International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of February 12, 2009

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2008 relative to 2007, 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, 2008 and 2007 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before interest, taxes, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of 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. 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 2008

2008 was one of the most difficult periods experienced in the lumber industry in recent history. The unprecedented turmoil in financial markets combined with the lowest level of U.S. housing starts in over 50 years had a significant impact on the Company's results. Including one-time items, Interfor reported a net loss of $57.2 million, or $1.21 per share, for the year ended December 31, 2008. Before restructuring charges of $37.3 million, primarily from the permanent closure of the Queensboro sawmill, and a valuation charge of $15.1 million against future tax assets, the Company had a net loss of $16.4 million, or $0.35 per share.

Despite the extraordinary challenges of 2008, the Company maintained positive EBITDA in each quarter of 2008 and reported EBITDA of $13.7 million for the year. Interfor continued to benefit from the execution of its strategy of diversification of product lines and markets, focusing on effective cash management and cost control, investing in core assets, and capitalizing on attractive growth opportunities. A brief overview of the more significant developments in 2008 is presented below.

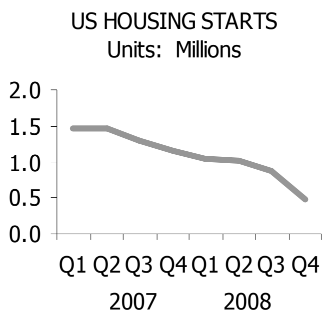
Markets and Pricing

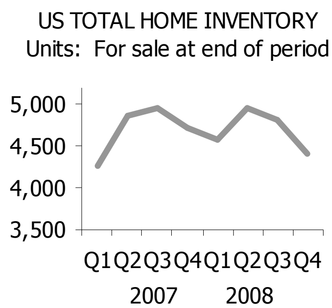
Lumber

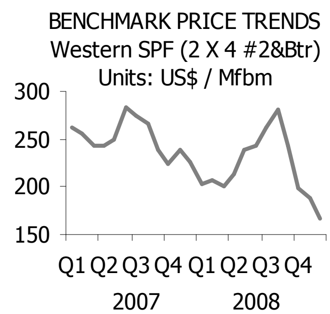
- North American Structural Lumber

  The downturn of the U.S. housing market dominated North American structural lumber markets in 2008. Construction activity fell off sharply in the second half of the year as the impact of the squeeze on credit availability and the overall economic climate impacted the sector. Seasonally adjusted housing starts in December 2008 were down 45% year-over-year, and for the full year were down 33% compared to 2007. Total home inventories remain high ending the year at 9.5 months supply.

  As mill curtailments reduced supply, prices rallied modestly in the second quarter and part of the third quarter of 2008. However, beginning in September 2008, prices collapsed as falling demand greatly outpaced contractions in supply. For 2008, the average price reported by Random Lengths for Western SPF 2”x4” was down US$29 per thousand board feet (mfbm), or 12%, compared to 2007. Reflecting the steep decline in the latter few months of the year, the December 2008 price was down US$60 per mfbm, or 26%, compared to December 2007.



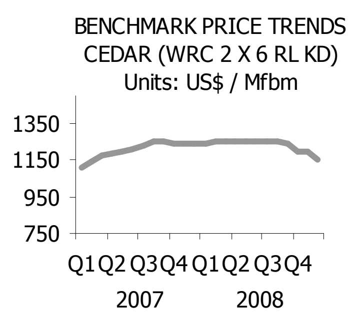


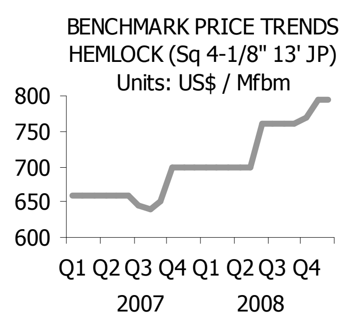


Source: Random Lengths, used with permission

- Cedar

  Demand for the Company’s cedar products remained steady for the first six months of 2008 partially supported by strong offshore demand and tight supply. However, North American demand eroded during the last half of the year as the economy slowed resulting in lower prices on North American product lines over the last six months of 2008. The year-over-year average price for knotty Western Red Cedar 2”x 6” increased by US$25 per mfbm.





Source: Random Lengths, used with permission

- Japan

  Stable economic conditions and the stronger Yen relative to the US$ supported steady prices for the Company’s products in Japan. Compared to 2007, the average 2008 price for Hemlock Square 4-1/8”, as reported by Random Lengths, was up US$76 per mfbm, or 11%.

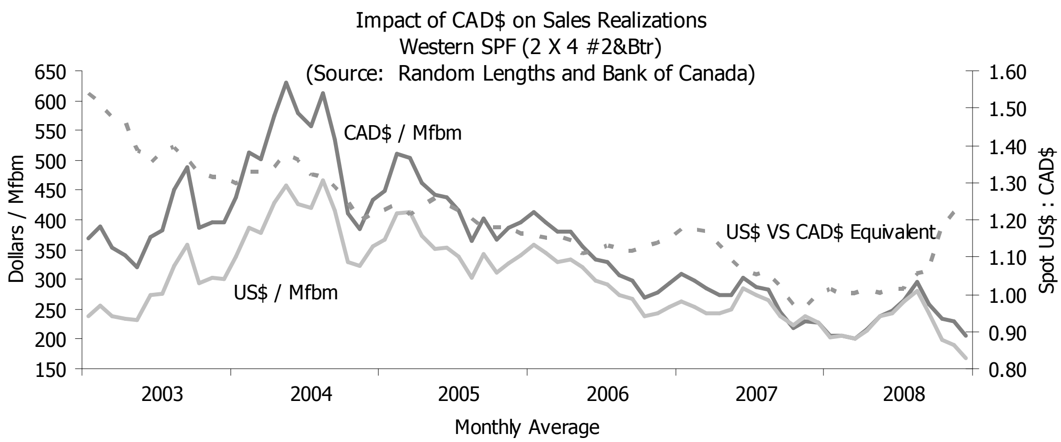
Logs and Residuals

Log sales revenue declined 13% compared to 2007 due to falling demand from lumber producers and a drop in demand late in the year from pulp producers. Chip and by-products sales revenue declined 39% year over year as lower sales volumes were available due to lower operating rates at many of the Company's operations.

Volatility of the Canadian Dollar

In the fourth quarter of 2008, the CAD$ weakened against the US$, ending the year at CAD$1.218, down 23%, from the end of 2007. Year-over-year, the average CAD$ was marginally stronger at $1.066 in 2008 compared to $1.075 in 2007.

