

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

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2009 relative to 2008, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and Consolidated Financial Statements for the years ended December 31, 2009 and 2008 filed on SEDAR at www.sedar.com. 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 2009

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

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

Markets and Pricing

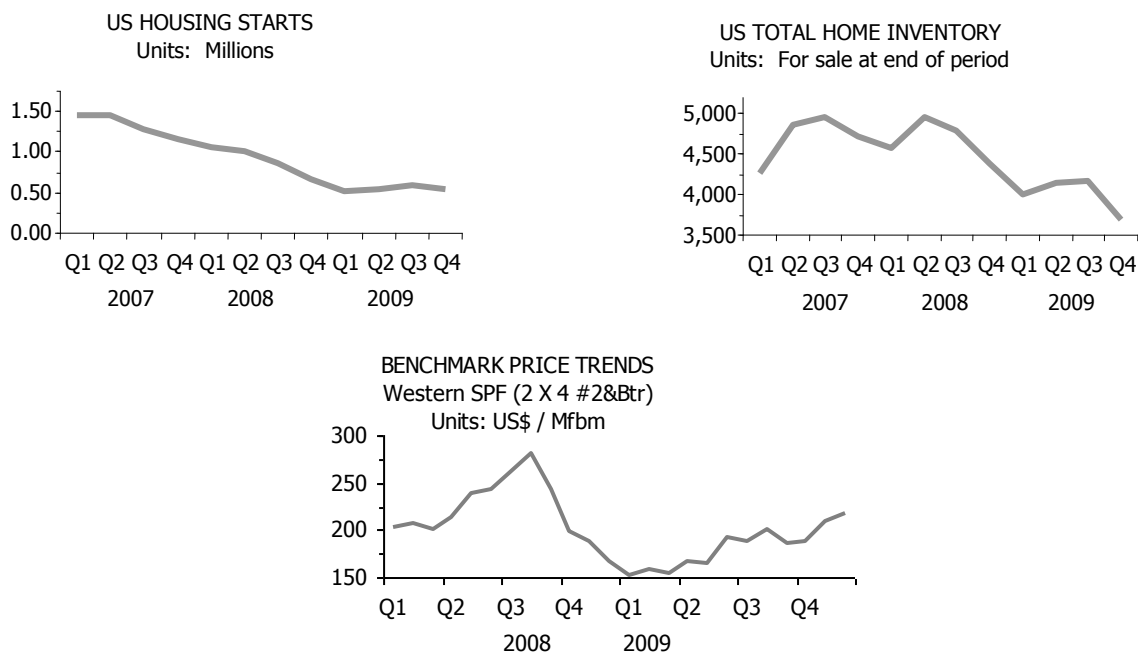
Lumber

- North American Structural Lumber

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

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

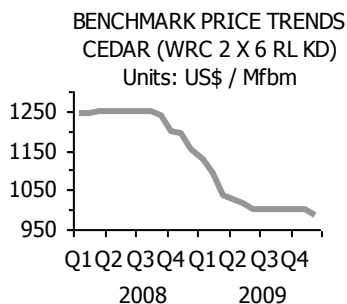
In response to the poor market conditions and uncertainty with respect to the timing or strength of recovery, Interfor actively balanced production against orders with most Interfor operations partially curtailed for periods of 2009. As industry-wide mill curtailments reduced supply, prices came up from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



Source: Random Lengths, used with permission

- Cedar

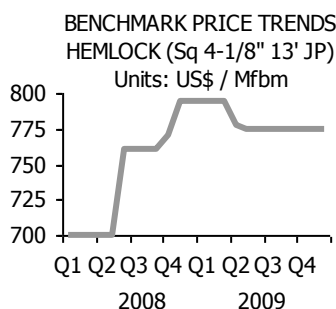
Despite holding up well in 2008, demand for the Company's cedar products weakened significantly in 2009 as poor North American demand resulted in lower prices on North American product lines. The year-over-year average price for knotty Western Red Cedar 2x6 decreased by US\$207 per mfbm.



