply

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian mills generally purchase less than 50% of their log requirements either through purchase agreements or on the open market. The Company relies on 100% purchased wood for its U.S. based mills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

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

## Use of Financial and Other Instruments

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

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

## Currency Exchange Sensitivity

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

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

The Company actively manages its currency exchange risk in fluctuations in US\$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. As at December 31, 2009, the Company has outstanding obligations to sell a maximum of US\$16.9 million at an average rate of CAD\$1.0638 to the USD\$1.00, buy a maximum of US\$35.0 million at an average rate of CAD\$1.0467 to the USD\$1.00, and sell Japanese ¥50.0 million at an average rate of ¥92.41 to the CAD\$1.00 during 2010. All foreign currency gains or losses to December 31, 2009 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts being an asset of \$0.4 million (2008 - \$0.1 million liability fair value recorded in accounts payable and accrued liabilities) has been recorded in accounts receivable.

Based on the Company's net exposure to foreign currencies in 2009 and US\$ denominated cash held in deposits and short term investments at year end and US\$ denominated debt and related financial instruments, the sensitivity of Interfor's net earnings is as follows:

US\$	\$0.01 increase vs. CAD\$	\$600,000 increase in net income
Japanese Yen	1¥ increase vs. CAD\$	\$100,000 increase in net income

Interfor's U.S. operations produce and sell products almost exclusively for the U.S. market. All revenues and expenses are denominated in US\$. All foreign currency denominated assets and liabilities of the self-sustaining operations are translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Unrealized gains and losses arising upon translation of net foreign currency investment positions in self-sustaining operations, together with any gain or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in Accumulated Other Comprehensive Income ("AOCI") are reclassified to the Statement of Operations.

The Company recorded a \$24.3 million unrealized foreign exchange loss on translation of its self-sustaining operations in 2009 (2008 - \$33.2 million gain) to other comprehensive income.

On October 1, 2008, the Company designated the US\$30.2 million drawn under its Revolving Term Line for the acquisition of its Beaver operations as a hedge against its investment in its self-sustaining U.S. operations. Unrealized foreign exchange gains of \$5.0 million (2008 - \$4.6 million loss) have been recorded in Other comprehensive income in 2009.

The Company had previously designated its US\$35.0 million Non-Revolving Term Line as a hedge against its investment in its self-sustaining U.S. operations. Effective April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains as a result of applying hedge accounting totaled \$5.5 million and continue to be recorded in AOCI. In 2009, unrealized foreign exchange gains arising revaluation of the Non-Revolving Term Line totaled \$5.8 million (2008 - \$7.9 million loss) and were recorded in Other foreign exchange gain (loss) in the Statement of Operations.

## **Cost of Debt Financing and Sensitivity**

As at December 31, 2009 Interfor had drawn a total of \$144.5 million (2008 - \$168.0 million) of floating rate debt under its operating and term credit facilities.

The Company's operating and term credit facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for CAD\$ loans or at LIBOR for US\$ loans, in all cases depending upon a financial ratio. The lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization, and a minimum net worth requirement.

During September 2005, the Company entered into a cross currency interest rate swap. The Company received US\$20.0 million at maturity on September 1, 2009 in exchange for payment of CAD\$23.5 million (an exchange rate of 1.1765). In addition, during the term of the swap the Company paid an amount based on annual interest of 5.84% on the CAD\$23.5 million and received 90 day LIBOR plus a spread of 200 basis points on the US\$20.0 million, with LIBOR recalculated at set interval dates. The swap matured on September 1, 2009 and total foreign exchange losses of \$2.1 million were recognized in 2009 (2008 - \$4.2 million gain).

Based on the Company's average debt level during 2009, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$1.1 million in net earnings.

## **Forest Policy Changes in British Columbia**

Over the past decade the Crown has initiated a number of changes to forest policy that will encourage a more viable and competitive forest industry in B.C. Policy changes that have been implemented, for example, include a results based Forest Practices Code; First Nation tenure opportunities and revenue sharing; market based timber pricing; the elimination of minimum cut control regulations; the elimination of existing timber processing regulations; and the Forestry Revitalization Plan ("FRP") that included a reallocation of tenure that reduced the AAC of major licence holders, including Interfor, by 20%. The FRP stated that approximately half of this volume would be redistributed to woodlots, community forests, and First Nations, and the other half would be available for public auction under the Timber Sales Program.

In 2009, the Crown focused on two forest policy review processes. The first is a Forest Regulatory Review process aimed at streamlining existing regulations and addressing operational issues. The second was the completion of the Forestry Roundtable report that made 29 recommendations on future policy changes that will help strengthen the industry in years to come.

The impact of some of the new policy changes are expected to take effect in the next decade. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

## **Allowable Annual Cut ("AAC")**

Interfor holds cutting rights in B.C. that represent an AAC of approximately of 3.6 million cubic metres. Of this amount 3.3 million cubic metres is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures (timber Licences and non-replaceable forest licences) that will expire over time.

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

Interfor's AAC in the Central Coast and North Coast regions has been reduced to take into account the impact of the new protected area additions. A further reduction is anticipated to address future impacts associated with the implementation of Ecosystem Based Management practices. The Company's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. The Company has not been harvesting its full AAC in this region for a number of years due to temporary reductions put in place during the negotiation period and uncertainty around operating

areas and does not anticipate a significant change in the current harvest rate in comparison to the harvest in recent years as a result of this decision.

Reductions in Interfor's AAC from new protected areas are subject to compensation, once these areas have been formally removed. The Crown provided an interim payment in 2009 for a portion of the compensation value, with the balance to be determined and payable in 2010. The final compensation amount is not yet determinable, and will be recorded when the amounts have been agreed to.

The amount of timber available for harvest in the B.C. Southern Interior is expected to remain high for the next five to ten years as a consequence of an accelerated harvest to address the impacts from the pine beetle epidemic. The longer term impact of the beetle is expected to reduce the overall timber supply once the surplus of dead pine is no longer useable. The amount and duration of the increase and subsequent decline cannot be determined at this time and will vary by location.

### **Aboriginal Issues**

In 1997, the Supreme Court of Canada, in the Delgamuukw decision, confirmed the continued existence of aboriginal title and rights in areas of British Columbia, which are not covered by treaties. Accordingly, aboriginal groups have claimed aboriginal title and rights over substantial portions of British Columbia, including areas where Interfor's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout British Columbia in order to resolve aboriginal rights and title claims. In addition, the governments have entered, and may continue to enter, into interim measures agreements with aboriginal groups. Any interim measures agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self government. The impact of aboriginal claims or treaty settlements on Interfor's forest tenures or the amounts of compensation to Interfor, if any, cannot be estimated at this time.

The duty to consult and accommodate aboriginal groups has become a central issue facing governments and the forest industry. While the courts have established that the Crown has a duty to consult and accommodate aboriginal groups, there was uncertainty as to how and to what this requirement will be applied. Uncertainty also existed in what responsibility a company may have as a result of the Crown's failure to carry out its duties. In a Supreme Court of Canada's decision on November 18, 2004, it was made clear that third parties (tenure holders) are not responsible for consultation and accommodation of aboriginal interests. It is the Crown's obligation to consult and, where appropriate, accommodate aboriginal interests. The questions of responsibility and appropriateness of balancing interests will continue to evolve as the courts provide greater clarity to these complex issues. In addition the Province has initiated a New Relationship process with First Nations that is intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement. In late 2009 the Province and six Coastal First Nations signed a Reconciliation Protocol that provides a shared decision making process for resource and land use, as well as new forest sector opportunities. This agreement overlaps a portion of Interfor's Central Coast tenures. The agreement will be assessed and monitored in 2010 to determine the extent of any implications on those operations.

### **Stumpage Fees**

Stumpage is the fee the Crown charges companies to harvest timber from Crown land. Prior to February 29, 2004, the amount of stumpage paid for each cubic metre of wood harvested was based on a target rate set by government. Stumpage payments for a harvesting area take into consideration specific operating conditions, timber quality and administrative procedures.

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The move to a more open and competitive market pricing system ("MPS") for timber and logs for the Coastal and Interior forest sector has been implemented by the British Columbia government. The primary variable in MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that go into determining an individual stumpage rate for each cutting permit. Periodic changes in the British Columbia government's administrative policy can



affect stumpage costs and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

### **Environment**

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

### **Labour Disruptions**

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

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

### **OUTLOOK**

With U.S. housing starts lifting off the historic bottom established in early 2009, and housing supply and affordability improving, there are glimmers of recovery beginning to show. However, with continued high unemployment and tight credit, as well as the prospect of further subprime mortgage resets due in the next 12-18 months, the near term speed of recovery is difficult to predict. Accordingly, the Company expects North American structural lumber market conditions to remain very challenging through 2010.

Demand for Cedar in the first quarter of 2010 is likely to remain more muted than normal. The availability of credit continues to be a major concern with customers and, accordingly, inventory positions will likely remain substantially lower than normal.

In Japan, the housing market is expected to remain steady as lack of available supply from North America due to mill curtailments is expected to support lumber prices at close to current levels.

With respect to currency, the outlook for the CAD\$ versus the US\$ and yen for 2010 is very difficult to predict, given the volatility of the currency markets witnessed in 2009.

Residual chip prices have declined as pulp producers have curtailed production to balance supply. Stumpage rates on the B.C. Coast, which are tied to log prices through a formula, are expected to remain low in 2010 reflecting lower market prices for logs.

With the prospect of another challenging year ahead, the Company intends to continue tight control over cash, while positioning itself to take advantage of the upturn in demand and prices when it arrives. Currently, there are no major capital investments approved for 2010.

### **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) and 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.



**International Forest Products Limited**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS**

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

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

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

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

A handwritten signature in black ink, appearing to read "D. Davies", written over a light gray rectangular background.

Duncan K. Davies  
President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "J. Horning", written over a light gray rectangular background.

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

February 3, 2010



**International Forest Products Limited**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**AUDITORS' REPORT TO THE SHAREHOLDERS**

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2009 and 2008 and the consolidated statements of operations, retained earnings, cash flows, comprehensive income (loss) and accumulated other comprehensive income (loss) for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2009 and 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slanted style. Below the signature is a long, horizontal, slightly curved line that extends to the right.

KPMG LLP, Chartered Accountants

Vancouver, Canada

February 3, 2010

**International Forest Products Limited**  
**Consolidated Balance Sheets**

(Expressed in thousands of Canadian dollars)  
December 31, 2009 and 2008

	2009	2008
		(restated - note 1(b))
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 3,802	\$ 184
Accounts receivable	32,951	25,441
Income taxes recoverable	230	16,225
Inventories (note 4)	60,159	78,991
Prepaid expenses	7,777	7,779
Future income taxes (note 15)	2,974	2,890
	107,893	131,510
Investments and other assets (note 5)	17,060	19,372
Property, plant and equipment (note 6)	357,501	395,727
Logging roads and bridges (note 7)	16,485	20,598
Timber tenures (note 7)	67,010	69,827
Goodwill	13,078	13,078
Long-lived assets held for sale (note 3)	3,424	15,138
	\$ 582,451	\$ 665,250
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Bank indebtedness (note 8(a))	\$ -	\$ 30,589
Accounts payable and accrued liabilities	43,510	45,163
Payable to investee company (notes 9 and 23(a))	3,096	3,651
	46,606	79,403
Reforestation liability, net of current portion (note 11)	14,724	15,685
Long-term debt (note 8(b))	144,525	137,414
Other long-term liabilities (note 10)	15,316	12,407
Future income taxes (note 15)	3,286	14,159
Shareholders' equity:		
Share capital (note 12):		
Issued and fully paid:		
Class A subordinate voting shares	284,500	284,500
Class B common shares	4,080	4,080
Contributed surplus (note 12(a))	5,408	5,408
Accumulated other comprehensive loss	(24,855)	(554)
Retained earnings	88,861	112,748
	357,994	406,182
	\$ 582,451	\$ 665,250

Commitments and contingencies (note 16)

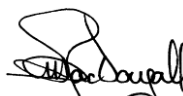
Subsequent events (note 23)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



E.L. Sauder, Director



G.H. MacDougall, Director

**International Forest Products Limited**  
**Consolidated Statements of Operations**

(Expressed in thousands of Canadian dollars, except earnings per share amounts)  
 Years ended December 31, 2009 and 2008

	2009	2008
		(restated – note 1(b))
Sales	\$ 389,775	\$ 437,221
Costs and expenses:		
Production	374,488	411,479
Selling and administration	16,445	16,867
Long term incentive compensation (recovery)	3,211	(1,990)
Export taxes	3,903	3,433
Amortization of plant and equipment	24,838	21,335
Depletion and amortization of timber, roads and other	13,340	19,619
	436,225	470,743
Operating loss before restructuring costs and write-downs of plant, equipment and timber	(46,450)	(33,522)
Restructuring costs and write-downs of plant, equipment and timber (note 14)	(4,367)	(34,888)
Operating loss	(50,817)	(68,410)
Other earnings (expenses):		
Interest expense on long-term debt	(6,442)	(4,543)
Other interest expense	(1,401)	(588)
Other foreign exchange gain	37	912
Other income (note 13)	22,965	1,418
Equity in earnings of investee companies (note 5)	1,885	4,825
	17,044	2,024
Loss before income taxes	(33,773)	(66,386)
Income taxes (note 15):		
Current (recovery)	(183)	(18,533)
Future (recovery)	(9,703)	7,538
	(9,886)	(10,995)
Net loss	\$ (23,887)	\$ (55,391)
Net loss per share (note 17):		
Basic and diluted	\$ (0.51)	\$ (1.18)

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Retained Earnings**

(Expressed in thousands of Canadian dollars)  
 Years ended December 31, 2009 and 2008

	2009	2008
		(restated – note 1(b))
Retained earnings, beginning of year	\$ 112,748	\$ 168,139
Net loss	(23,887)	(55,391)
Retained earnings, end of year	\$ 88,861	\$ 112,748

See accompanying notes to consolidated financial statements.