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 2"x4" 2&Btr for the period 2003 through 2008.



Export Tax

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

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

(1) Based on the prevailing RLCI

The Option A export charge through 2008 and 2007 was 15% as the prevailing RLCI throughout that period was below US$315 per mfbm.

Closure of Queensboro Sawmill

The duration of the market downturn, together with the volatility of the CAD$, significantly undermined the economics of the Company's Queensboro sawmill division, located in New Westminster, B.C. In July 2008, following a prolonged curtailment, the Company decided to permanently close the mill and took

$23.9 million in after tax restructuring charges during 2008 related to the closure. The property is being actively marketed with a sale anticipated in 2009.

Closure of Albion Remanufacturing Facility

During 2008, the Company permanently closed its Albion remanufacturing operation located in Maple Ridge, B.C. as the operation's cost structure was unfavourable relative to the Company's remanufacturing alternatives.

Acquisition of Pope and Talbot, Inc. Sawmill Assets

On April 30, 2008, the Company concluded the acquisition of the Castlegar, B.C. and Grand Forks, B.C. sawmills, related timber harvesting rights and other related assets from Pope and Talbot, Inc. ("P&T"). At acquisition, a portion of the purchase price paid was placed in escrow, pending final determination of the purchase adjustments and the obtaining of certain authorizations in accordance with the P&T Asset Purchase Agreement.

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. This agreement was approved by the U.S. Bankruptcy Court on December 1, 2008 and $9.5 million (US$7.7 million) was released from escrowed funds to the Company. Including the adjustments for escrowed funds, the purchase price was finalized at $62.3 million for the sawmills, related timber harvesting rights and other related assets. In addition, the Company paid $9.3 million for current assets, primarily log inventories.

The acquisition of the two sawmills increased Interfor's lumber production capacity in the B.C. Interior by approximately 330 million board feet per year. The mills have added critical mass in one of the Company's core operating regions and have broadened the Company's product lines in both specialty and commodity grades. The timber tenures acquired represent annual harvesting rights of approximately 1.0 million cubic metres in the Southern B.C. Interior.

Acquisition of Portac, Inc. Assets

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$32.2 million, of which US$30.2 million was financed through its Revolving Term Line and the balance of US$2.0 million through cash. Amounts paid in US$ 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, have been renamed "Beaver Division" and are being operated by Interfor's U.S. subsidiary, Interfor Pacific Inc.

The Portac assets acquisition is in keeping with the Company's strategy of diversifying its geographic base and is an excellent fit with existing Interfor operations at Port Angeles, producing dimension products and small timbers in lengths up to 20 feet to complement Interfor's product mix and presence in the Puget Sound market. The Portac assets acquisition brings Interfor's production capacity in the U.S. Pacific Northwest to 635 million board feet on an annual basis.

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. 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 During the fourth quarter of 2008, the parties agreed to a reduced volume of approximately 275,000 m3. As a result of the transaction being the subject of a lengthy regulatory review, the transaction was not completed by the end of the year. That process has recently been challenged by a First Nations band. The parties are continuing to work towards a completion of the transaction but there is currently no certainty of the timing of completion.

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, is on budget and was substantially complete as at the end of 2008. The first line was commissioned in 2008 with a full start-up scheduled for the second quarter of 2009. This mill will have a two-shift capacity of 285 mfbm.

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 will materially improve the operating efficiency and cost structure of the Adams Lake operation.

Strong Financial Position

The Company maintained a strong financial position throughout 2008, ending the year with net debt of $171.5 million, including a $3.7 million payable to an investee company, or 30% of invested capital. Cash flow from operations, before working capital changes, for the year was positive at $13.0 million. The increase in the debt during the course of 2008 was for partial funding of the acquisition of the P&T and Portac assets and the construction of the new Adams Lake sawmill.

On February 5, 2009, the Company obtained a financing commitment from its lenders in respect of its syndicated credit facilities. The Revolving Term Line will increase $35 million to $150 million, which will be due April 2011. The Operating Line will decrease $35 million to $65 million and will be extended 364 days to April, 2010. Except for an increase in pricing, all other terms and conditions of the lines remain substantially unchanged. This adjustment allows the Company to fully utilize all of its credit during times of reduced operating levels.

The Company has a number of properties classified as held for sale. Interfor expects to generate a significant amount of cash from the sale of these properties that will further strengthen the Company's liquidity.

The financial crisis impacting the global economy has had a material effect on credit availability and construction activity and has resulted in sharply lower prices for most product lines in the latter months of 2008 and early 2009. We expect it will take some months for markets to stabilize and a clear direction to emerge. In light of this uncertainty, the Company's focus is on cash management, as operations balance production against sales and reduce capital spending.

REVIEW OF OPERATING RESULTS

Selected Annual Financial Information

	2008	2007	2006	2005	2004
	(millions of dollars except share and per share amounts)				
Sales –Lumber	297.4	434.5	625.6	661.5	633.9
–Logs	103.6	118.6	103.2	105.1	137.0
–Wood chips and other by-products	30.6	50.2	41.9	34.1	38.3
–Other	5.6	7.7	53.7	41.9	34.7
Total Sales	437.2	611.0	824.4	842.6	843.9
Operating earnings (loss) before U.S. duty refunds, net of restructuring costs and asset write-downs	(34.0)	(25.3)	14.4	10.2	23.8
Operating earnings (loss)	(71.3)	(27.2)	103.7	(31.5)	(2.2)
Net earnings (loss)	(57.2)	(13.3)	95.5	19.7	24.7
Net earnings (loss) per share – basic	(1.21)	(0.28)	1.97	0.41	0.51
Net earnings (loss) per share – diluted	(1.21)	(0.28)	1.95	0.40	0.50
EBITDA[3]	13.7	31.8	185.7	116.3	109.5

		2008	2007	2006	2005	2004
Cash flow from operations per share[1]		0.28	0.53	2.95	0.93	1.20
Shares outstanding	– end of period (millions)[2]	47.1	47.1	48.1	48.7	48.6
	– weighted average (millions)	47.1	47.6	48.5	48.7	48.4
Adjusted EBITDA[3]		12.3	25.8	68.6	74.7	88.0

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

2 As at February 12, 2009, 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 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:

