International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

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

February 9, 2011

International Forest Products Limited

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

KPMG LLP

KPMG LLP, Chartered Accountants

Vancouver, Canada

February 9, 2011

International Forest Products Limited

Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)

December 31, 2010 and 2009

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

Commitments and contingencies (note 15)

Subsequent events (notes 1(e), 8, 15(c) and 22)

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

E.L. Sauder, Director

G.H. MacDougall, Director

International Forest Products Limited

Consolidated Statements of Operations

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

Years ended December 31, 2010 and 2009

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of Canadian dollars)

Years ended December 31, 2010 and 2009

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Comprehensive Income (Loss)

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

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

See accompanying notes to consolidated financial statements.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

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

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

See accompanying notes to consolidated financial statements.

1. Significant accounting policies and change in accounting policies:

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

(a) Principles of consolidation:

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

(b) Adoption of changes in accounting policies:

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

(i) CICA Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with International Financial Reporting Standards ("IFRS").

(ii) CICA Handbook Section 1601, *Consolidated Financial Statements* and CICA Handbook Section 1602, *Non-Controlling Interests*, which replace CICA Handbook Section 1600, *Consolidated Financial Statements*, and establish revised standards for the preparation of consolidated financial statements.

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

(c) Cash and cash equivalents:

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

(d) Inventories:

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

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

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

(e) Investments and advances:

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

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

(e) Investments and advances (continued):

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

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

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

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

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

(g) Reforestation liability:

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

(h) Environmental costs:

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

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

(i) Use of estimates:

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

(j) Income taxes:

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

(k) Share-based compensation:

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

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

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

(l) Sales recognition and presentation policies:

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

(m) Employee future benefits:

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

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

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

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

(m) Employee future benefits (continued):

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

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

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

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

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

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

(o) Foreign currency translation:

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

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

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

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

(o) Foreign currency translation (continued):

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

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

(p) Net earnings (loss) per share:

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

(q) Asset retirement obligations:

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

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

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

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

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

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

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

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

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

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

(s) Comparative figures:

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

(t) Future accounting changes:

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

While IFRS uses a conceptual framework similar to Canadian GAAP, there are significant differences on recognition, measurement, and disclosures. The Company has identified a number of key areas that will be impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; share-based payments; employee future benefits; and future income taxes. Management is finalizing the determination of the impact of the application of IFRS on the financial statements and having these impacts audited.

As a first-time adopter of IFRS, the Company is required to apply IFRS 1 *First time adoption of International Reporting Standards* which provides a number of optional exemptions to first-time adopters to ease the transition to IFRS. The Company expects to apply exemptions under each of the following IFRS 1 categories which are significant to the Company's opening balance sheet:

Property, plant and equipment

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

Cumulative translation adjustments

IFRS 1 provides an exemption that allows the cumulative translation account to be set to zero at the date of transition as an adjustment to Retained earnings in the opening Balance Sheet.

Employee future benefits

IFRS 1 provides an exemption that allows recognition of all unamortized actuarial gains and losses at the transition date as an adjustment to Retained earnings in the opening Balance Sheet.

Business combinations

IFRS 1 provides an exemption which eliminates the requirement to restate business combinations entered into prior to the date of transition.

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

2. Long-lived assets held for sale:

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

3. Inventories:

	2010	2009
Logs	$ 39,107	$ 31,011
Lumber	27,353	24,301
Other	5,302	4,847
	$ 71,762	$ 60,159

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown to record inventory at the lower of cost and net realizable value at December 31, 2010 was $7,589,000 (2009 - $9,578,000).

4. Investments and other assets:

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

Summarized information of Seaboard is as follows:

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

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

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

5. Property, plant and equipment:

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

6. Roads, bridges and timber tenures:

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

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

7. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

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

On January 15, 2010 the Company amended its existing operating line of credit ("Operating Line") and the maturity date was extended to February 28, 2011. On August 19, 2010, the Company further amended and extended its existing syndicated credit facilities and the maturity date of the Operating Line was extended to July 28, 2012. All other terms and conditions of the Operating Line remained substantially unchanged except for a reduction in pricing.

The Operating Line may be drawn in either CAD$ or US$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA[1]. Borrowing levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

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

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

(b) Long-term debt:

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The Company's Revolving Term Line increased from $150,000,000 to $200,000,000, and its maturity date was extended to February 28, 2012.

On August 19, 2010, the Company further amended and extended its existing syndicated credit facilities and the maturity date of the Revolving Term Line was extended to July 28, 2013. All other terms and conditions of the Revolving Term Line remained substantially unchanged except for a reduction in pricing.

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

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

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

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

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

(b) Long-term debt (continued):

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

In conjunction with the amendments to its credit facilities on January 15, 2010, the Company drew US$35,000,000 ($35,819,000) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line"). At December 31, 2009 the Non-Revolving Term Line was fully drawn at US$35,000,000 and was revalued at the year-end exchange rate to $36,785,000. Upon repayment of the loan, the foreign exchange gain of $966,000 realized on repayment of the Non-Revolving Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations (2009 - $5,845,000 unrealized foreign exchange gain on revaluation of loan).