**International Forest Products Limited**  
**Consolidated Statements of Cash Flows**  
(Expressed in thousands of Canadian dollars)  
Years ended December 31, 2009 and 2008

	2009	2008
Cash provided by (used in):		(restated - note 1(b))
Operating activities:		
Net loss	\$ (23,887)	\$ (55,391)
Items not involving cash:		
Amortization of plant and equipment	24,838	21,335
Depletion and amortization of timber, roads and other	13,340	19,619
Future income taxes (recovery)	(9,703)	7,538
Other assets	759	(544)
Reforestation liability	(961)	(4,421)
Other long-term liabilities	2,909	(1,678)
Equity in earnings of investee company (note 5)	(1,885)	(4,825)
Write-down of plant, equipment and timber (note 14)	3,067	29,010
Unrealized foreign exchange losses (gains)	(6,969)	3,941
Other (note 13)	(23,089)	(1,541)
	(21,581)	13,043
Cash generated from (used in) operating working capital:		
Accounts receivable	(8,580)	13,335
Inventories	16,882	12,025
Prepaid expenses	(625)	(117)
Accounts payable and accrued liabilities	2,702	(16,358)
Income taxes	15,976	(8,187)
	4,774	13,741
Investing activities:		
Additions to property, plant and equipment	(20,781)	(73,364)
Additions to logging roads and timber	(6,811)	(17,512)
Proceeds on disposal of property, plant and equipment (note 13)	36,985	5,096
Acquisitions (note 2)	-	(76,919)
Deposit held in escrow for acquisition (note 2)	-	8,943
Investments and other assets	(942)	(2,116)
	8,451	(155,872)
Financing activities:		
Issuance of share capital, net of expenses (note 12(a))	-	56
Increase (decrease) in bank indebtedness	(30,589)	30,589
Funds from promissory note payable to investee company (note 9)	3,096	3,651
Additions to long-term debt (note 8(b))	59,000	139,064
Repayments of long-term debt (note 8(b))	(41,000)	(48,925)
	(9,493)	124,435
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(114)	85
Increase (decrease) in cash and cash equivalents	3,618	(17,611)
Cash and cash equivalents, beginning of year	184	17,795
Cash and cash equivalents, end of year	\$ 3,802	\$ 184
Supplementary disclosures:		
Cash interest paid, net	\$ 7,843	\$ 5,131
Cash income taxes received	16,179	12,330

See accompanying notes to consolidated financial statements.

**International Forest Products Limited**  
**Consolidated Statements of Comprehensive Income (Loss)**

(Expressed in thousands of Canadian dollars)  
 Years ended December 31, 2009 and 2008

	2009	2008
		(restated - note 1(b))
Net loss	\$ (23,887)	\$ (55,391)
Other comprehensive loss:		
Net change in unrealized foreign currency translation gains (losses) on translation of self-sustaining foreign subsidiaries	(24,301)	33,218
Other comprehensive income (loss)	(24,301)	33,218
Comprehensive loss	\$ (48,188)	\$ (22,173)

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Accumulated Other Comprehensive Income (Loss)**

(Expressed in thousands of Canadian dollars)  
 Years ended December 31, 2009 and 2008

	2009	2008
		(restated - note 1(b))
Accumulated other comprehensive loss, beginning of year	\$ (554)	\$ (33,772)
Other comprehensive income (loss)	(24,301)	33,218
Accumulated other comprehensive loss, end of year	\$ (24,855)	\$ (554)

See accompanying notes to consolidated financial statements.

**1. Significant accounting policies and change in accounting policies:**

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

(a) Principles of consolidation:

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

(b) Adoption of changes in accounting policies:

Effective January 1, 2009, the Company adopted two new Canadian Institute of Chartered Accountants ("CICA") accounting standards. The main requirements of these new standards are described below.

(i) Goodwill and Intangible Assets:

Handbook Section 3064, *Goodwill and Intangible Assets* replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred, with the concurrent withdrawal of CICA Emerging Issues Committee Abstract 27 ("EIC 27"). This change in accounting policy has been given retrospective treatment.

The Company previously deferred start-up costs on major plant construction to the extent these costs met the criteria under EIC 27 and the site met sustainable production levels defined as the earlier of:

(a) Seventy percent of production capacity for two consecutive months; or

(b) Six months

and to a maximum of twenty percent of the total project.

Start-up costs were amortized over five years on a straight-line basis.

The following changes to historical financial statements have been made to reflect the new policy:

	As previously reported	Adjustment	As adjusted
Consolidated Balance Sheet as at December 31, 2008:			
Property, plant and equipment	\$ 396,387	\$ (660)	\$ 395,727
Accumulated other comprehensive loss	539	15	554
Retained Earnings, ending	113,393	(645)	112,748
Consolidated Statement of Operations for the year ended December 31, 2008:			
Amortization of plant and equipment	21,846	(511)	21,335
Restructuring costs and write-downs of plant, equipment and timber	37,305	(2,417)	34,888
Future income tax expense	6,410	1,128	7,538
Net loss	(57,191)	1,800	(55,391)
Net loss per share, basic and diluted	(1.21)	0.03	(1.18)



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

(b) Adoption of change in accounting policy (continued):

(i) Goodwill and Intangible Assets (continued):

	As previously reported	Adjustment	As adjusted
<b>Consolidated Statement of Retained Earnings for the year ended December 31, 2008:</b>			
Retained earnings, beginning	\$ 170,584	\$ (2,445)	\$ 168,139
Retained earnings, ending	113,393	(645)	112,748
<b>Consolidated Statement of Comprehensive Income for the year ended December 31, 2008:</b>			
Net loss	(57,191)	1,800	(55,391)
Other comprehensive income	33,353	(135)	33,218
Comprehensive loss	(23,838)	1,665	(22,173)
<b>Consolidated Statement of Accumulated Other Comprehensive Income for the year ended December 31, 2008:</b>			
Accumulated other comprehensive loss, beginning	(33,892)	120	(33,772)
Other comprehensive income	33,353	(135)	33,218
Accumulated other comprehensive loss, ending	(539)	(15)	(554)

(ii) Financial instruments disclosure:

Handbook Section 3862, *Financial Instruments - Disclosures* establishes revised standards for the disclosure of financial instruments. The new standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

- Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or
- Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment's assigned level.

This additional disclosure has been provided in note 22(b).

(c) Cash and cash equivalents:

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

(d) Inventories:

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

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

## (d) Inventories (continued):

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

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

## (e) Investments and advances:

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

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

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

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

Property, plant and equipment and timber and logging roads are recorded at cost. Amortization on plant and equipment is provided on a straight-line basis during periods of production at rates (ranging from 5% to 25%) based on the estimated useful lives of the assets. Timber licence depletion and road amortization are computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed periodically to ensure they are aligned with estimates of remaining economic useful lives of the associated capital assets.

## (g) Reforestation liability:

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

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

## (h) Environmental costs:

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

## (i) Use of estimates:

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

## (j) Income taxes:

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

## (k) Share-based compensation:

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

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

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

## (l) Sales recognition and presentation policies:

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

## (m) Employee future benefits:

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

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

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

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.

The unamortized net actuarial gains or losses in excess of ten percent of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight-line basis over the average remaining service period of active employees. The average remaining service period of the active employees covered by the plans is thirteen years in 2009 (2008 - thirteen years).

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

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

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

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

## (o) Foreign currency translation:

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

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

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

## (o) Foreign currency translation (continued):

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

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

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

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

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

## (q) Asset retirement obligations:

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

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

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

As at December 31, 2009, the Company tested the recoverability of substantially all of its long-lived assets. The recoverability tests performed include management forecasts of cash flows arising from the use and disposition of the relevant assets. Based on the management forecasts, undiscounted cash flows exceed the carrying value of the Company's long-lived assets and no impairment charge is required at December 31, 2009.

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

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

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

The Company uses a discounted cash flow methodology to estimate the fair value of the goodwill and related reporting unit. The cash flows are based on management forecasts and an appropriate discount rate as determined by reference to current market conditions and specific company factors. For the year ended December 31, 2009, the estimated fair value of the goodwill and related reporting unit exceeds the carrying value of these assets. Therefore, no impairment charge is required.

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

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

## (s) Comparative figures:

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

## (t) Future accounting changes:

## (i) International Financial Reporting Standards

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

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. While the effects of IFRS have not yet been fully determined, the Company has identified a number of key areas which are likely to be impacted by changes in accounting policy, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; and employee future benefits.

## (ii) Business combinations

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

- Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Goodwill and Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with IFRS standards.
- Handbook Section 1601, *Consolidated Financial Statements* and Handbook Section 1602, *Non-Controlling Interests*, which replace Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

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

**2. Acquisitions:**

During 2008, the Company completed two business acquisitions, the details of which are more fully described below.

The purchase price of each of these business acquisitions was allocated to the fair value of assets acquired and related liabilities arising from the transactions, based on management's best estimates. These acquisitions were accounted for using the purchase method and the purchase price was allocated as follows:

	Kootenay Acquisition (note 2(a))	Beaver and Forks Acquisition (note 2(b))	Total
Net assets acquired:			
Current assets	\$ 9,245	\$ 3,560	\$ 12,805
Property, plant and equipment	22,226	30,659	52,885
Timber and logging roads	40,092	56	40,148
	71,563	34,275	105,838
Liabilities assumed:			
Current liabilities	13,711	19	13,730
Reforestation, post-retirement benefits and other long-term obligations	13,458	-	13,458
Future income taxes	1,731	-	1,731
	\$ 42,663	\$ 34,256	\$ 76,919
Cash consideration funded by:			
Cash on hand	\$ 15,947	\$ 2,117	\$ 18,064
Deposit held in escrow	9,007	-	9,007
Revolving Term Line	17,709	32,139	49,848
	\$ 42,663	\$ 34,256	\$ 76,919

(a) Kootenay operations acquisition from Pope and Talbot, Inc.:

On November 19, 2007, the Company and Pope and Talbot, Inc. ("P&T") entered into an Asset Purchase Agreement ("P&T APA"), as subsequently amended, for the acquisition of two southern B.C. interior sawmills and their related timber tenures and one sawmill in Spearfish, South Dakota. Subsequently, the Company assigned the right to purchase the Spearfish, South Dakota sawmill to Neiman Enterprises, Inc. ("Neiman"), a company based in Wyoming. The Company paid a US\$8,800,000 interest-bearing deposit held in escrow in respect of the transaction.

On April 30, 2008, the Company concluded the acquisition of the Castlegar, B.C. and Grand Forks, B.C. ("Kootenay operations") sawmills, related timber harvesting rights and other related assets and assumption of liabilities and Neiman concluded its acquisition of the Spearfish sawmill and related assets.

To acquire these assets, the Company paid \$49,689,000, of which \$9,007,000 was funded through the deposit held in escrow, \$17,709,000 was financed through its Canadian revolving term line of credit ("Revolving Term Line"), and the balance of \$22,973,000 through cash on hand. Amounts paid in US\$ were translated to CAD\$ at the April 29, 2008 rate of CAD\$1.0119 : US\$1.00.