	2008	2007	2006	2005	2004
	(millions of dollars)				
Net earnings (loss)	$(57.2)	$(13.3)	$95.5	$19.7	$24.7
Add: Income taxes (recovery)	(12.1)	(13.7)	42.2	(7.2)	0.4
Net interest (income) expense	5.1	(1.3)	3.4	4.7	3.2
Interest income on U.S. duty refunds, net of special charge	-	-	(12.7)	-	-
Depletion and amortization	41.5	50.9	52.0	57.5	55.2
Other foreign exchange (gains) losses	(0.9)	7.3	(2.3)	-	-
Restructuring costs, asset write-downs and other	37.3	2.0	7.6	41.7	26.0
EBITDA	13.7	31.8	185.7	116.3	109.5
Deduct:					
U.S. duty refunds, net	-	-	96.9	-	-
Other Income	(1.4)	6.0	20.2	41.6	21.5
Adjusted EBITDA	$12.3	$25.8	$68.6	$74.7	$88.0

Volume and Price Statistics

		2008	2007	2006	2005	2004
Lumber sales	(million fbm)	503	870	1,172	1,161	894
Lumber production[1]	(million fbm)	498	856	1,165	1,143	901
Log sales[2]	(thousand cubic metres)	1,319	1,223	1,190	1,360	1,636
Log production[2]	(thousand cubic metres)	1,881	1,767	2,381	2,558	2,964
Average selling price – lumber[3]	($/thousand fbm)	$591	$499	$534	$570	$709
Average selling price – logs[2]	($/cubic metre)	$74	$95	$86	$76	$84
Average selling price – pulp chips	($/thousand fbm)	$49	$49	$33	$26	$37

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, 2008 to Year ended December 31, 2007

The Company recorded a net loss of $57.2 million, or $1.21 per share, for the year ended December 31, 2008, compared to a net loss of $13.3 million, or $0.28 per share, for the year ended December 31, 2007.

EBITDA for the year ended December 31, 2008 was $13.7 million, compared to $31.8 million in 2007. Adjusted EBITDA for the year ended December 31, 2008 was $12.3 million, compared to $25.8 million in 2007.

<u>Sales</u>

Total sales revenues were $437.2 million in 2008, down $173.8 million from $611.0 million in 2007.

Lumber sales revenue decreased by $137.0 million, or 32%, in 2008 compared to 2007, due to the unfavourable structural lumber markets and the continued strength in the CAD$. Average unit sales values for lumber in 2008 were up 18% reflecting the positive impact of the Company's strategic diversification. Although U.S. structural lumber prices continued to decline, the impact was more than offset by a change in product mix to a higher percentage of higher-value specialty product which provided higher average unit sales prices. Lumber shipments were down 42% compared to 2007 reflecting the significant decline in demand in the U.S. structural lumber market due to the 33% decline in annualized U.S. housing starts. The CAD$ remained close to par with the US$ through most of 2008.

Log sales revenue in 2008 was down $15.0 million, or 13%, compared to 2007, mostly due to a decrease in B.C. average log prices of 22% driven by falling demand from lumber producers and a drop in demand late in the year from pulp producers. Chip and other by-product revenues decreased by $19.7 million, or 39%, in 2008 compared to 2007. This decline was due to lower available sales volumes arising from lower operating rates at many of the Company's operations and the closure of the old Adams Lake sawmill, partially offset by newly acquired productive capacity. The average sales values remained steady.

<u>Operating Costs</u>

Production costs for the year ended December 31, 2008 were $411.5 million, down $148.9 million, or 27%, compared to 2007. This was primarily due to a reduction of 358,000 mfbm, or 42%, in lumber production volumes from the already strike-reduced 2007 volumes. As demand in the U.S. structural lumber market continued to fall off during the year, the Company operated 41% fewer shifts at its sawmills in 2008 as compared to 2007. Additional available capacity from the acquisition of the P&T and Portac assets was more than offset by the closure of the old Adams Lake sawmill and increased sawmill curtailments during the latter half of 2008. The reduced volume drove the Company's per unit cost of conversion up as there was less volume available to absorb fixed costs.

Log costs weakened in B.C. and the U.S. Pacific NorthWest in 2008 compared to 2007 as the decline in log demand from lumber and pulp producers began to impact the log market. Export taxes decreased by $5.3 million, or 61% from 2007. As prices in both years were low enough to attract the maximum rate of 15% tax, the reduction in the dollar amount of export taxes is mainly related to a 57% reduction in Canadian shipments to the U.S. and a $0.6 million export tax refund. In 2008, the majority of the Company's U.S. structural lumber sales were supplied from its U.S. operations.

Selling and administration costs in 2008 were $16.9 million, up only slightly from $16.8 million in 2007, notwithstanding the Company's two acquisitions. 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 a recovery of $2.0 million in 2008 (2007 - LTIC recovery of $0.5 million).

Amortization of plant and equipment at $21.8 million in 2008 was substantially lower than the $30.1 million in 2007 as sawmill curtailments reduced amortization on production plant and equipment. Timber depletion and road amortization costs were $19.6 million in 2008, a decrease of $1.1 million compared to $20.7 million in 2007 as more heli-logging was undertaken in 2008 compared to 2007.

Restructuring costs and asset write-downs totaled $37.3 million in 2008, compared to $2.0 million in 2007. Restructuring costs in 2008 include $34.7 million related to the permanent closure of the Queensboro sawmill located in New Westminster, B.C., following more than a year of continuous curtailment. The $34.7 million charge was comprised of voluntary and shutdown severance costs of $3.9 million, site remediation costs of $1.0 million and a write-down of $29.8 million to adjust the carrying value of plant and equipment at the site to expected recovery amounts. The site has been substantially cleared and is being actively marketed with a sale expected in 2009. The Queensboro assets have been classified as held for sale on the Balance Sheet.

Also included in 2008 restructuring costs are a $1.3 million charge for impairment as the old Adams Lake sawmill was closed, a $0.9 million charge for early retirement and other severance costs, and a $0.4 million charge for impairment of timber.

Restructuring costs in 2007 consisted of early retirement and other severance costs and contractor buyout costs, totaling $2.3 million, which were partially offset by the recovery of $0.3 million from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia. The following table shows the components of restructuring costs and write-downs of plant and equipment for both years:

	2008	2007
	(millions of dollars)	
Plant, equipment and timber write-downs	$ 31.4	$ -
Severance and other restructuring costs, net of recoveries	5.9	2.0
	$ 37.3	$ 2.0

Interest Expense on Long-term Debt

In 2008, the Company recorded $4.5 million of interest expense on long-term debt, compared to $2.8 million in 2007. The change related to the increase in average debt used primarily to partially fund the P&T and Portac asset acquisitions and for construction of the new Adams Lake sawmill.