The Company subsequently drew a further $36,715,000 and repaid the drawings of US$35,000,000 used to repay the Non-Revolving Term Line, realizing a foreign exchange loss of $896,000 which was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

The US$30,200,000 drawing under the Revolving Term Line has been designated as a hedge against the Company's investment in its self-sustaining U.S. operations and unrealized foreign exchange gains of $1,703,000 (2009 - $5,043,000 gain) arising on revaluation of the Non-Revolving Term Line were recognized in Other comprehensive income.

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

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

8. Payable to investee company:

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

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

On December 29, 2009, the Seaboard Partnership made an advance to its partners, with Interfor's share of the advance being $3,096,000. On January 4, 2010, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share of $3,096,000 was received by way of setoff against the promissory note payable to the Seaboard Partnership.

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

9. Other long-term liabilities:

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

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

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

10. Reforestation liability:

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

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

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

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

10. Reforestation liability (continued):

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

11. Share capital:

(a) Share transactions:

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

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

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

5,000,000 preference shares without par value

Share transactions during 2010 and 2009 were as follows:

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

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

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

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

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

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

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

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

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

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

11. Share capital (continued):

(b) Share option plan:

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

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

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

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

(c) Share Appreciation Rights Plan:

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

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

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

11. Share capital (continued)

(c) Share Appreciation Rights Plan (continued):

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

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

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

(d) Deferred Share Unit Plan:

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

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

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

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

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

12. Other income (expense):

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

In 2010, the Company received further compensation under the Forest Act for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast which, combined with minor disposals of surplus equipment and roads, resulted in proceeds of $1,325,000 and a net loss of $25,000.

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

In addition, under the terms of the *Forest Act*, the Company received $2,000,000 as advance compensation for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast, and recorded a gain of $1,004,000 in 2009.

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

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

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

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

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

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

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

14. Income taxes:

Future income taxes are determined as follows:

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

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

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

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

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

15. Commitments and contingencies:

(a) Operating leases and contractual obligations:

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

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

(b) Central and North Coast Land Use Decisions:

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

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

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

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

(c) Softwood Lumber Agreement:

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

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

(d) Storm damage:

In the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered severe power outages, mudslides, road washouts and flooding, with a state of emergency declared in several populated areas. Some logging areas were impacted by these severe storms with bridge and culvert damage, road washouts and slides in reforested areas. Due to the remoteness and magnitude of the areas impacted it has been difficult to fully assess the extent of the damage and its related costs. The Company continues to pursue provincial and federal government assistance. Certain losses are covered by insurance and as at December 31, 2010, a receivable of $113,000 has been set up for recovery of qualifying expenditures, net of the insurance deductible.

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

15. Commitments and contingencies (continued):

(d) Storm damage (continued):

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

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

(e) Surety Performance Bonds

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

(f) Other contingencies:

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

16. Net earnings per share:

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

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

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

17. Pension and other post-retirement plans:

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

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

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

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

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

(a) RRSP AND DPSP for Canada:

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

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

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

(b) Defined benefit plans:

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

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

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

(b) Defined benefit plans (continued):

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

Plan assets consist of:

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

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

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

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

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

(b) Defined benefit plans (continued):

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

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

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

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

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

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

(c) Unionized employees' pension plan:

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

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

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

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

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

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

(e) Senior management supplementary pension plans:

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

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

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

The amounts accrued are as follows:

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

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

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

18. Related party transactions:

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

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

19. Segmented information:

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

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

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

Sales by product line are as follows:

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

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

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

20. Capital management:

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

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

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

20. Capital management (continued):

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

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

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

21. Financial instruments:

(a) Fair value of financial instruments:

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

(b) Derivative financial instruments:

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

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

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

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

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

21. Financial instruments (continued):

(d) Financial risk management:

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

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

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

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

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

(i) Credit risk:

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

Accounts receivable

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

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

Accounts receivable (continued)

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

Deposits

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

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

21. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Guarantees

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

The Company did not provide any guarantees in 2010.

Exposure to credit risk

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

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

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

(ii) Liquidity risk:

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

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

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

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

21. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

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

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

(iii) Market risk:

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

Currency risk

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

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

In conjunction with amendments to its credit facilities on January 15, 2010, the Company drew US$35,000,000 ($35,819,000) on its Revolving Term Line and repaid and cancelled its U.S. dollar Non-Revolving Term Line. Upon repayment of the loan, the realized foreign exchange gain of $966,000 was recognized in Other foreign exchange gain(loss) on the Statement of Operations.

21. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk: (continued):

Currency risk (continued)

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

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

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

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

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

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

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

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

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

Interest rate risk

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

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

Other market price risk

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

22. Subsequent events:

(a) Seaboard Partnership:

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

(b) Seaboard Partnership windup:

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