**2. Acquisitions (continued):**

## (a) Kootenay operations acquisition from Pope and Talbot, Inc. (continued):

At completion, a portion of the consideration paid was placed in escrow, pending final determination of the purchase price adjustments and obtaining of certain authorizations in accordance with the P&T APA. Because the amount to be released to the Company from escrow funds could not be determined until the Company had reached an agreement with P&T, no amounts were recorded as recoverable at acquisition.

On October 20, 2008, the Company reached an agreement with PricewaterhouseCoopers Inc., in its capacity as the Receiver of P&T, to settle all outstanding claims. Upon receipt of Court approval on December 1, 2008, the Company received US\$7,675,000 (\$9,494,000) from escrowed funds and after settlement with Neiman for its portion and finalization of transaction costs, the purchase price was reduced to \$42,663,000.

The assets acquired include manufacturing facilities, timber harvesting rights and working capital. The Company assumed certain liabilities of P&T including pension and other employee related obligations. P&T compensated the Company for the future management of certain of these liabilities, including forestry related obligations, resulting in the transfer of portions of these liabilities to the Company at closing. Results of the operations of the acquired assets have been included in the Statement of Operations of the Company commencing May 1, 2008.

## (b) Beaver and Forks operations acquisition from Portac, Inc.:

On September 30, 2008, the Company completed the acquisition of a sawmill, planer mill and inventories from Portac, Inc. ("Portac"), a subsidiary of Mitsui U.S., Inc. To acquire these assets, the Company paid US\$32,181,000 (\$34,256,000), of which US\$30,200,000 (\$32,139,000) was financed through its Revolving Term Line and the balance of US\$1,981,000 (\$2,117,000) through cash on hand.

Amounts paid in US\$ were translated to CAD\$ at the September 30, 2008 rate of CAD\$1.0642: US\$1.00.

The assets, which are located on the Olympic Peninsula in Washington State, were renamed "Beaver Division". Results of the operations of the acquired facilities have been included in the Statement of Operations of the Company commencing October 1, 2008.

**3. Long-lived assets held for sale:**

The Company has developed formal plans to dispose of certain surplus properties and has classified these assets as assets held for sale. During 2009, the Company was able to dispose of the properties and improvements of the former Queensboro sawmill site located in New Westminster, B.C. as well as surplus property and buildings located in Maple Ridge, B.C. (see also Other income note 13). These properties, together with the property at the former Field sawmill site located in Courtenay, B.C., were classified as held for sale at December 31, 2008. As at December 31, 2009, the property at the former Field sawmill site remains classified as held for sale.



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Notes to Consolidated Financial Statements

Years ended December 31, 2009 and 2008

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

**4. Inventories:**

	2009	2008
Logs	\$ 31,011	\$ 51,158
Lumber	24,301	22,484
Other	4,847	5,349
	<u>\$ 60,159</u>	<u>\$ 78,991</u>

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown to record inventory at the lower of cost and net realizable value at December 31, 2009 was \$9,578,000 (2008 - \$20,270,000).

**5. Investments and other assets:**

	2009	2008
Seaboard Shipping Company Limited	\$ 8,774	\$ 10,540
Other investments and deposits	563	1,686
Pension asset (note 18(b))	7,121	6,581
Deferred financing fees, net of accumulated amortization	602	565
	<u>\$ 17,060</u>	<u>\$ 19,372</u>

Summarized information of Seaboard is as follows:

	2009	2008
Total assets	\$ 21,620	\$ 29,009
Shareholders' equity	17,699	24,238
Net sales	36,278	45,434
Interfor's shipment percentage	75.7%	62.2%
Interfor's equity in earnings	\$ 1,885	\$ 4,825
Distributions received	3,651	-

In 2009, a cash distribution was made to the partners, of which the Company's share was \$3,651,000. In accordance with equity accounting, the distributions were recorded as a reduction of the investment. See also Payable to investee company, note 9.

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Notes to Consolidated Financial Statements

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

**6. Property, plant and equipment:**

2009	Cost	Accumulated amortization	Net book value
Land	\$ 15,990	\$ -	\$ 15,990
Buildings	71,198	29,324	41,874
Machinery and equipment	420,160	151,110	269,050
Mobile equipment	8,892	6,778	2,114
Computer equipment	20,509	11,321	9,188
Site improvements	25,400	7,088	18,312
Other	4,588	3,615	973
	\$ 566,737	\$ 209,236	\$ 357,501
2008			
Land	\$ 16,408	\$ -	\$ 16,408
Buildings	68,891	30,536	38,355
Machinery and equipment	445,206	142,562	302,644
Mobile equipment	9,547	6,276	3,271
Computer equipment	25,204	13,744	11,460
Site improvements	26,849	5,643	21,206
Other	5,811	3,428	2,383
	\$ 597,916	\$ 202,189	\$ 395,727

**7. Roads, bridges and timber tenures:**

2009	Cost	Accumulated amortization	Net book value
Roads and bridges	\$ 41,730	\$ 25,245	\$ 16,485
Timber tenures	101,718	34,708	67,010
	\$ 143,448	\$ 59,953	\$ 83,495
2008			
Roads and bridges	\$ 44,586	\$ 23,988	\$ 20,598
Timber tenures	102,588	32,761	69,827
	\$ 147,174	\$ 56,749	\$ 90,425

**8. Bank indebtedness and long-term debt:**

(a) Bank indebtedness:

	Canadian Operating Facility	U.S. Operating Facility	Total
2009			
Available line of credit	\$ 65,000	\$ -	\$ 65,000
Maximum borrowing available	61,926	-	61,926
Operating Line drawings	-	-	-
Outstanding letters of credit included in line utilization	4,997	-	4,997
Unused portion of line	56,929	-	56,929
2008			
Available line of credit	\$ 100,000	\$ 12,180	\$ 112,180
Maximum borrowing available	54,234	7,836	62,070
Operating Line drawings	25,747	6,090	31,837
Outstanding letters of credit included in line utilization	5,105	146	5,251
Unused portion of line	23,382	1,600	24,982

In 2009, the Company renewed its existing Canadian operating line of credit ("Operating Line"), decreasing the maximum available operating credit to \$65,000,000 (2008 - \$100,000,000). The Operating Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio. Borrowings levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

As part of the amendment, margining availability was extended to include inventory domiciled in the United States. The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The Operating Line is subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The line matures on April 23, 2010. As at December 31, 2009, there were no drawings under the Operating Line (2008 - \$25,747,000).

On December 14, 2009, the Company received a financing commitment with respect to its Operating Line from its lenders, details of which are described in Subsequent events, note 23(b).

As a consequence of the extension of margining coverage, all U.S. working capital is included in the Operating Line facility and the Company did not renew its U.S. operating line of credit ("U.S. Line") when it matured on April 24, 2009, repaying all outstanding drawings. As at December 31, 2008, the U.S. Line was drawn by US\$5,000,000, revalued at the year-end exchange rate to \$6,090,000.

In 2008, drawings under the operating lines were offset by cash balances less outstanding cheques of \$1,248,000.

(b) Long-term debt:

The Company amended its existing Revolving Term Line in 2009 increasing it from \$115,000,000 to \$150,000,000. The terms and conditions of the line remained unchanged, except for an increase to the interest rate margins. 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. The line matures on April 24, 2011.

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

(b) Long-term debt (continued):

As at December 31, 2009, the Revolving Term Line was drawn by US\$30,200,000 revalued at the year-end exchange rate to \$31,740,000, and \$76,000,000 for total drawings of \$107,740,000 (2008 - \$94,784,000), leaving an unused available line of \$42,260,000 (2008 - \$20,216,000). The portion of the line drawn in \$US funds was designated as a hedge against the Company's investment in its self-sustaining U.S. operations effective October 1, 2008 and unrealized foreign exchange gains of \$5,043,000 (2008 - \$4,645,000 loss) arising on revaluation of the Revolving Term Line were recognized in Other comprehensive income for 2009.

The U.S. dollar non-revolving term line (the "Non-Revolving Term Line") remains fully drawn at US\$35,000,000 (2008 - US\$35,000,000) and was revalued at the year-end exchange rate to \$36,785,000 (2008 - \$42,630,000). The Non-Revolving Term Line matures on September 1, 2010. The Non-Revolving Term Line bears interest at rates based on bank prime plus a margin or, at the Company's option, at rates for LIBOR based loans plus a margin, in all cases depending upon a financial ratio. The foreign exchange gain for the year ended December 31, 2009 of \$5,845,000 (2008 - \$7,934,000 loss) arising on revaluation of the Non-Revolving Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations for 2009.

Both of the term lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The term lines are subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

On December 14, 2009, the Company received a financing commitment with respect to its Revolving Term Line from its lenders extending and modifying its syndicated credit facilities effective January 15, 2010 (see Subsequent events, note 23(b)). In conjunction with the amendments to its credit facilities, the Company drew on its new Revolving Term Line, being a long-term facility, and repaid and cancelled its existing Non-Revolving Term Line of US\$35,000,000 on January 15, 2010. Accordingly, the Non-Revolving Term Line has been classified as long-term.

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

2010	\$ 36,785 <sup>1</sup>
2011	107,740 <sup>1</sup>
2012	-
2013	-
2014	-
	\$ 144,525

<sup>1</sup> The long-term debt was refinanced on January 15, 2010, and maturity dates were extended (see Subsequent events, note 23(b) for further details).

**9. Payable to investee company:**

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

This advance was subsequently repaid (see Subsequent events, note 23(a)).

**9. Payable to investee company (continued):**

On December 29, 2008, the Seaboard Partnership made an advance to its partners, with Interfor's share of the advance being \$3,651,000. On January 2, 2009, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share of \$3,651,000 was received by way of setoff against the promissory note payable to the Seaboard Partnership.

**10. Other long-term liabilities:**

	2009	2008
Road deactivation and environmental	\$ 5,026	\$ 4,817
Pension and other post-retirement benefits (notes 18(b) and (e))	4,706	4,922
Long term incentive compensation		
Share based (notes 12(c) and (d))	1,550	340
Total shareholder return plan	2,280	810
Other	1,754	1,518
	<b>\$ 15,316</b>	<b>\$ 12,407</b>

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan, the Company will pay compensation to the TSR Plan members if the compound annual growth rate of the Company's share price exceeds 5% per annum over a three year period. The amount of compensation payable varies with the amount of the compound annual growth rate to a maximum of 15% per annum, the member's salary and a target award amount. For the three year period which commenced in fiscal 2007, a minimum target award has been guaranteed for the Chief Operating Officer irrespective of the actual compound growth rate.

The Company recorded compensation expense under the TSR Plan of \$1,470,000 (2008 - \$405,000) for the year ended December 31, 2009.

**11. Reforestation liability:**

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

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

	2009	2008
Reforestation liability, beginning of year	\$ 24,345	\$ 16,429
Reforestation expense on current production	2,779	3,317
Reforestation liability addition on acquisition of		
Kootenay operations	-	14,289
Reforestation expenditures	(5,969)	(10,392)
Accretion expense	1,098	831
Changes in estimated future reforestation expenditures	(757)	(129)
	<b>\$ 21,496</b>	<b>\$ 24,345</b>

**11. Reforestation liability (continued):**

	2009	2008
Consisting of:		
Current portion included in accounts payable and accrued liabilities	\$ 6,772	\$ 8,660
Long term reforestation liability	14,724	15,685
	<u>\$ 21,496</u>	<u>\$ 24,345</u>

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2009 is \$24,610,000 (2008 - \$27,339,000). The reforestation expenditures are expected to occur over the next one to seventeen years and have been discounted at the Company's estimated credit-adjusted risk-free interest rate of 7.0%. Reforestation expense incurred due to current production and accretion expense are included in production costs for the year.

**12. Share capital:**

(a) Share transactions:

Authorized capital at December 31, 2009 and 2008 consists of:

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

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

5,000,000 preference shares without par value

Share transactions during 2009 and 2008 were as follows:

	Number			Amount
	Class A	Class B	Total	
Balance, December 31, 2007	46,089,076	1,015,779	47,104,855	288,524
Shares issued on exercise of options	12,400	-	12,400	56
Balance, December 31, 2008 and 2009	46,101,476	1,015,779	47,117,255	\$ 288,580

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

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

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

The Company did not repurchase any Class A shares through the normal course issuer bid in 2008 or 2009.

There was no change in contributed surplus in 2009 or 2008.