Interest Income (Expense)

Net interest expense was $0.6 million in 2008 compared to net interest income of $4.2 million in 2007. Through most of 2007, the Company had a significant average investment balance from the U.S. duty refund received in late 2006. These investments were liquidated during the course of 2007 in order to fund reinvestment activities, income tax payments and payment of the special charge on the U.S. duty refund received in 2006.

Other Foreign Exchange Gain (Loss)

Other net foreign exchange gain was $0.9 million in 2008 compared to a net foreign exchange loss of $7.3 million in 2007, which arose due to the following items.

	2008	2007
Gain (loss) on	(millions of dollars)	
Settlement of forward exchange contract	$ 3.7	$ -
Mark to market revaluation of interest rate swap	4.2	(3.6)
Revaluation of US$ denominated debt	(7.9)	5.7
Revaluation of foreign denominated investments	-	(9.1)
Other	0.9	(0.3)
	$ 0.9	$ (7.3)

Other Income

	2008	2007
	(millions of dollars)	
Gain on disposal of surplus property, plant and equipment and timber	$ 0.8	$ 4.8
Gain on settlement of timber takeback	0.7	1.3
Other, net	(0.1)	(0.1)
	$ 1.4	$ 6.0

Equity Income

The Company recorded equity income of $4.8 million in 2008 compared to $0.2 million in 2007. The increase was attributable to increased earnings of Seaboard Shipping Company ("Seaboard") due to increased capacity utilization. The United Steel Workers ("USW") strike in 2007 significantly reduced volumes and net income for Seaboard in the comparative period.

Income Taxes

The Company recorded an income tax recovery of $12.1 million for 2008 (2007 – recovery of $13.7 million) with an overall effective rate of 17.5% (2007 – 50.7%). The rate in 2008 differed from the Canadian statutory rate of 31% mainly due to the non-taxable portion of income that is accounted for by the equity method, different tax rates for U.S. subsidiaries, declining future income tax rates in Canada, and a $15.1 million charge to record a valuation allowance against future income tax ("FIT") assets.

The Company has US$96.7 million (CAD$117.8 million) of loss-carryforwards in the U.S. that are available to reduce future taxable income. Unless utilized, these losses will expire over the period 2023 to 2028. The Company also has $15.2 million of loss-carryforwards in Canada that will expire, unless utilized, over the period 2014 to 2028. Net of temporary differences between book and tax income, the Company has a $17.4 million long term FIT asset. 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 recorded a full valuation allowance of $17.4 million against the FIT asset of which $15.1 million has been recorded as a reduction in tax recovery.

Net Earnings (Loss)

As a result of the above factors, the Company recorded net loss of $57.2 million, $1.21 per share, for the year ended December 31, 2008 compared to a net loss of $13.3 million, $0.28 per share, for the year ended December 31, 2007.

Cash Flows

Operating Activities

Total cash generated from operations was $13.7 million for the year (2007 - $45.0 million cash used in operations).

Cash generated by operations, before working capital changes, was $13.0 million for 2008 (2007 - $25.3 million). The net loss for the year of $57.2 million contained a significant number of non-cash charges including amortization and depletion of $41.5 million and restructuring charges of $31.4 million mainly related to the Queensboro sawmill closure.

Cash generated from working capital was $0.7 million (2007 – use of $70.3 million) as accounts payable declined $16.4 million due to reduced operating levels and income taxes receivable increased as the Company filed for refund of taxes paid in prior years. Offsetting the use of cash was a $13.3 million decrease in accounts receivable and a $12.0 million decrease in cash invested in inventories due to reduced sales revenues and operating levels. Although inventory balances increased slightly year over year, $14.6 million of inventory change was due to acquisitions and foreign exchange.

Investing Activities

Cash invested in property, plant and equipment, timber and logging roads and asset acquisitions totaled $158.9 million (2007 - $74.0 million). The Company incurred expenditures of $73.4 million for property, plant and equipment and $17.5 million for road construction. Expenditures on plant and equipment are expected to enhance the competitive position of the Company and maintain the efficiency of the Company's operations. The major capital project in 2008 was the construction of the new Adams Lake sawmill which was substantially complete as at the end of 2008. The first line was commissioned in 2008 with a full start-up scheduled for the second quarter of 2009.

As described in the Overview section, Interfor completed the acquisition of the P&T and Portac assets, resulting in net cash outflow during 2008 of $68.0 million.

Cash proceeds from the sale of non-core assets in 2008 totaled $5.1 million (2007 - $8.3 million).

Financing Activities

On April 25, 2008, the Company obtained an increase in its Canadian operating and revolving term lines of credit from $50 million to $215 million. During the course of 2008, Interfor drew on the lines for partial funding of the acquisition of the P&T and Portac assets and the construction of the new Adams Lake sawmill.

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 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.

On November 9, 2006, the Company commenced a NCIB to acquire up to 2,366,000 Class A Shares through the Toronto Stock Exchange ("Exchange"). The NCIB expired on November 8, 2007. During 2007 the Company acquired 1,220,100 Class A shares at a total cost of $9.8 million.

In December 2008, the Seaboard Partnership made an advance to its partners, with Interfor's share being $3.7 million, which was repaid by way of set-off on January 2, 2009 when Seaboard declared an income distribution to its partners.

FINANCIAL POSITION

Summary of Financial Position

	2008	2007	2006	2005	2004
			(millions of dollars)		
Current assets	131.5	158.3	289.7	173.7	186.8
Current liabilities	79.4	50.0	123.8	145.4	86.4
Working capital	52.1	108.3	165.9	28.3	100.4
Total assets	665.9	549.2	677.6	602.0	567.4[4]
Total long-term liabilities	179.7	68.5	73.4	67.6	108.3
Operating debt	30.6	0.0	0.6	8.1	0.0
Payable to investee company	3.7	0.0	0.0	54.3	0.0
Long-term debt	137.4	34.7	40.8	40.7	74.2
Total debt	171.7	34.7	41.4	103.1	74.2
Shareholders' equity	406.8	430.6	480.4	389.0	372.7[4]
Invested capital	578.5	465.3	521.8	492.1	446.9[4]

Ratio and Investment Information

	2008	2007	2006	2005	2004
Current ratio	1.7	3.2	2.3	1.2	2.2
Net debt as a percentage of invested capital, adjusted[1]	29.2%	1.9%	(28.9)%	17.8%	13.0%[4]
Total debt as a percentage of invested capital	29.7%	7.5%	7.9%	21.0%	16.6%[4]
Return on average shareholders' equity[1]	(13.7)%	(2.9)%	22.0%	5.2%[4]	6.9%[4]
Return on average invested capital, adjusted[1]	(10.6)%	(3.5)%	24.7%	5.4%[4]	6.8%[4]
Pre-tax return on total assets[1]	(5.2)%	(4.3)%	2.3%	2.1%[3]	5.2%[4]
Cash flow from operations as a percentage of total debt[1]	7.6%	73.0%	345.8%	44.1%	78.0%
Equity per share	$8.63	$9.14	$9.98	$7.99	$7.66[4]