**12. Share capital (continued):**

(a) Share transactions (continued):

At December 31, 2009, Class A shares are reserved for possible future issuance as follows:

- (i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and
- (ii) 2,154,940 Class A shares are reserved for possible issuance pursuant to the share option plan.

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2009 are exercisable at prices ranging from \$3.65 to \$4.94 per share, being the closing market price for the shares on the dates that the options were granted. The options expire at various dates between January 30, 2010 and April 30, 2011.

Details of the Company's share option plan for the years ended December 31, 2009 and 2008 are as follows:

	2009		2008	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,021,340	\$ 4.59	1,409,840	\$ 4.51
Granted	-	-	-	-
Exercised	-	-	(12,400)	4.49
Expired or cancelled	(270,000)	5.00	(376,100)	4.31
<b>Outstanding, end of year</b>	<b>751,340</b>	<b>\$ 4.44</b>	<b>1,021,340</b>	<b>\$ 4.59</b>
<b>Options exercisable, year end</b>	<b>751,340</b>	<b>\$ 4.44</b>	<b>1,021,340</b>	<b>\$ 4.59</b>

The options outstanding at December 31, 2009 have a weighted average remaining life of 1.8 years.

(c) Share Appreciation Rights Plan:

Awards under the Share Appreciation Rights Plan ("SAR Plan") have been granted to directors, officers and senior managers of the Company. Under the SAR Plan, awards will be expensed over the vesting periods when the market price of the common shares exceeds the strike price under the plan. Changes in the quoted market value of those shares between the date of grant and the measurement date result in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities (see Other long-term liabilities, note 10).

**12. Share capital (continued):**

(c) Share Appreciation Rights Plan (continued):

	2009		2008	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,428,320	\$ 5.90	1,226,720	\$ 5.99
Granted	363,500	1.38	352,000	5.21
Exercised	-	-	(3,900)	4.33
Expired or cancelled	(59,240)	4.28	(146,500)	5.02
Outstanding, end of year	1,732,580	\$ 5.01	1,428,320	\$ 5.90
Units exercisable, year end	921,960	\$ 5.85	793,140	\$ 5.62

Details of units outstanding under the SAR Plan at December 31, 2009 are as follows:

Strike price	Number outstanding, December 31, 2009	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2009	Weighted average strike price
\$1.38	341,000	9.1	\$ 1.38	-	\$ -
\$4.33-\$5.21	645,360	5.0	4.76	328,360	4.33
\$6.07-\$7.30	597,720	4.2	6.60	534,200	6.55
\$8.02	148,500	7.1	8.02	59,400	8.02
	1,732,580		\$ 5.01	921,960	\$ 5.85

The Company recorded compensation expense of \$546,000 (2008 – recovery of \$728,000) for the year ended December 31, 2009. Accrued compensation payable on unexercised units totaled \$546,000 (2008 - \$nil) at December 31, 2009, of which \$184,000 (2008 - \$nil) was classified current and recorded in accounts payable and accrued liabilities and the balance was recorded in long-term liabilities (see Other long-term liabilities, note 10).

(d) Deferred Share Unit Plan:

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

Participants in the TSR Plan may elect, subject to the approval of the Company's Board of Directors, to receive their award in DSU's at the end of any performance period. In respect of the guaranteed 2009 TSR award, the Board exercised its discretion and required the award to be credited to a cash account under the DSU Plan. There were no DSU's issued under the TSR Plan in 2008.

DSU's may also be granted directly to Directors or senior employees of the Company at the discretion of the Board and Directors may also elect to take DSU's as payment of their annual retainer. In 2009 a total of 31,602 DSU's (2008 – 42,669) were granted to or taken by Directors under the plan at an average value of \$2.29 (2008 - \$4.12) per unit.



**12. Share capital (continued):**

(d) Deferred Share Unit Plan (continued):

The Company recorded compensation expense of \$1,170,000 (2008 – recovery of \$1,667,000) for the year ended December 31, 2009 in respect of the DSU Plan. Subsequent changes to share values will result in adjustments to the compensation accrual and expense. At December 31, 2009, the Company had 361,465 (2008 – 363,863) DSU's outstanding. At December 31, 2009, accrued compensation payable in respect of the DSU Plan totaled \$1,781,000 (2008 - \$526,000), of which \$593,000 (2008 - \$186,000) was classified current and recorded in accounts payable and accrued liabilities and the balance was recorded in long-term liabilities (see Other long-term liabilities, note 10).

**13. Other income:**

	2009	2008
Gain on disposal of surplus property, plant, and equipment, and investment	\$ 22,085	\$ 794
Gain on settlement of timber takeback	1,004	747
Other	(124)	(123)
	<b>\$ 22,965</b>	<b>\$ 1,418</b>

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

In addition, under the terms of the *Forest Act*, the Company received \$2,000,000 as advance compensation for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast, and recorded a gain of \$1,004,000 (see also Commitments and contingencies, note 16(b)).

In 2008, the Company disposed of surplus investments, plant, property, and equipment as well as a timber licence. In addition, the Company received compensation from the Province of British Columbia for the loss of logging rights for timber licences in the Central Coast and for obsolete infrastructure. These dispositions combined to generate sales proceeds of \$5,096,000 and a gain of \$1,541,000.

**14. Restructuring costs and write-downs of plant, equipment and timber:**

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

	2009	2008
Plant, equipment and timber write-downs	\$ 3,067	\$ 29,010
Severance costs	1,565	4,852
Other (recovery)	(265)	1,026
	<b>\$ 4,367</b>	<b>\$ 34,888</b>

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

During 2008, the Company permanently closed both its Albion remanufacturing operation located in Maple Ridge, B.C., and its Queensboro sawmill located in New Westminster, B.C. The Company recorded severance and remediation costs totaling \$5,437,000 related to the permanent closures as well as an impairment charge of \$27,333,000 on the plant and equipment to reduce the carrying values of these assets to estimated fair values.

Also during 2008, due to deteriorating market conditions, the Company indefinitely curtailed the old Adams Lake sawmill and recorded an impairment charge of \$1,243,000 on the plant and equipment and severance costs of \$689,000.

Additional restructuring charges during 2008 include a timber impairment charge of \$434,000 offset by a net recovery of other restructuring costs of \$248,000.

As at December 31, 2009, \$1,359,000 (2008 - \$2,850,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2010 in accordance with its restructuring plans. In addition, a further \$618,000 (2008 - \$862,000) in other restructuring reserves are also included in accounts payable and accrued liabilities.

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Notes to Consolidated Financial Statements  
Years ended December 31, 2009 and 2008

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

**15. Income taxes:**

Future income taxes are determined as follows:

	2009	2008
Future income tax assets:		
Losses carried forward	\$ 68,502	\$ 47,440
Reforestation, restructuring and other accruals deductible when paid	7,139	10,390
Tax credits	2,779	1,149
	78,420	58,979
Valuation allowance	(22,734)	(18,336)
	55,686	40,643
Future income tax liabilities:		
Property, plant and equipment	(58,013)	(51,782)
Other	2,015	(130)
	\$ (312)	\$ (11,269)
Current future income tax assets	\$ 2,974	\$ 2,890
Non-current future income tax liabilities	(3,286)	(14,159)
	\$ (312)	\$ (11,269)

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

	2009	2008
Income tax expense (recovery) at the statutory rate of 30.0% (2008 – 31.0%)	\$ (10,132)	\$ (20,580)
Valuation allowance on U.S. future income tax assets	7,449	15,247
Non-taxable income of investments accounted for by the equity method	(565)	(1,496)
Entities with different tax rates	(1,245)	(1,122)
Non-taxable portion of capital losses (gains)	(6,013)	331
Change in future tax rates and statutory and tax recovery rate difference	789	(1,143)
Other	(169)	(2,232)
	\$ (9,886)	\$ (10,995)

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately \$216,000,000 (2008 - \$133,000,000) expire between 2014 and 2029, and are available to reduce future taxable income. The Company has provided a valuation allowance in respect of approximately \$62,000,000 (2008 - \$49,000,000) of its U.S. operating loss carry-forwards, net of temporary differences. The Company has no Alternative Minimum Tax Credits (2008 - \$252,000) arising from its U.S. operations. The Company also has B.C. Manufacturing and Processing tax credit and Canadian investment tax credit carry-forwards of \$2,779,000 (2008 - \$897,000) which expire between 2010 and 2026.

**16. Commitments and contingencies:**

(a) Operating leases and contractual obligations:

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

2010	\$ 4,660
2011	3,100
2012	2,440
2013	1,940
2014	1,760

(b) Central and North Coast Land Use Decisions:

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

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

The amount and timing of any further compensation payable to the Company as a result of the AAC reductions is not yet determinable, and will be recorded when the amounts can be reasonably estimated.

(c) Surety Performance Bonds

The Company has posted \$7,114,000 in surety performance bonds, with expiry dates ranging from March 2010 through November 2014.

(d) Commitment

On July 3, 2009, the Company finalized a revised agreement to acquire a timber tenure and related reforestation liabilities in the Kamloops region from Weyerhaeuser Company Limited. The transfer of the tenure requires regulatory approval. Subject to receiving the required approval, the Company expects to conclude this transaction in early 2010.

(e) Contingency

The P&T assets acquired have pipe insulation and board in the kiln decks that may contain asbestos. There are no plans to disturb or remove this material and the Company is unable to determine the amount of asbestos that may be present. As such there is insufficient information to apply expected present value techniques to these conditional asset retirement obligations and no liability has been recorded.

(f) Other contingencies:

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

**17. Net earnings per share:**

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

	2009			2008		
	Net loss	Weighted average number of Shares	Per share	Net loss	Weighted average number of Shares	Per share
Basic earnings						
(loss) per share	\$ (23,887)	47,117	\$ (0.51)	\$ (55,391)	47,109	(1.18)
Share options	-	-	-	-	45*	-
Diluted earnings						
(loss) per share	\$ (23,887)	47,117	\$ (0.51)	\$ (55,391)	47,109	\$ (1.18)

\*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.

**18. Pension and other post-retirement plans:**

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

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

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

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Company to its funded pension plans, cash contributed to the DPSP and 401(k) plans, cash contributed to a multiemployer defined benefit pension plan, and cash paid under senior management supplementary pension plans was \$4,675,000 (2008 - \$5,837,000).

(a) RRSP AND DPSP for Canada:

In Canada, salaried employees of the Company are provided with the opportunity of making voluntary contributions based on a percentage of an employee's earnings to the RRSP. The Company matches employees' RRSP contributions in the DPSP with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions. For the DPSP, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2009, the pension expense for this plan is equal to the Company's contribution of \$1,145,000 (2008 - \$1,273,000).

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

(b) Defined benefit plans:

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The most recent actuarial valuation of the CMSG pension plan and post-retirement benefits obligations was as of April 30, 2008, and for the Adams Lake pension plan was as of December 31, 2006. The next required funding valuations for the defined benefit pension plans is as of December 31, 2009 and the next scheduled valuation for the other post-retirement benefits obligation will be as of April 30, 2011.

	Other Post-retirement Benefits		Pension Benefits	
	2009	2008	2009	2008
<b>Accrued benefit obligation:</b>				
Beginning of year	\$ 874	\$ -	\$ 25,311	\$ 21,738
Acquisitions (note 2)	-	1,010	-	8,915
Actuarial (gain) loss	9	-	-	-
Service cost	15	13	275	390
Interest cost on accrued benefit obligation	62	40	1,797	1,539
Benefit payments	(59)	(37)	(1,593)	(1,297)
Impact of new discount rate at year-end	124	(152)	3,346	(5,974)
End of year	1,025	874	29,136	25,311
<b>Plan assets:</b>				
Fair value, beginning of year	-	-	25,575	21,361
Acquisitions (note 2)	-	-	-	8,031
Expected return on plan assets	-	-	1,787	1,892
Employer contributions	59	37	1,379	2,347
Employee contributions	-	-	125	116
Benefit payments	(59)	(37)	(1,593)	(1,297)
Actuarial gain (loss)	-	-	2,608	(6,875)
Fair value, end of year	-	-	29,881	25,575
<b>Funded status</b>				
- plan surplus (deficit)	(1,025)	(874)	745	264
Unamortized actuarial loss (gain)	(14)	(152)	6,376	5,918
<b>Accrued benefit asset (liability) \$</b>	<b>(1,039) \$</b>	<b>(1,026) \$</b>	<b>7,121 \$</b>	<b>6,182 \$</b>
<b>Plan assets consist of:</b>				
<b>Asset category</b>			<b>2009</b>	<b>2008</b>
			Percentage of plan assets	
Equity securities			55%	56%
Debt securities			42%	40%
Other			3%	4%
<b>Total</b>			<b>100%</b>	<b>100%</b>

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

(b) Defined benefit plans (continued):

The Company's accrued benefit asset (liabilities) are included in the Company's balance sheet as follows (see Investments and other assets, note 5 and Other long-term liabilities, note 10):

	Post-Retirement Benefits		Pension Benefits	
	2009	2008	2009	2008
Investments and other assets	\$ -	\$ -	\$ 7,121	\$ 6,581
Accounts payable and accrued liabilities	(50)	(40)	-	-
Other long-term liabilities	(989)	(986)	-	(399)
	\$ (1,039)	\$ (1,026)	\$ 7,121	\$ 6,182

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

	Post-Retirement Benefits		Pension Benefits	
	2009	2008	2009	2008
Current service cost	\$ 15	\$ 13	\$ 150	\$ 274
Interest cost	62	40	1,797	1,539
Expected return on plan assets	-	-	(1,787)	(1,892)
Amortization of actuarial gains (losses)	(5)	-	280	235
	\$ 72	\$ 53	\$ 440	\$ 156

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

	Post-Retirement Benefits		Pension Benefits	
	2009	2008	2009	2008
Accrued benefit obligation as of December 31				
Discount rate	6.25%	7.25%	6.25%	7.25%
Compensation increases <sup>1</sup>	-	-	3.5%	3.5%
Pension expense				
Discount rate <sup>2</sup>	7.25%	6.0%	7.25%	5.5%
Expected return on plan assets	-	-	7.0%	7.0%
Compensation increases <sup>1</sup>	-	-	3.5%	3.5%

For measurement purposes at December 31, 2009, the Company has assumed a 7.90% health care cost trend in 2010 grading down to 4.27% in 2015 (2008 – 7.60% health care cost trend in 2009 grading down to 4.27% in 2015).

<sup>1</sup>Compensation increases only relate to the CMSG plan.

<sup>2</sup>The discount rate for the CMSG pension plan in 2008 was 6%.

(c) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2009, the pension expense for these plans is equal to the Company's contribution of \$1,276,000 (2008 - \$1,492,000). The Company's liability is limited to its contributions.

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

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

IPI and Cedarprime Inc., the Company's U.S. operating subsidiaries, match employee contributions based on a percentage of the employee's earnings and vest immediately. The Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2009, the pension expense for this plan is equal to the Company's contribution of \$573,000 (2008 - \$495,000).

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

(e) Senior management supplementary pension plans:

The Company provides supplementary pension benefits to certain members of its senior management in the form of a notional extension of the Deferred Profit Sharing Plan in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company (note 10), with a portion of the commitments being secured by irrevocable letters of credit.

The Company also maintains a defined benefit pension plan for a former senior executive. The accrued benefit obligation is \$733,000 (2008 - \$761,000), of which \$361,000 (2008 - \$304,000) is funded.

During 2009 the Company made cash payments of \$243,000 (2008 - \$193,000) and recorded an expense of \$459,000 (2008 - \$467,000) in respect of these plans.

The amounts accrued are as follows:

	2009	2008
Accrual for defined contribution commitments	\$ 3,629	\$ 3,361
Accrual for defined benefit commitments	372	457
	<b>\$ 4,001</b>	<b>\$ 3,818</b>

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

	2009	2008
Accounts payable and accrued liabilities	\$ 284	\$ 281
Other long-term liabilities (note 10)	3,717	3,537
	<b>\$ 4,001</b>	<b>\$ 3,818</b>

**19. Related party transactions:**

Lumber sales to a significant shareholder amounted to \$926,000. In 2008 the Company had lumber sales to an affiliate of a significant shareholder in the amount of \$1,021,000. Shipping services provided by Seaboard totaled \$4,175,000 (2008 - \$5,553,000). These transactions were conducted on a normal commercial basis, including terms and prices.



**20. Segmented information:**

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

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

	2009	2008
Canada	\$ 116,655	\$ 162,825
United States	160,955	162,352
Japan	54,542	40,823
Other export	57,623	71,221
	<b>\$ 389,775</b>	<b>\$ 437,221</b>

Sales by product line are as follows:

	2009	2008
Lumber	\$ 288,627	\$ 297,434
Logs	60,443	103,620
Wood chips and other by products	34,349	30,610
Other	6,356	5,557
	<b>\$ 389,775</b>	<b>\$ 437,221</b>

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

	2009	2008
Canada	\$ 299,365	\$ 317,141
United States	158,133	197,227
	<b>\$ 457,498</b>	<b>\$ 514,368</b>

**21. Capital management:**

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

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

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

**21. Capital management (continued):**

In January 2008, the Company filed a normal course issuer bid, as described in note 12, which expired in January 2009. As all purchases are made at market prices, the timing of any purchases are managed based on the share price and available cash flow. The Company considers its shares to be undervalued, and a buy-back program is consistent with the Company's goal of creating long-term value for its shareholders. Despite extremely low market prices, particularly at the end of 2008, no shares were acquired under the program as the global economic downturn resulted in a focus on cash conservation and, in 2008, the Company's cash resources were utilized to fund its acquisitions (note 2).

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

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

**22. Financial instruments:****(a) Fair value of financial instruments:**

At December 31, 2009, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of \$144,525,000 (2008 - \$168,003,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

**(b) Derivative financial instruments:**

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

As at December 31, 2009, the Company has outstanding obligations to sell a maximum of US\$16,900,000 at an average rate of CAD\$1.0638 to the US\$1.00, buy a maximum of US\$35,000,000 at an average rate of CAD\$1.0467 to the US\$1.00, and sell Japanese ¥50,000,000 at an average rate of ¥92.41 to the CAD\$1.00 during 2010. All foreign currency gains or losses to December 31, 2009 have been recognized in the Statement of Operations and the fair value of these foreign currency contracts being an asset of \$403,000 and measured based on Level 1 has been recorded in accounts receivable (2008 - \$113,000 liability fair value measured based on Level 1 and recorded in accounts payable).

During September 2005, the Company entered into a cross currency interest rate swap. The Company had agreed to receive US\$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD\$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company paid an amount based on annual interest of 5.84% on the CAD\$23,530,000 and received a 90 day LIBOR plus a spread of 200 basis points on the US\$20,000,000. LIBOR was recalculated at set interval dates. The swap matured on September 1, 2009 and total foreign exchange losses of \$2,050,000 were recognized in 2009 (2008 - \$4,179,000 gain). The fair value of this cross currency interest rate swap was an asset of \$409,000 at December 31, 2008 and was recorded in accounts receivable.

**22. Financial instruments (continued):**

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

On October 1, 2008, the Company designated the US\$30,200,000 funds drawn under its Revolving Term Line for the acquisition of its Beaver operations as a hedge against its investment in its self-sustaining U.S. operations. Unrealized foreign exchange gains of \$5,043,000 in 2009 (2008 - \$4,645,000 loss) have been recorded in Other Comprehensive Income.

The Company had previously designated its US\$35,000,000 dollar Non-Revolving Term Line as a hedge against its investment in its self-sustaining U.S. operations. Effective April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains of \$5,544,000 as a result of applying hedge accounting continue to be recorded in Accumulated Other Comprehensive Income. Unrealized foreign exchange gains of \$5,845,000 (2008 - \$7,934,000 loss) were recorded in Other foreign exchange gain (loss) in the Statement of Operations in 2009.

## (d) Financial risk management:

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

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

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

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

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

## (i) Credit risk:

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

*Accounts receivable*

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

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

**22. Financial instruments (continued):**

(d) Financial risk management (continued):

(i) Credit risk (continued):

*Accounts receivable (continued)*

The Company regularly reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and this held true for 2009, despite the impacts of the global economic downturn and historically low housing starts on the forest industry. Based on this past experience and its detailed review of trade accounts receivable past due which were considered uncollectible, a reserve in respect of doubtful accounts of \$57,000 was recorded (2008 - \$nil) for specific trade receivables.

*Deposits*

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

*Guarantees*

In 2008, the Company provided a parent guarantee on the U.S. Line utilized by its U.S. operating subsidiary. This was in compliance with the Company's policy to provide financial guarantees only with respect to wholly-owned subsidiary companies.

In 2009, the U.S. Line was not extended when it matured on April 24, 2009 and the guarantee was withdrawn.

*Exposure to credit risk*

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

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

	2009	2008
Canada	\$ 11,626	\$ 7,644
United States	11,438	8,728
Japan	5,365	3,976
Other	4,522	5,093
	<b>\$ 32,951</b>	<b>\$ 25,441</b>

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations. Given the global economic downturn experienced in late 2008 and through most of 2009, Company executive focused intently on cash management to ensure maintenance of adequate liquidity.

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

**22. Financial instruments (continued):**

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

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

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

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
Operating Line (note 23(b))	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable and accrued liabilities	33,021	33,021	-	-	-
Payable to investee company (note 23(a))	3,096	3,096	-	-	-
Long-term debt (note 23(b))	144,525	36,785	107,740	-	-
Reforestation liability	21,496	6,772	7,064	4,069	3,591
Other long-term liabilities	19,033	3,717	5,607	1,372	8,337
Pension solvency payments	1,816	1,073	743	-	-
Operating leases and contractual commitments	16,700	4,660	5,540	3,700	2,800
<b>Total contractual obligations</b>	<b>\$239,687</b>	<b>\$ 89,124</b>	<b>\$126,694</b>	<b>\$ 9,141</b>	<b>\$ 14,728</b>

On December 14, 2009, the Company received a financing commitment with respect to its Operating Line and Revolving Term Line from its lenders, details of which are described in Subsequent events, note 23(b). The maturity date of the Operating Line was extended from April 23, 2010 to February 28, 2011. The maturity date of the Revolving Term Line was extended from April 24, 2011 to February 28, 2012 and the Non-Revolving Term Line was fully repaid and refinanced through drawings under the new Revolving Term Line.

(iii) Market risk:

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

*Currency risk*

The Company is exposed to currency risk on cash and deposits, sales, purchases and loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations, primarily Canadian (CAD) and U.S. dollars (USD), but also the Euro, Sterling and Yen. As required, the Company uses forward exchange contracts and cross currency interest rate swaps to manage its currency risk, as described in Note 22(b), Derivative financial instruments. Daily, the Company assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

**22. Financial instruments (continued):**

(d) Financial risk management (continued):

(iii) Market risk: (continued):

*Currency risk (continued)*

At December 31, 2009, the Company has US\$ drawings under its Revolving Term Line of US\$30,200,000 (2008 – US\$30,200,000). The US\$ drawings under this Line have been designated as a hedge against the investment in the Company’s self-sustaining U.S. operations.

At December 31, 2009, the Non-Revolver Term Line remains fully drawn at US\$35,000,000 (2008 - US\$35,000,000). To March 31, 2007, the Company designated the Non-Revolver Term Line as a hedge against its investment in its self-sustaining U.S. operations. On April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its use of hedge accounting.

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

2009	CAD	USD	Japanese ¥
Accounts receivable	14,661	9,507	46,853
Accounts receivable held by self-sustaining foreign subsidiaries	-	7,362	-
	14,661	16,869	46,853
2008	CAD	USD	Japanese ¥
Accounts receivable	11,936	6,176	6,623
Accounts receivable held by self-sustaining foreign subsidiaries	-	4,855	-
	11,936	11,031	6,623

As at December 31, 2009, the domestic operations of the Company held cash and cash equivalents of US\$1,462,000 (2008 – US\$179,000) and no bank indebtedness (2008 - \$26,786,000). Cash and cash equivalents held by self-sustaining and other foreign U.S. subsidiaries totalled US\$1,348,000 (2008 - US\$3,913,000 bank indebtedness).

Based on the Company’s net exposure to foreign currencies as at December 31, 2009, including USD denominated cash held in deposits and cash equivalents and USD denominated debt and other USD denominated financial instruments, the sensitivity of the USD balances to the Company’s net annual earnings is as follows:

U.S. Dollar	\$0.01 increase vs CAD\$	\$600,000 increase in net income
Japanese Yen	1 ¥ increase vs CAD\$	\$100,000 increase in net income

*Interest rate risk*

The Company reduced its exposure to changes in interest rates on borrowings by entering into cross currency interest rate swap, as described in Note 22(b) Derivative financial instruments. This agreement matured on September 1, 2009.

Based on the Company’s average debt level during 2009, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$1,140,000 (2008 - \$500,000) in net annual earnings.