	2008	2007	2006	2005	2004
			(millions)		
Weighted average shares outstanding for the year	47.1	47.6	48.5	48.7	48.4
Number of shares outstanding at year end:					
Class A subordinate voting[2]	46.1	46.1	47.1	47.7	47.6
Class B common[2]	1.0	1.0	1.0	1.0	1.0
	47.1	47.1	48.1	48.7	48.6

Re-investment of Cash	2008	2007	2006	2005	2004
	(millions of dollars)				
Cash flow from operations[1]	13.0	25.3	143.1	45.5	57.9
Cash generated from (used in) operating working capital	0.7	(70.3)	43.3	23.3	5.1
Proceeds on disposal of assets	5.1	8.3	49.2	47.8	33.0
Capital expenditures and acquisitions	(158.9)	(74.0)	(90.6)	(157.0)	(156.6)

1 See Glossary in Annual Information Form for definition.
2 As at February 12, 2009, 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 information is not available from investee company (see "Accounting Changes").
4 Amount has not been restated for retrospective restatement of investment and equity in earnings of investee company as information is not available from investee company (see "Accounting Changes").

Current Assets

Cash on hand and deposits at December 31, 2008 totaled $0.2 million, down $26.4 million from 2007, as the cash and deposits at December 31, 2007 were utilized to partially fund acquisitions and the new Adams Lake sawmill.

Accounts receivable at December 31, 2008 were $25.4 million, 32% lower than 2007, primarily as a result of lower sales volume and sales values.

The Company had current income taxes recoverable of $16.2 million at December 31, 2008 (2007 - $8.8 million recoverable).

Lumber inventory levels at December 31, 2008 were $22.5 million, up $3.9 million compared to 2007. Lumber inventory volumes increased by 15% as the additional volume associated with the acquired sawmills in Grand Forks, B.C. and Beaver, WA, more than offset the reduced operating levels of the other sawmills and the closure of the old Adams Lake sawmill. Lumber inventory unit values increased 5%, primarily reflecting a heavier cedar component in 2008 year-end inventories.

Log inventory levels at December 31, 2008 were $49.9 million, down $3.7 million compared to 2007. Log inventory volumes were down 8% in Canada and 34% in the U.S. year-over-year as curtailments at our sawmills more than offset the additional log volume associated with the acquired P&T and Portac assets.

Investments and Other Assets

Investments and Other Assets increased to $19.4 million, up $7.1 million from the prior year end. This was due to the Company's $4.8 million share of profits from Seaboard, which are recorded as an increase in the investment in the Seaboard, pension asset funding of $1.5 million, and other minor items.

Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of $502.0 million for property, plant and equipment, timber, logging roads, and assets held for sale was an increase of $143.5 million over 2007. Capital expenditures were $91.8 million, mainly related to construction of the new Adams Lake sawmill and investments in road building. The Company also invested $93.0 million for the acquisition of the P&T and Portac capital assets. The weakening Canadian dollar at the end of 2008 resulted in foreign exchange translation impact on capital assets of U.S. operations of $34.9 million. Offsetting the investments in capital assets were amortization and depletion expense of $41.1 million, a $31.0 million write-down of the Queensboro and old Adams Lake sawmills, and various other minor write-downs and disposals.

Cash investments in property, plant and equipment consisted of high-return discretionary projects of $69.5 million, maintenance of business projects of $2.1 million, and $2.6 million for development costs related to surplus land being prepared for sale. The major capital project in 2008 was the construction of the new Adams Lake sawmill which was substantially complete as at the end of 2008. The first line was commissioned in 2008 with a full start-up scheduled for the second quarter of 2009.

Current Liabilities

As at December 31, 2008, the Company had a Canadian operating line of credit ("Operating Line") of $100.0 million and a U.S. operating line of credit ("U.S. Line") of US$10.0 million, respectively. Drawings under these lines are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company's unused available Operating Line was $23.4 million, after outstanding letters of credit of $5.1 million, and its unused available U.S. Line was $1.6 million. The Company's working capital ratio at December 31, 2008 was 1.7 to 1.

On February 5, 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, 2008 were $45.2 million, a decrease of $4.8 million. The decline in trade accounts payable resulted from reduced operating rates in the second half of 2008. These factors more than offset the additional accruals required for reforestation, environmental, and related costs associated with the P&T assets acquisition.

Long-Term Liabilities

In 2008, the Canadian revolving term line (the "Revolving Term Line") was increased from $10.0 million to $115.0 million with an extension of the maturity date to April 24, 2011. 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 Revolving Term Line was drawn on during the year to partially fund the P&T and Portac assets acquisitions, and the construction of the new Adams Lake sawmill, for a total outstanding at December 31, 2008 of $94.8 million. The Revolving Term Line was undrawn at December 31, 2007.

The US$ non-revolving term line (the "Non-Revolving Term Line") remained fully drawn at US$35.0 million (2007 – US$35.0 million) and was revalued at the year-end exchange rate to $42.6 million (2007 - $34.7 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 matures on 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 February 5, 2009, the Company obtained a financing commitment from its lenders in respect of its syndicated credit facilities. The Revolving Term Line will increase $35 million to $150 million, which will be due April 2011. The Operating Line will decrease $35 million to $65 million and will be extended 364 days to April, 2010. Except for an increase in pricing, all other terms and conditions of the lines remain substantially unchanged. This adjustment allows the Company to fully utilize all of its credit during times of reduced operating levels.

Upon acquisition of the P&T assets, the Company assumed certain related liabilities including reforestation, road deactivation, environmental, pensions, and restructuring obligations, which increased long-term liabilities by $10.7 million as at December 31, 2008 compared to the prior year end.

Liquidity and Capital Resources

As at December 31, 2008, the Company had working capital of $52.1 million (2007 - $108.3 million) and $45.2 million available on its operating and term lines. These resources, in addition to cash generated from operations, will be used to support our working capital requirements, debt servicing commitments, capital asset investment priorities, and other general corporate purposes.

Interfor has had positive EDITDA for seven of the past eight quarters and in each of the past five years in total.

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 based on this past experience, the Company believes that no impairment allowance is necessary in respect of trade accounts receivable past due. As at December 31, 2008, there were no trade accounts receivable past due which were considered uncollectible.