*Other market price risk*

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

**23. Subsequent events:**

## (a) Seaboard Partnership income distribution:

On January 4, 2010, the Seaboard Partnership declared an income distribution to its partners. Interfor's share was \$3,096,000 and was paid to the Company by way of setoff against the promissory note payable to the Seaboard Partnership (see Payable to investee company, note 9).

## (b) Bank financing

On December 14, 2009, the Company obtained a written financing commitment from its lenders extending and modifying its syndicated credit facilities effective January 15, 2010. The maturity of the Operating Line was extended from April 23, 2010 to February 28, 2011. The credit available under the Revolving Term Line increased from \$150,000,000 to \$200,000,000 and the maturity date was extended from April 24, 2011 to February 28, 2012 with all other terms and conditions of the lines substantially unchanged.

In conjunction with the amendments to its credit facilities, the Company repaid and cancelled its existing Non-Revolving Term Line of US\$35,000,000 on January 15, 2010.



## **International Forest Products Limited**

### **ANNUAL INFORMATION FORM**

**Dated as of February 11, 2010**

#### **FORWARD LOOKING INFORMATION**

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

#### **DESCRIPTION OF THE BUSINESS**

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

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

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

#### **HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS**

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

#### **2007**

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

In February 2007, the Company completed the installation of a new primary breakdown line at its Port Angeles operation. In late 2007, a new log merchandizer and planer were installed at Port Angeles. By year end, both installations were generating targeted productivity improvements. In April 2007, the



Company's Board of Directors (the "Board") approved the construction of a new sawmill at Adams Lake, to replace the existing facility.

## **2008**

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

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

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

## **2009**

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

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

### *New Adams Lake Sawmill*

Construction of the new Adams Lake sawmill was completed on budget in early 2009. The new sawmill started full operation on April 20, 2009, ramped-up quickly and has performed above expectations. By the end of 2009, the sawmill was operating at 80 hours per week with a two-shift capacity of 310 MMbf.

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

### *Sale of Queensboro Property*

In August 2009, the Company sold its Queensboro property, site of the former Queensboro sawmill division that had been permanently closed in July 2008 due to poor economics. The sale resulted in an after-tax gain of \$19.0 million.

### *Strong Financial Position*

Despite the extraordinary challenges that the industry faced in 2008 and 2009, the Company has continued to maintain a strong financial position. Interfor ended 2009 with net debt of \$140.7 million (28% of invested capital), down \$27.1 million from 2008. Cash flow from operations, after working capital changes, for the year was positive at \$4.8 million. The decrease in the debt during the course of 2009 was due to focused cost control measures, inventory reductions, the receipt of a \$16.1 million refund of previously paid income taxes, and the sale of the Queensboro property in August 2009.

On December 14, 2009, the Company obtained a financing commitment from its lenders extending and modifying its syndicated credit facilities. Effective January 15, 2010, the Revolving Term Line increased from \$150 million to \$200 million, and the maturity date was extended from April 24, 2011 to February 28, 2012. The Operating Line remains at \$65 million and was extended to February 28, 2011. All other terms and conditions of the lines remain substantially unchanged.

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

### Outlook

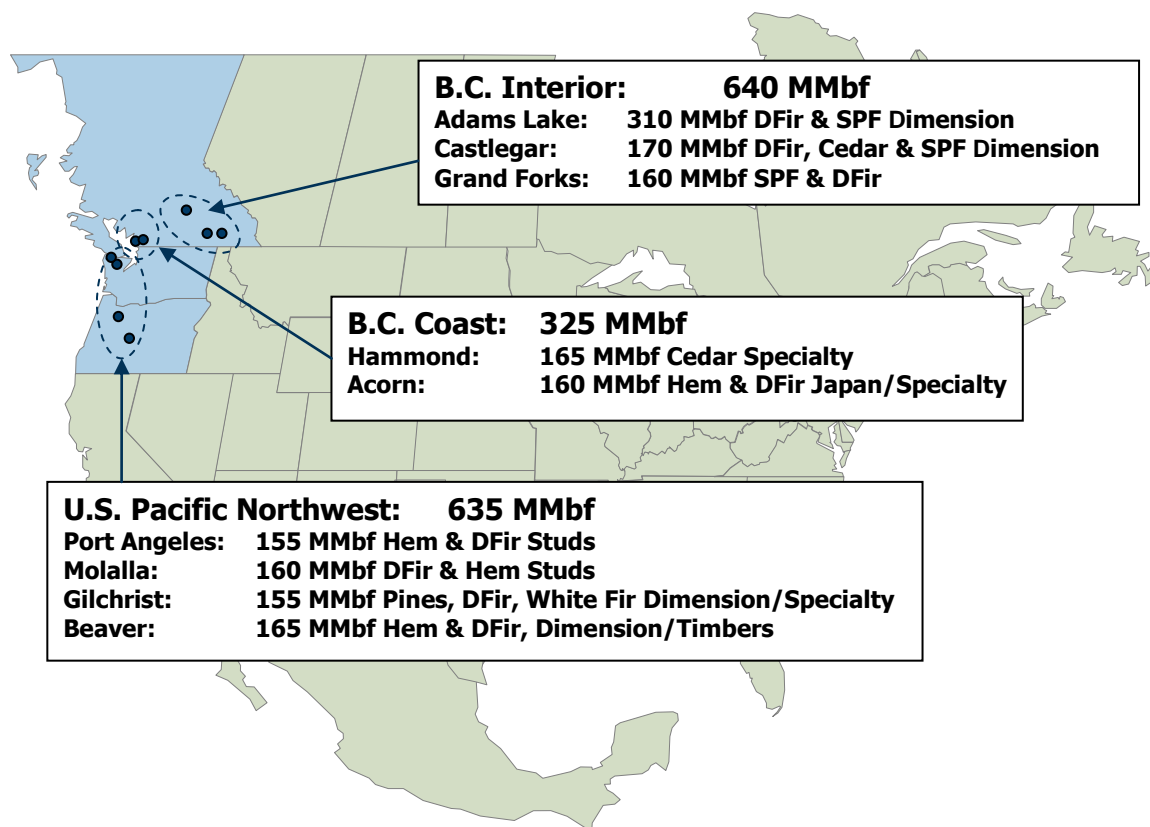
With housing starts lifting off the historic bottom established in early 2009 and housing supply and affordability improving, there are glimmers of recovery beginning to show. However, with continued high unemployment and tight credit, as well as the prospect of continued subprime mortgage resets due in the next 12-18 months, the near-term speed of recovery is difficult to predict. With the prospect of another challenging year ahead, the Company intends to continue tight control over cash, while positioning itself to take advantage of the upturn in demand and prices when it arrives.

See our Management Discussion and Analysis for the year ended December 31, 2009, a copy of which is available from SEDAR at [www.sedar.com](http://www.sedar.com).

### **MANUFACTURING**

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

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



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

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

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

Sawmills	Number of Shifts (per day)	Present Rated Capacity <sup>(1)</sup>	Years ended December 31				
			2009	2008	2007	2006	2005
			(millions of board feet)				
<b>B.C. Coast</b>							
Hammond (2)	2	165	80	106	96	158	175
Acorn (2)	2	160	104	108	108	154	162
<b>B.C. Interior</b>							
Adams Lake (3)	2	310	134	48	206	286	273
Castlegar (4)	2	170	—	—	—	—	—
Grand Forks (4)	2	160	28	28	—	—	—
<b>U.S. Pacific Northwest</b>							
Gilchrist (5)	2	155	43	56	127	136	160
Molalla (6)	2	160	110	66	151	194	136
Port Angeles (5)	2	155	79	72	129	96	123
Beaver (7)	2	165	83	14	—	—	—
<b>Sawmills Closed or Sold</b>							
Queensboro (8)			—	—	38	111	53
MacKenzie (9)			—	—	—	43	57
Marysville (5)(10)			—	—	—	—	22
<b>Total</b>		<u>1,600</u>	<u>661</u>	<u>498</u>	<u>855</u>	<u>1,178</u>	<u>1,161</u>

(1) Based on two shifts per day and 250 operating days per year.

(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond and Acorn management amounting to 6.3 million board feet for Hammond and 0.5 million board feet for Acorn in 2009.

(3) The old Adams Lake sawmill was closed during 2008. The new Adams Lake sawmill began production in April 2009.

(4) Castlegar and Grand Forks were acquired on April 30, 2008. Volumes reported are Interfor only. Castlegar has been curtailed since acquisition. Grand Forks was curtailed from February to September 2009, inclusive.

(5) Gilchrist, Marysville and Port Angeles were acquired on September 1, 2004.

(6) Molalla was acquired on May 31, 2005.

(7) Beaver was acquired September 30, 2008.

(8) Queensboro (formerly Western Whitewood) was curtailed indefinitely in December 2007 and permanently closed in July 2008.

(9) Volumes include custom-cutting.

(10) Marysville was permanently closed in December 2005.

## B.C. Coast Operations

### *Hammond*

The Hammond operation is located on the Fraser River in Maple Ridge, B.C. The facility is focused on Western Red Cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. The facility consists of a three-line sawmill, a planer mill and dry kilns.

### *Acorn*

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

## **B.C. Interior Operations**

### *Adams Lake*

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

In 2007, to complete the overall plan for the site, the Company commenced the construction of a new sawmill at Adams Lake. Construction was completed on time and on budget. The first line was commissioned in December 2008, had an extremely successful start-up which commenced full operation on April 20, 2009 on a one-shift basis, and has steadily increased operating hours and productivity since. This mill has a two-shift capacity of 310 MMBf.

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

### *Grand Forks*

Our Grand Forks mill was acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. The mill is located in the southern interior of B.C. approximately 100 km from Castlegar on a 75 acre site. We also acquired timber tenures with an allowable annual cut of 502,000 m<sup>3</sup>. The two line mill manufactures kiln dried lumber for the U.S. and Canadian construction markets as well as the housing market in Japan. Grand Forks cuts 60% spruce-pine-fir (SPF) and 40% Fir-Larch. In 2006, the previous owner invested \$20.0 million for a new planermill and two new thermal oil kilns.

### *Castlegar*

Our Castlegar facilities were acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. In addition to timber tenures with an allowable annual cut of 491,000 m<sup>3</sup>, the facilities include a sawmill, dry kilns and planer capable of manufacturing 170,000 m<sup>3</sup> annually of fir-larch, SPF, cedar and hemlock dimension lumber. The operation includes a complete transportation system for moving logs on Arrow Lake. The operation of the mill has been idle since February, 2008 due to poor market conditions and an unfavourable cost structure.

## **U.S. Operations**

### *Gilchrist*

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. The previous owner invested approximately US\$28 million in 2000 and 2001 to modernize the facility to efficiently convert small diameter logs. The mill primarily processes lodgepole pine, ponderosa pine and white fir to produce a wide range of specialty and dimension lumber products. The mill has an on-site cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill. In 2005 and 2006 we installed six new dry kilns at a cost of US\$5.7 million to replace obsolete kilns and increase drying capacity.

### *Port Angeles*

The Port Angeles mill was newly constructed in 1998 at a total cost of US\$30 million. It is situated in Port Angeles, Washington on a 64 acre site near a major highway and waterways which are convenient for shipping lumber and chips as well as for receiving logs at the mill. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export. In 2005, we modified the dry kilns at a cost of US\$1.1 million to increase drying capacity. We also installed a new planer grade optimizer, trimmer and sorter at a cost of US\$5.0 million to increase planer capacity and significantly reduce planing costs. In 2006 and 2007, we constructed a new primary saw line at a cost of US\$18.3 million to increase recovery and lumber production. In October 2007, we installed a new log merchandiser, planer and planer infeed at a total cost of US\$5.8 million.

### *Beaver*

The Beaver sawmill consists of a single line 20' dimension sawmill on a 45 acre owned site originally constructed in 1991 in by Portac Inc. We acquired the assets on September 30, 2008. The boiler, dry kilns, and planer mill are situated approximately 10 miles south of the sawmill on a 29 acre site leased from the City of Forks. The operation is 45 miles west of our Port Angeles facility and is a strong strategic fit with that operation. The mill has traditionally produced Hemlock, Douglas Fir and Spruce products for domestic markets. Recently we have begun to add some export products to complement the domestic programs.

### *Molalla*

The Molalla mill was acquired in May 2005. It is located in Molalla, Oregon approximately 30 miles southeast of Portland. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market. The mill's machine centres are fully optimized following an investment of more than US\$10 million by the previous owners. A number of infrastructure improvements were undertaken in 2005 and 2006 at a cost of US\$5.8 million. In 2006, we also completed the construction of two dry kilns for US\$2.4 million and a new planer mill complex with grade optimization for US\$10.3 million.

### *Cedarprime*

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

## **SALES, MARKETING AND COMPETITIVE POSITION**

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

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

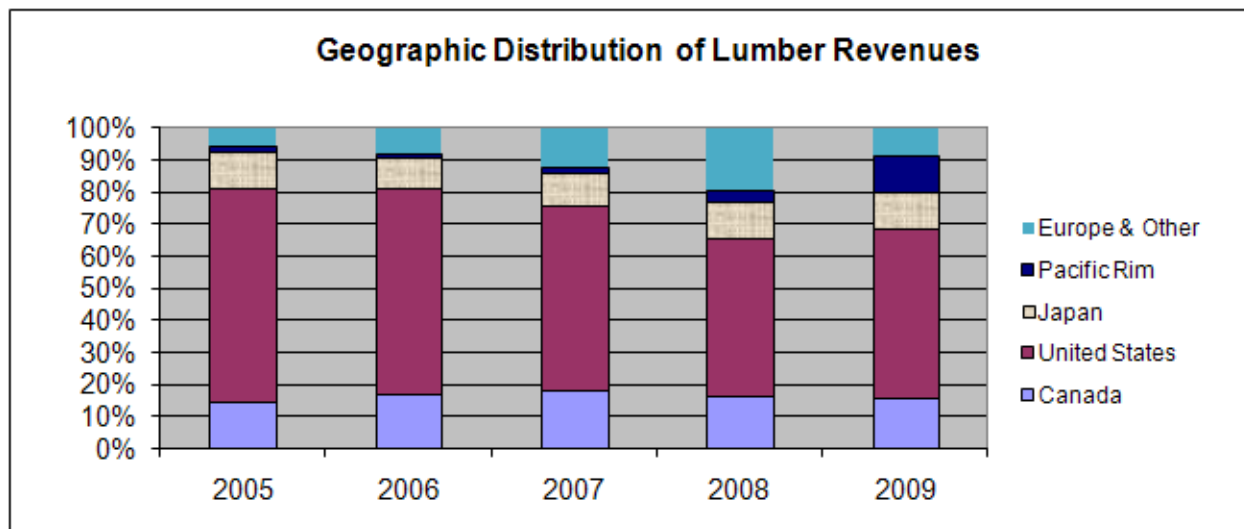
	<b>Years ended December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(thousands of dollars)				
Lumber					
— Canada	\$ 40,886	\$ 45,996	\$ 76,909	\$ 102,996	\$ 88,621
— U.S.A	135,576	139,394	241,398	393,222	427,334
— Other export	99,416	100,574	104,392	114,937	128,109
Offshore transportation and handling	<u>12,749</u>	<u>11,470</u>	<u>11,769</u>	<u>14,397</u>	<u>17,419</u>
	288,627	297,434	434,468	625,552	661,483
Logs	60,443	103,620	118,571	103,250	105,107
Wood chips and other by-products	34,349	30,610	50,260	41,868	34,118
Contract services and other	<u>6,356</u>	<u>5,557</u>	<u>7,709</u>	<u>53,769</u>	<u>41,875</u>
<b>Total sales</b>	<b><u>\$389,775</u></b>	<b><u>\$437,221</u></b>	<b><u>\$611,008</u></b>	<b><u>\$824,439</u></b>	<b><u>\$842,583</u></b>

### Lumber Sales

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

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

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



### **Log Sales**

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

### **Wood Chip and Sawmill Residuals Sales**

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

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

### **DISTRIBUTION**

We use various modes of surface transportation to deliver our lumber products. We have a 60.5% interest in Seaboard Shipping Company Limited and arrange substantially all of our offshore transportation through their wholly-owned subsidiary Seaboard International Shipping Limited (Barbados). Shipments of lumber within North America are made by truck and rail. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C., we own short line railroads to connect to mainlines for shipping lumber and chips.

### **TIMBER SUPPLY**

#### **British Columbia**

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

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

Our timber supply needs are met by a combination of internal logs harvested from our own timber tenures, long-term trade and supply agreements, and by purchases on the open market. When operating at normal capacity, our Coastal mills obtain approximately one-quarter of their log supply from external sources. Currently, our Adams Lake mill acquires approximately three-quarters of its log supply from external sources. After the completion of the agreement to acquire timber tenure in the Kamloops region from Weyerhaeuser Company Limited, our Adams Lake mill is expected to acquire less than 50% of its log supply from external sources over the next several years.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an allowable annual cut ("AAC") of approximately of 3.6 million cubic metres (m<sup>3</sup>). The majority of Interfor's tenures are long-term renewable agreements that are generally replaced every five years.

The B.C. Government (the "Crown") is responsible for making land use decisions that designate areas for primary uses such as parks or resource development. Most of the Province has completed comprehensive land use plans that involve an extensive public consultation process. In 2006, the Crown announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region. The land use decisions protect vast areas of temperate rainforest, and a commitment to Ecosystem Based Management ("EBM"). The purpose of EBM is to adopt a set of practices that will ensure the well being of ecosystems, people and their communities.

To account for the new protected areas, in 2006 the Chief Forester of the Crown announced temporary reductions in the AAC in the plan areas by 572,000 cubic metres. Interfor's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. New EBM legal objectives were introduced by the Crown in 2007 affecting a portion of the Company's operations. The AAC impact will be determined by a new timber supply analysis which has not yet been completed by the Crown. The Company anticipates there will be further reductions in AAC for areas impacted by the new EBM legal objective over the coming years. The magnitude of the AAC changes is not known at this time.

The Company anticipates receiving compensation for the AAC reductions and lost infrastructure once a permanent removal of AAC for the new protected areas has been made in accordance with the *Forest Act*. In 2008, the Company received \$4.8 million in compensation for the loss of logging rights for certain TLs, forestry and engineering work and other expenditures related to the timber returned pursuant to the decisions. In 2009, the Company received an interim payment of \$2.5 million in compensation for FL AAC reductions. Although the Company expects to receive further compensation for the FL AAC reductions, the amount and timing of the balance of compensation is not yet determinable.

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



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

<b>B.C. Operations</b>	<b>Years ended December 31</b>					
	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(thousands of cubic metres)					
<b>Allowable Annual Cut</b> <sup>(1)</sup>						
— Forest Licences	2,426	2,418	2,084	2,105	2,325	2,293
— Non Replaceable Forest Licences	313	313	375	155	155	
— Tree Farm Licences	854	867	196	262	272	517
— Discretionary Annual Harvest Levels <sup>(2)</sup>	40	40	40	40	65	80
— Less Provision for Harvest Take-back <sup>(3)</sup>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(235)</u>
	<u>3,633</u>	<u>3,638</u>	<u>2,695</u>	<u>2,562</u>	<u>2,817</u>	<u>2,655</u>
<b>Log Production</b>						
— Coast		1,081	1,754	1,655	2,082	2,210
— Interior		<u>214</u>	<u>127</u>	<u>112</u>	<u>299</u>	<u>348</u>
Total Log Production		<u>1,295</u>	<u>1,881</u>	<u>1,767</u>	<u>2,381</u>	<u>2,558</u>
<b>Log Purchases</b>		<u>794</u>	<u>447</u>	<u>1,316</u>	<u>1,487</u>	<u>1,595</u>
<b>Log Sales</b>		<u>919</u>	<u>1,319</u>	<u>1,223</u>	<u>1,190</u>	<u>1,360</u>

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).

(2) Volumes not included in AAC.

(3) AAC take-back under the Forestry Revitalization Plan was completed during 2005.

### U.S. Pacific Northwest

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

Our timber supply needs in Washington are primarily met by purchases from local forest industry private lands as well as small, individual private landowners. In Oregon, the mills are supplied by a combination of Federal and State land timber sales and forest industry private land purchases.

In Washington, our log purchases are primarily western hemlock and some Douglas-fir that come from local second growth forests.

In Oregon, log purchases for the Gilchrist mill consist primarily of lodgepole pine, ponderosa pine and white fir that have come from second growth harvesting and the thinning of young stands from surrounding National Forests. The Molalla mill purchases western hemlock and Douglas-fir logs primarily from nearby private industrial suppliers.

The total 2010 log supply requirement for the mills in the U.S. is projected to be supplied from various sources, estimated to be as follows:

<b>U.S. Pacific Northwest Operations</b>	<b>Expected Sources of Timber 2010</b>
State and Federal Lands	50%
Industrial Lands	45
Private Lands	<u>5</u>
	<u>100%</u>

## Forestry and Logging in B.C.

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

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

We pay stumpage to the Province for timber harvested on Crown land according to pricing systems in place on the Coast and in the Interior. In 2009, we paid \$1.0 million in stumpage to the Province for the harvest of Crown timber.

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

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

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. These and other factors are described in the Selected Quarterly Financial Information section of our Management Discussion and Analysis for the year ended December 31, 2009, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **CAPITAL EXPENDITURES**

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

	<b>Years ended December 31</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(thousands of dollars)				
<b>Acquisitions</b>					
Land, buildings, equipment					
— Manufacturing	—	\$52,885	—	—	\$70,857
— Forestry and logging	—	—	—	—	—
Logging roads and timber	<u>—</u>	<u>40,148</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>—</u>	<u>\$93,033</u>	<u>—</u>	<u>—</u>	<u>\$70,857</u>
<b>Other capital expenditures</b>					
Land, buildings, equipment					
— Manufacturing and other	\$20,752	\$72,911	\$47,948	\$71,176	\$57,404
— Forestry and logging	29	1,365	130	733	1,323
Logging roads and timber	<u>6,811</u>	<u>17,512</u>	<u>28,340</u>	<u>18,694</u>	<u>20,136</u>
	<u>27,592</u>	<u>91,788</u>	<u>76,418</u>	<u>90,603</u>	<u>78,863</u>
<b>Total</b>	<u>\$27,592</u>	<u>\$184,821</u>	<u>\$76,418</u>	<u>\$90,603</u>	<u>\$149,720</u>

Our capital expenditures over the five years ended December 31, 2009 were financed through internally generated funds, through our bank lines and through proceeds generated from the sale of surplus land and other non-core and surplus logging and manufacturing assets.

## **HUMAN RESOURCES**

In B.C., we directly employ approximately 1,000 people in our logging and manufacturing operations and corporate offices. The United Steel Workers (USW) is the certified bargaining agent for approximately 500 of these people. The agreement with the USW for the B.C. Coast was renewed during 2007 and expires on June 14, 2010, while the Southern Interior USW agreement expired on June 30, 2009. The Canadian Marine Service Guild (CMSG) represents 16 employees, and their collective agreement expires September 30, 2011. Negotiations with the USW regarding renewal of the expired Southern Interior USW agreement are ongoing, but employees continue to work under the terms of the expired agreement with no workplace disruptions.

In the U.S., we employ approximately 420 employees in our sawmill and remanufacturing operations in Washington and Oregon and in our office located in Bellingham, Washington.

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

### **Core Values**

We will conduct ourselves with honesty, integrity and professionalism.

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

**We Are Responsible For Our Own Success**

## **HEALTH AND SAFETY**

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

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

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

We made good progress at each of our operations and significantly reduced our injury metrics in 2009 when compared to 2008. Our Medical Incident Rate ("MIR") decreased to 2.5 from 4.9 and our Loss Time Accident ("LTA") frequency decreased to 1.2 from 2.8 when compared to 2008.

Our Adams Lake, Acorn, and Hammond divisions achieved SAFE certification in 2009.

### **Health and Safety Policy**

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

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

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

### **THE ENVIRONMENT**

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

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

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

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

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

We monitor environmental performance at our mill sites and conduct audits to identify issues and assess compliance. All of our mills have received a high rating for environmental compliance.

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

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

Additional information about our environmental work, audit summaries and Forest Sustainability Report is available on our website at [www.interfor.com](http://www.interfor.com).

### **Environment Policy**

We are committed to responsible stewardship of the environment.

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

### **RESEARCH AND DEVELOPMENT**

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

### **CAPITAL STRUCTURE**

The authorized share structure of the Company consists of:

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

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

#### **Subordinate Voting Shares**

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

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

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

### **Multiple Voting Shares**

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

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

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

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

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

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

Any transfer of a Multiple Voting Share:

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

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

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

- a. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or
- b. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own equity shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding equity shares, or (ii) the issue of equity shares by way of a stock dividend other than an ordinary course stock dividend.