The Company's Operating Line was due to mature on April 24, 2009 but on February 5, 2009, the Company obtained a financing commitment from its lenders in respect of its syndicated credit facilities. The Operating Line will decrease from $100 million to $65 million and the maturity date will be extended 364 days to April 23, 2010. In addition, the Revolving Term Line will increase from $115 million to $150 million, with no change to its maturity date.

Interfor believes that its existing principal sources of liquidity - positive EBITDA, current working capital, surplus assets held for sale, and existing credit lines - will be sufficient to satisfy the funding of operating and capital requirements for the year ending December 31, 2009.

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 debt [1]	31.8	31.8	-	-	-
Long-term debt	137.4	-	137.4	-	-
Reforestation liability	24.4	8.7	7.2	4.6	3.9
Other long-term liabilities	17.7	5.3	5.0	1.4	6.0
Operating leases and contractual commitments	25.4	11.3	7.4	4.4	2.3
Total contractual obligations	236.7	57.1	157.0	10.4	12.2

[1] Subsequent to December 31, 2008, the maturity date on this debt was extended by 364 days. See note 23(c) to the Company's December 31, 2008 Consolidated Financial Statements.

Related Party Transactions

Lumber sales to a significant shareholder amounted to $1.0 million (2007 - $0.5 million). Shipping services provided by Seaboard Shipping Company Limited totaled $5.6 million (2007 - $8.0 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, 2008, the total of such instruments aggregated $11.9 million (2007 - $11.7 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

Quarterly Earnings Summary	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share and per share amounts)							
Sales – Lumber	65.6	73.4	82.2	76.2	70.7	93.2	143.0	127.5
– Logs	18.3	28.8	25.7	30.9	35.6	30.3	33.2	19.4
– Wood chips and other by-products	8.8	8.9	7.4	5.5	7.2	10.0	17.1	16.0
– Other	0.8	0.9	2.1	1.8	1.9	2.0	2.1	1.7
Total Sales	93.5	112.0	117.4	114.4	115.4	135.5	195.4	164.6
Operating earnings (loss) before restructuring costs and asset write-downs	(8.1)	(12.8)	(11.8)	(1.3)	(15.3)	(4.6)	(3.5)	(1.8)
Operating earnings (loss)	(8.9)	(14.1)	(44.8)	(3.5)	(15.7)	(4.6)	(4.9)	(2.1)
Net earnings (loss)	(18.5)	(8.1)	(29.4)	(1.1)	(8.9)	(1.6)	(3.4)	0.6
Net earnings (loss) per share – basic	(0.39)	(0.17)	(0.62)	(0.02)	(0.19)	(0.03)	(0.07)	0.01
– diluted	(0.39)	(0.17)	(0.62)	(0.02)	(0.19)	(0.03)	(0.07)	0.01
EBITDA[3]	2.0	0.7	2.5	8.5	(4.6)	8.9	14.5	13.0
Cash flow from operations per share[1]	0.12	0.06	(0.06)	0.22	(0.06)	0.10	0.12	0.37
Shares outstanding – end of period (millions)[2]	47.1	47.1	47.1	47.1	47.1	47.1	47.6	47.8
– weighted average (millions)	47.1	47.1	47.1	47.1	47.1	47.4	47.8	48.0
Adjusted EBITDA[3]	1.7	0.1	1.9	8.5	(4.7)	7.2	12.6	10.8

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

2 As at February 12, 2009, 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 EBITDA represents earnings before interest, taxes, depletion, amortization and restructuring costs and asset write-downs. The Company discloses EBITDA as it is a measure used by analysts 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 U.S. duty refunds and other income. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2008				2007			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	(18.5)	(8.1)	(29.4)	(1.1)	(8.9)	(1.6)	(3.4)	0.6
Add: Income taxes (recovery)	10.2	(5.2)	(14.6)	(2.5)	(7.1)	(1.8)	(4.5)	(0.3)
Interest expense	2.5	1.5	0.8	0.4	0.2	(0.1)	(0.5)	(0.9)
Depletion and amortization	7.9	11.3	13.1	9.1	10.7	11.7	16.2	12.2
Other foreign exchange (gains) losses	(0.9)	-	(0.4)	0.4	0.2	0.7	5.3	1.1
Restructuring costs, asset write-downs and other	0.8	1.3	33.0	2.2	0.3	-	1.4	0.3
EBITDA	2.0	0.7	2.5	8.5	(4.6)	8.9	14.5	13.0
Deduct:								
Other income	(0.3)	0.6	0.6	-	0.2	1.7	1.9	2.2
Adjusted EBITDA	1.7	0.1	1.9	8.5	(4.7)	7.2	12.6	10.8

Volume and Price Statistics

		2008				2007			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	133	132	125	113	161	196	270	244
Lumber production	(million fbm)	118	148	128	104	150	187	269	249
Log sales[1]	(thousand cubic metres)	236	372	312	399	382	315	319	207
Log production[1]	(thousand cubic metres)	290	501	679	411	373	401	626	366
Average selling price – lumber[2]	($/thousand fbm)	$494	$555	$658	$672	$441	$476	$530	$522
Average selling price – logs[1]	($/cubic metre)	$69	$70	$79	$75	$91	$95	$101	$91
Average selling price – pulp chips	($/thousand fbm)	$58	$48	$47	$41	$37	$43	$54	$56

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 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 operating losses for the last eight quarters relate primarily to weak U.S. structural lumber markets and the stronger Canadian dollar. The fourth quarter of 2008 includes the effect of a valuation charge of $15.1 million against future tax assets. The second quarter 2008 loss also reflects a restructuring charge of $33.0 million primarily for the Queensboro sawmill closure. In the third and fourth quarters of 2007, USW strike action also contributed to the reported operating loss. The weak markets, strong dollar, and 2007 USW strike contributed to lower operating rates and lumber sales realizations over the past eight quarters.

Quarter 4, 2008 Compared to Quarter 4, 2007

Overview

The Company recorded a net loss of $3.4 million, or $0.07 per share, for the fourth quarter of 2008, before a non-cash valuation allowance of $15.1 million relating to future income tax assets, compared to net loss of $8.9 million or $0.19 per share in the fourth quarter of 2007. Including the valuation allowance, Interfor's net loss in the fourth quarter of 2008 was $18.5 million, or $0.39 per share.

EBITDA and Adjusted EBITDA for the fourth quarter of 2008 were $2.0 million and $1.7 million, respectively, compared to $(4.6) million and $(4.7) million, for the comparative quarter in 2007.