### **Preference Shares**

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

### **MARKET FOR SECURITIES OF THE COMPANY**

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A. The following table sets out the market price ranges and trading volumes for the Subordinate Voting Shares on the Toronto Stock Exchange for each month during 2009 (January 1, 2009 through December 31, 2009).

<b>Toronto Stock Exchange (TSX) 2009 Trading Volumes Ticker: IFP.A</b>			
<b>Month</b>	<b>High</b>	<b>Low</b>	<b>Volume</b>
January	2.39	1.65	1,092,055
February	1.85	1.29	886,798
March	2.01	1.24	2,300,181
April	2.63	1.78	1,960,896
May	2.90	2.46	922,831
June	2.54	2.11	1,305,021
July	2.84	2.10	814,373
August	3.00	2.54	336,701
September	3.29	2.55	649,495
October	3.29	2.80	786,804
November	4.87	3.00	1,027,322
December	5.00	4.25	453,455

### **TRANSFER AGENTS**

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

### **NORMAL COURSE ISSUER BID**

On January 3, 2008, the Company received approval to conduct a normal course issuer bid (the "Bid") under which the Company was entitled, but not obligated, to purchase up to 1,300,000 Class "A" Subordinate Voting shares through the facilities of the Toronto Stock Exchange, representing approximately 2.8% of the 46,089,076 Class "A" Subordinate Voting shares that were issued and outstanding on December 31, 2007 and 3.9% of its public float, comprised of 33,333,975 Class "A" Subordinate Voting shares. The program commenced on January 8, 2008 and terminated on January 7, 2009. The Company did not purchase any shares under the Bid.

## **DIRECTORS AND OFFICERS**

### **Directors as of February 11, 2010**

The following table sets out the Company's directors as of February 11, 2010, their respective municipalities of residence, principal occupations within the past five years and the period during which each director has served as a director.

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



<b>Name and Municipality of Residence</b>	<b>Director Since</b>	<b>Principal Occupations</b>	<b>From</b>	<b>To</b>
<b>DOUGLAS W.G. WHITEHEAD</b> North Vancouver, BC, Canada	April 2007	Non-Executive Chairman Finning International Inc., a distributor of Caterpillar products and support services	2008	Present
		President and Chief Executive Officer Finning International Inc.	2000	2008

\*Lead Director

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

The term of office for all current directors will end on the day of the next Annual General Meeting of the Company's shareholders. The next Annual General Meeting is scheduled for April 22, 2010.

### Committees of the Board

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

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

### Officers as of February 11, 2010

The following table sets out the Company's officers as of February 11, 2010, their respective municipalities of residence and their principal occupations for at least the last five years:

<b>Name and Municipality of Residence</b>	<b>Positions Held</b>	<b>From</b>	<b>To</b>
<b>DUNCAN K. DAVIES</b> Vancouver, BC, Canada	President and Chief Executive Officer International Forest Products Limited	2000	Present
	President and Chief Operating Officer International Forest Products Limited	1998	2000

<b>JOHN A. HORNING</b> West Vancouver, BC, Canada	Senior Vice President, Chief Financial Officer and Corporate Secretary International Forest Products Limited	2007	Present
	Senior Vice President and Chief Financial Officer International Forest Products Limited	2002	2007
	Vice President Finance and Corporate Development International Forest Products Limited	2000	2002
<b>SANDY M. FULTON</b> Blaine, Washington, USA	Senior Vice President and Chief Operating Officer International Forest Products Limited	2007	Present
	Senior Vice President, U.S. Operations International Forest Products Limited	2004	2007
	Management Consultant Various companies in the forest and financial services industries	2000	2004
	Executive Vice President, Operations Crown Pacific Limited Partnership (Forest Products)	1998	2000
<b>OTTO F. SCHULTE</b> Black Creek, BC, Canada	Vice President, Coastal Woodlands International Forest Products Limited	2000	Present
<b>RICHARD J. SLACO</b> Delta, BC, Canada	Vice President and Chief Forester International Forest Products Limited	2002	Present
<b>STEPHEN D.A. WILLIAMS</b> North Vancouver, BC, Canada	Vice President and Corporate Treasurer International Forest Products Limited	2006	Present
	Corporate Treasurer International Forest Products Limited	2000	2006

### **SHAREHOLDINGS OF DIRECTORS AND OFFICERS**

As at December 31, 2009, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 2,513,957 Subordinate Voting Shares representing approximately 5.45% of the outstanding Subordinate Voting Shares and 1,011,735 Multiple Voting Shares representing approximately 99.6% of the outstanding Multiple Voting Shares. In respect of the foregoing, the outstanding Multiple Voting Shares are owned by Sauder Industries Limited. All the issued shares of Sauder Industries Limited are owned by members of the late W.L. Sauder's immediate family, their descendents and controlled companies, including E. Lawrence Sauder, the non-executive Chairman of the Company. E. Lawrence Sauder controls or directs the exercise of the voting rights attached to the voting securities of the Company held by Sauder Industries Limited with respect to routine matters such as the election of directors and appointment of auditors.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

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

### **LEGAL PROCEEDINGS**

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

## **INTEREST OF EXPERTS**

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

## **AUDIT COMMITTEE INFORMATION**

### **The Audit Committee Terms of Reference**

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

- a. the integrity of the Company's financial statements,
- b. the financial reporting process,
- c. the systems of internal accounting and financial controls,
- d. the professional qualifications and independence of the external auditors,
- e. the performance of the external auditors, risk management processes,
- f. financial plans,
- g. pension plans, and
- h. compliance by the Company with ethics and legal and regulatory requirements.

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

The Committee met 4 times in 2009 in conjunction with regularly scheduled Board meetings.

### **Composition of the Audit Committee**

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

### **Relevant Education and Experience**

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

#### *Mr. Gordon H. MacDougall*

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

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

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

*Mr. Lawrence I. Bell*

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

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

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

*Mr. Peter M. Lynch*

Mr. Lynch has been the Executive Vice President and a director of Grant Forest Products Inc. (and its predecessor), a producer of OSB and engineered wood products, since 1993. From 1982 he carried on the private practice of law as a sole practitioner; prior thereto he was a partner with the law firm of Field, Turner, Dunn & Lynch from 1979 to 1982.

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

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

*Mr. Douglas W.G. Whitehead*

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

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

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

**AUDIT FEES**

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

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2009 and December 31, 2008 were as follows:

	<b>2009 Fees</b>	<b>2008 Fees</b>
Audit and audit-related fees:		
Audit of the consolidated financial statements .....	\$ 290,000	\$ 350,000
Quarterly reviews .....	90,000	96,000
Business acquisition related audits.....	-	250,000
Audit-related fees (1) .....	<u>33,300</u>	<u>51,725</u>
Total audit and audit-related fees .....	413,300	747,725
Tax fees (2) .....	17,875	41,613
All other fees - forestry certification audits .....	36,350	67,200
- internal control over financial reporting advisory fees	-	24,281
- IFRS advisory fees .....	<u>12,500</u>	<u>-</u>
TOTAL .....	<u>\$ 480,025</u>	<u>\$ 880,819</u>

- (1) Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan, subsidiary companies, and advice and assistance related to accounting issues.
- (2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border transfer pricing and sales tax.

### **CODE OF ETHICS**

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

### **ADDITIONAL INFORMATION**

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

Additional financial information about the Company is provided in the Company's financial statements and Management's Discussion and Analysis for the year ended December 31, 2009.

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

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

Additional information relating to the Company may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Appendix "A"

**AUDIT COMMITTEE  
Terms of Reference****PURPOSE**

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

**COMPOSITION AND TERM OF OFFICE**

1. The Audit Committee shall consist of four or more Directors.
2. All members of the Audit Committee shall be independent within the meaning of *Multilateral Instrument 52-110-Audit Committees*.
3. All members must be financially literate or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.
4. The Chairman of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.
5. A quorum shall consist of a simple majority.

**DUTIES AND RESPONSIBILITIES**

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

**General**

1. Schedule regular meetings and meet, at a minimum, four times per year. Extraordinary meetings may be called by any member of the Audit Committee or at the request of the Chairman of the Board.
2. Appoint a Secretary who shall record the proceedings of the Audit Committee's meetings.
3. Report to the Board activities and recommendations, if any, requiring Board approval.

**Financial Disclosure, Risk Management and Internal Controls**

4. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company's:
  - (a) annual and quarterly financial statements;
  - (b) Management's Discussion and Analysis; and
  - (c) annual and interim earnings press releases.

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

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

5. Review the process for certification of the interim and annual financial statements by the CEO and Chief Financial Officer ("CFO") and the certification made by the CEO and CFO.
6. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.
7. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.
8. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor's reports.
9. Review the principal risks of the Company and ensure that an effective risk management strategy is in place.
10. Review the Company's derivatives policies and activities, including details of exposures to banks and other counterparties.

#### **External Auditor**

11. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor's report and performing other audit, review or attest services for the Company.
12. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.
13. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.
14. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.
15. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor's firm and peer reviews.
16. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.
17. Resolve disagreements between Management and the Auditor regarding financial reporting.
18. Review material written communications between the Auditor and Management.

**Non-Audit Services**

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

**Company Policies**

20. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.
21. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.
22. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

**Insurance**

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

**AUTHORITY**

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.
2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.



## GLOSSARY

**"Adjusted EBITDA"** EBITDA less U.S. duty refunds, net and other income.

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

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

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

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

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

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

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

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

**"m<sup>3</sup>"** A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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**DIRECTORS**


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

**H.C. Kalke** - West Vancouver, BC

**G.H. MacDougall** - West Vancouver, BC

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

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

**D.K. Davies** - Vancouver, BC

**P.M. Lynch** - Toronto, ON

**J.E. McMillan** - Perdido Key, Florida

**J.P. Sullivan** - Vancouver, BC

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**OFFICERS**


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**E.L. Sauder** – Chairman

**D.K. Davies** - President and Chief Executive Officer

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

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

**S.D.A. Williams** - Vice President and Corporate Treasurer

**O.F. Schulte** - Vice President, Coastal Woodlands

**R.J. Slaco** - Vice President and Chief Forester

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**MANUFACTURING OPERATIONS**


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**Acorn**

604-581-0494  
9355 Alaska Way  
Delta, BC V4C 4R7

**Adams Lake**

250-679-3234  
9200 Holding Road, R.R.2  
Chase, BC V0E 1M0

**Beaver**

360-327-3377  
200673 Highway 101  
Beaver, WA 98305

**Castlegar**

250-365-4400  
2705 Arrow Lakes Drive  
Castlegar, BC V1N 4G4

**Forks**

360-374-4347  
143 Sitkum Solduc Road  
PO Box 2299  
Forks, WA 98331

**Gilchrist**

541-433-2222  
#1 Sawmill Road  
Gilchrist, OR 97737

**Grand Forks**

250-443-2400  
570 68<sup>th</sup> Ave.  
PO Box 39  
Grand Forks, BC V0H 1H0

**Hammond Cedar**

604-465-5401  
20580 Maple Crescent  
Maple Ridge, BC V2X 1B1

**Molalla**

503-829-9131  
15555 South Highway 211  
Molalla, OR 97038

**Port Angeles**

360-457-6266  
243701 Hwy 101 W.  
Port Angeles, WA 98363

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**CORPORATE INFORMATION**


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**Head Office**

604-689-6800  
P.O. Box 49114, Bentall Four  
3500 – 1055 Dunsmuir St.  
Vancouver, BC V7X 1H7

**Sales and Marketing**

**North American Dimension  
Products**  
360-788-2299  
Bellingham, WA

**Coastal Woodlands**

250-286-5000  
1250-A Ironwood Street  
Campbell River, BC V9W 6H5  
Campbell River 250-286-1881  
Sechelt 604-740-8220

**Interfor Pacific Inc.**

360-788-2299  
2211 Rimland Drive, Suite 220  
Bellingham, WA 98226

**Export Whitewood Group**

Burnaby, BC 604-422-3400  
Tokyo, Japan 011-81-3-5641-2351

**Interior Woodlands**

Nakusp, BC 250-265-3741  
Grand Forks, BC 250-443-2400  
Adams Lake, BC 250-679-3234

**Reman Operations**

CEDARPRIME Inc. 360-988-2120

**Cedar Group**

Maple Ridge, BC 604-465-5401

**Auditors**

KPMG LLP, Vancouver, BC

**Stock Exchange**

Class "A" shares listed on  
The Toronto Stock Exchange  
Symbol: IFP.A

**Log Marketing**

604-422-3400  
600 2700 Production Way  
Burnaby, BC

**Transfer Agent**

Computershare Investor Services Inc.  
Vancouver, BC and Toronto, ON