The operating loss in the fourth quarter of 2008 reflected the sharp decline in North American structural lumber volumes and prices, offset slightly by a weakening CAD$. On a per unit basis, the Company's average lumber selling price increased due to the heavier weighting toward the cedar and Japanese markets. The weakening lumber and pulp markets resulted in lower volume and prices for the Company's log sales. The decline in lumber prices negatively impacted log and lumber inventory valuations.

Sales

Lumber shipments were down 28 million board feet for the fourth quarter of 2008 compared to the same quarter of 2007, reflecting lower operating rates in all regions. Unit lumber sales values over the same period were up $53 per mfbm as the Canadian dollar weakened and the sales mix was weighted more heavily toward higher value cedar and Japanese products. Compared to the average of the fourth quarter of 2007, the Canadian dollar was down 23 cents relative to its U.S. counterpart, while the average Western SPF 2x4 2&Btr price was down US$45 per mfbm.

Log sales were down 146,000 m^3 and the average sales value was down $22 per m^3. The decline was mainly due to falling demand from lumber producers and a fourth quarter 2008 drop in demand from pulp producers.

Pulp chip and other by-product revenues for the fourth quarter of 2008 were up $1.7 million, or 24%, compared to the same quarter of 2007. Chip sales volumes were off slightly in the fourth quarter of 2008 compared to the same period of 2007, as the decline in sawmill operating rates was partially offset by more available supply from the Company's acquired sawmill operations. Average chip prices were up reflecting the impact on realizations as the Canadian dollar weakened and supply was curtailed in the Pacific Northwest region.

Operating Costs

Production costs for the fourth quarter of 2008 declined $25.8 million, or 22%, compared to the same period in 2007. For the most part, the decline was explained by the reduced log and lumber production levels, offset partially by 24% higher per mfbm lumber manufacturing costs as fixed costs were absorbed by significantly lower volumes. Lumber production was down 32 million board feet, or 22%, while B.C. log production decreased 83,000 cubic metres, or 21%. Also contributing to the decrease in costs were lower log prices on the B.C. Coast as a result of weaker demand.

The Canada/U.S. lumber export tax remained at 15% through the fourth quarter of 2008. Export taxes were down $0.5 million because of a refund of export taxes received pursuant to provisions under the export charge act that depend on the relative U.S. market shares of Canadian and third country lumber producers. The impact on export taxes of reduced shipments from Canada to the U.S. markets was offset by the weakening CAD$.

The Company recorded a LTIC recovery of $0.9 million for the fourth quarter of 2008, reflecting a decline in the Company's share price over the period (fourth quarter of 2007 – LTIC recovery of $1.0 million).

Amortization and depletion expense for the fourth quarter of 2008 was down $2.8 million compared to the fourth quarter of 2007 due to the impact of lower operating rates.

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

Interest expense increased to $2.5 million from $0.2 million quarter-over-quarter reflecting the increase in the Company's average Operating and Revolving Term Lines balances due to the acquisitions of P&T and Portac during 2008 and the construction of the new Adams Lake sawmill. The Company recorded a foreign exchange gain of $0.9 million for the three months ended December 31, 2008, in contrast to a loss of $0.2 million for the fourth quarter of 2007. Other income for the fourth quarter of 2008 included the Company's $1.9 million share of Seaboard's earnings for the quarter.

Income Taxes

In the fourth quarter of 2008, the Company recorded an income tax expense of $10.2 million, comprised of a tax recovery of $4.9 million offset by the non-cash valuation allowance of $15.1 million taken against future income tax assets. The rate in the fourth quarter differed from the Canadian statutory rate of 31% mainly due to the valuation allowance charge, the non-taxable portion of income that is accounted for by the equity method, different tax rates for U.S. subsidiaries, and declining future income tax rates in Canada.

Cash Flow

Cash used by the Company in operations, after changes in working capital, was $2.6 million for the fourth quarter of 2008, compared to cash used of $9.8 million for the fourth quarter of 2007. The improvement in cash used was principally the result of the lower cash operating loss in the fourth quarter of 2008 due to the factors described above.

Capital expenditures for the fourth quarter of 2008 totaled $31.0 million (Quarter 4, 2007 - $15.6 million). Cash spending was comprised of $26.0 million on discretionary projects, almost all of which was on the new Adams Lake sawmill, $0.4 million on maintenance projects, $3.4 million on roads, and $1.2 million on preparation of property for sale. There were no shares purchased under the Company's NCIB for the fourth quarter of 2008.

The Company had cash and deposits at December 31, 2008 totaling $0.2 million, working capital of $52.1 million, and total debt of $171.7 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, 2008. 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, 2008.

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, 2008. 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, 2008.

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, 2008 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 based on this past experience, the Company believes that no impairment allowance is necessary in respect of trade accounts receivable past due. As at December 31, 2008, there were no trade accounts receivable past due which were considered uncollectible (2007 - $nil), and no reserve in respect of doubtful accounts was set up (2007 - $nil).

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 and Coastal log inventories is determined by a reference to the average net sales by specific product in the periods 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 outturn. The unit cost for lumber is based on a three month moving average actual cost, lagged by one month, and for logs is based on a twelve month moving average actual cost, lagged by one month, both adjusted for unusual items. 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, Timber and Logging Roads. 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. 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.

Interfor assesses the recoverability of Property, Plant and Equipment, Timber and Logging Roads as conditions and events warrant. The Company assessed the recoverability of these assets as at December 31, 2008, and concluded that there was no impairment.

*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 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.

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 savings and retirement plans which include a Group Registered Retirement Savings Plan and a Deferred Profit Sharing Plan that are available to all salaried employees, a defined benefit pension plan that is available to substantially all hourly employees not covered by a union pension plan, and a defined benefit pension plan and post-retirement medical and life insurance plan for certain unionized employees in the Interior of B.C. In addition, the Company contributes to an industry-wide benefit plan for United Steelworkers unionized employees. In the U.S., the Company maintains a 401(k) plan that is available to all employees. The Company also maintains supplementary pension plans for 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, 2008, the Company adopted newly effective Canadian Institute of Chartered Accountants ("CICA") accounting standards, together with a change in accounting policy of an investee company. The main requirements of these new standards and the change in accounting policy and the resulting financial statement impact are described below.

Capital Disclosures

Section 1535, *Capital Disclosures*, specifies the disclosure of the Company's objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders' equity the Company defines as capital, and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any.

Inventories

Handbook Section 3031, *Inventories*, provides significantly more guidance on the measurement of inventories, with an expanded definition of cost, and the requirement that inventory must be measured at the lower of cost and net realizable value. In addition, the section has additional disclosure requirements, including accounting policies, carrying values, and amount of any inventory writedowns.

The adoption of this new standard had no financial effect on the comparative consolidated financial statements of the Company.

Financial Instruments – Disclosure and Presentation

Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks.

Accounting Changes

Seaboard Shipping Company Limited ("Seaboard"), an equity investment of the Company, recently adopted the deferral method of accounting for dry-dock activities whereby actual costs incurred are deferred and amortized on a straight-line basis over the period until the next scheduled dry-dock activity. Previously, dry-dock activities were accounted for using the accrue-in-advance method. In accordance with CICA Handbook Section 1506, *Accounting Changes*, Seaboard adopted this policy retrospectively, resulting in the restatement of prior years' results.

As the investment in Seaboard is accounted for using the equity method, the Company has recorded its share of the impact of the restatement as follows:

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Retained Earnings for the year ended December 31, 2007:			
Retained earnings, beginning	$ 181,477	$ 2,428	$ 183,905
Consolidated Balance Sheet as at December 31, 2007:			
Investments and other assets	9,842	2,428	12,270
Retained earnings, ending	168,156	2,428	170,584

Future Accounting Policy Changes

Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section 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.

The Company does not anticipate a material impact to its consolidated financial statements from the adoption of this new Standard.

Convergence with International Financial Reporting Standards

In February 2008, Canada's Accounting Standards Board confirmed that Canadian GAAP, as used by public companies, will be converged with International Financial Reporting Standards (IFRS) effective 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. In the first half of 2009, the Company plans to assemble a cross functional team and, utilizing external expertise where required, will begin a high level review of the major differences between Canadian GAAP and IFRS as applicable to the Company and will establish the project plan and key milestones.

Changes in accounting policies are likely. These changes may materially impact the Company's 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 2008 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	$3.5 million increase in net income
Chips	$10 increase per unit[1]	$1.8 million increase in net income

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

Competition

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

Factors which affect the Company's competitive position include:

- the foreign exchange rate;
- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the 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 long-term trade and 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 70% of their lumber into export markets, with the majority of these sales denominated in foreign currency, predominantly US$ and a small amount of 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 its 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, 2008, the Company has outstanding obligations to sell a maximum of US$4.5 million at an average rate of US$1.2339 to the CAD$1.00 and sell Japanese ¥51.0 million at an average rate of ¥83.11 to the CAD$1.00 and sell Japanese ¥65.0 million at an average rate of ¥92.85 to the US$1.00 and sell Euros €90,000 at an average rate of $1.5908 to the CAD$1.00 during 2009. All foreign currency gains or losses to December 31, 2008 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts of $0.1 million has been recorded in accounts payable and accrued liabilities.

Based on the Company's net exposure to foreign currencies in 2008 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$	$0.01 increase vs. CAD$	$500,000 increase in net income
Japanese Yen	1¥ increase vs. CAD$	$50,000 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 $33.4 million unrealized foreign exchange gain on translation of its self-sustaining operations in 2008 (2007 - $27.5 million loss) 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 losses have been recorded in Other comprehensive Income.

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. Unrealized foreign exchange losses arising subsequent to termination of the designation of the hedge relationship totaled $7.9 million (2007 - $5.7 million gain) and were recorded in Other foreign exchange gain (loss) in the Statement of Operations.

Cost of Debt Financing and Sensitivity

As at December 31, 2008 Interfor had drawn a total of $168.0 million (2007 - $34.7 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 has agreed to receive 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 will pay an amount based on annual interest of 5.84% on the CAD$23.5 million and will receive 90 day LIBOR plus a spread of 200 basis points on the US$20.0 million. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009 and has been marked to market with all gains or losses on the swap recognized in the Statement of Operations and total foreign exchange gains of $4.2 million recognized in 2008 (2007 - $3.6 million loss). The fair value of $0.4 million has been recorded in accounts receivable (2007 - $3.6 million recorded in accounts payable).

Based on the Company's average debt level during 2008, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.5 million in net earnings.

Forest Policy Changes in British Columbia

Over the last several years 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 2008, the Crown initiated two major policy review processes. The first is a Forest Regulatory Review process aimed at streamlining existing regulations. The second is the creation of a Forestry Roundtable that was tasked to provide 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 2009 while others remain to be fully implemented. 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 (MoFR) 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 ("EBM") 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. Although the Crown acknowledged that licensees would be fairly compensated for the return of tenure and related infrastructure costs, there can be no assurance that the amounts of such reductions, if any, will not be material or the amounts of compensation, if any, for such reductions will be fair and adequate.

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

Interfor's B.C. Interior operation has had a temporary increase in their AAC resulting from the acquisition of new non-replaceable cutting rights directed at beetle damaged and killed stands in the Kamloops and 100 Mile Forest Districts. 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.

In 2008, the Company received $4.8 million in compensation for the loss of logging rights for timber licences, forestry and engineering work and other expenditures related to the timber returned pursuant to the decisions. Compensation received as settlement of expenditures previously expensed was recorded as a recovery of production costs in 2008.

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 Nation leaders that is intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement.

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 took 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 have 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. The collective agreement with the USW for the B.C. Coast expires in June 2010. The collective agreement with the USW for the B.C. Interior (Grand Forks and Castlegar) expires in June 2009. The Company also has 19 employees in the B.C. Interior who are members of the Canadian Marine Service Guild, and their collective agreement expires September 30, 2011.

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 at their lowest level in five decades, and no immediate end to the financial and general economic crisis in sight, the Company expects North American structural lumber market conditions to remain very challenging throughout 2009, with little prospect of any meaningful price recovery on the horizon. Export taxes on sales to the U.S. are expected to remain at 15% through 2009.

Demand for Cedar in the first quarter of 2009 is likely to be slower than normal. The availability of credit continues to be a major concern with customers and, accordingly, any inventory positions taken may be substantially lower than normal. Demand for the remainder of 2009 is expected to improve as consumption increases and supply remains restricted due to sawmill curtailments.

In Japan, the housing market is expected to remain steady as concerns over credit and the global financial crisis are offset by home buying tax incentives offered by the government. 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 2009 is very difficult to predict, given the volatility of the currency markets witnessed in 2008.

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 decline in 2009 reflecting lower market prices for logs.

With the prospect of a difficult year ahead, the Company intends to maintain very tight control over cash, while focusing on the monetization of surplus properties. Completion of the construction of the new Adams Lake sawmill is the only major capital investment currently approved for 2009.

ADDITIONAL INFORMATION

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