Source: Random Lengths, used with permission

- Japan

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



Source: Random Lengths, used with permission

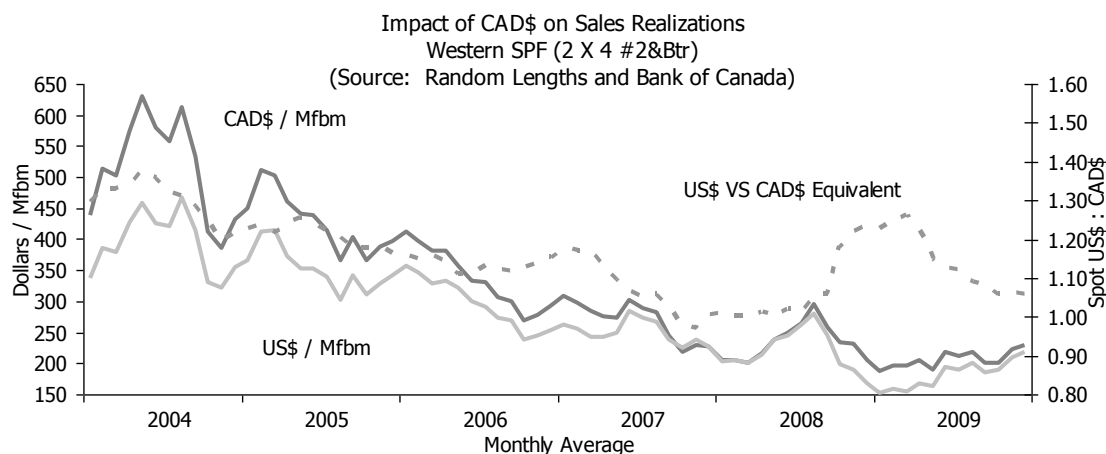
Logs and Residuals

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

Volatility of the Canadian Dollar

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

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



Export Tax

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

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

Price ⁽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 2009 and 2008 was 15% as the prevailing RLCI throughout that period was below US\$315 per mfbm.

New Adams Lake Sawmill

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

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

Agreement to Purchase Kamloops Timber Tenure

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

Sale of Queensboro Property

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

Strong Financial Position

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

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

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

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

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

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

REVIEW OF OPERATING RESULTS

Selected Annual Financial Information ¹

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

1 Tables may not add due to rounding.

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

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

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

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

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

Volume and Price Statistics

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

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

2 B.C. operations

3 Gross sales before duties and export taxes

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

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

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

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

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

Sales

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

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

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

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

Operating Costs

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

Export taxes increased by \$0.5 million, or 13.7% from 2008. As prices in both years were low enough to attract the maximum rate of 15% tax, the increase in the dollar amount of export taxes is mainly related to an 11.8% increase in Canadian shipments to the U.S. and a 7.1% weaker average Canadian dollar compared to its U.S. counterpart for 2009 as compared to 2008.

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

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

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

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

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

Interest Expense on Long-term Debt

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

Other Interest Expense

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

Other Foreign Exchange Gain

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

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

Other Income

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

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

Equity Income

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

Income Taxes

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

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

Net Loss

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

Cash Flows

Operating Activities

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

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

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

Investing Activities

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

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

Financing Activities

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

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

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

FINANCIAL POSITION

Summary of Financial Position

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

Ratio and Investment Information

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

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

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

1 See Glossary in Annual Information Form for definition.

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

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

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

Current Assets

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

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

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

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

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

Investments and Other Assets

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

Property, Plant and Equipment, Timber and Logging Roads

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

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

Current Liabilities

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

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

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

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

Long-Term Liabilities

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

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

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

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

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

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

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

Liquidity and Capital Resources

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

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

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

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

Summary of Contractual Obligations

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

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

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

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

³ Table may not add due to rounding.

Related Party Transactions

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

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

Off-Balance Sheet Arrangements

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

Summary of Issuance of Shares

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

SELECTED QUARTERLY FINANCIAL INFORMATION¹

Quarterly Earnings Summary

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

1 Tables may not add due to rounding.

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

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

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

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

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

Volume and Price Statistics

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

1 B.C. operations

2 Gross sales before duties and export taxes

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

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

Quarter 4, 2009 Compared to Quarter 4, 2008

Overview

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

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

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

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

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

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

Sales

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

Log sales increased by 25,000 m³ with the average sales value declining \$7 per m³ in the fourth quarter, 2009 vis-à-vis its comparative in 2008. The fourth quarter of 2008 saw a dramatic decline in demand from lumber and pulp producers in response to the decline in the global economy. External demand for logs continued to be relatively weak in the fourth quarter, 2009.

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

Operating Costs

Production costs for the fourth quarter of 2009 increased \$23.3 million, or 25.6% compared to the same period in 2008. Production costs in the fourth quarter, 2008, were low as a result of significant market related curtailments in manufacturing and logging, and the curtailment of the Adams Lake sawmill. In the fourth quarter, 2009, slightly improved demand and North American structural lumber prices, and a significantly lower cost structure at the new Adams Lake sawmill resulted in an increase in operating rates and production costs as compared to 2008. Lumber production rose by 127 million board feet, or 108.1%, as compared to the fourth quarter, 2008 and logging increased by 243,000 m³ or 83.9%. Unit cash conversion costs declined by 38.9%, primarily as a result of increased operating efficiencies, lower log costs and production increases, particularly at the new Adams Lake sawmill.

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

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

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

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

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

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

Income Taxes

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

Cash Flow

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

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

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

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

Controls and Procedures

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

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

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

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

Critical Accounting Estimates

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

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

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

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

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

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

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

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

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

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

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

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

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

Each of these estimates is reviewed on an ongoing basis.

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

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

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

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

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

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

NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES

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

(i) Goodwill and Intangible Assets:

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

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

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

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

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

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

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

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

(ii) Financial instruments disclosure:

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

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

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

This additional disclosure has been provided.

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

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

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

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

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

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

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

Progress is on schedule.

Business Combinations

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

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

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

RISKS AND UNCERTAINTIES

Pricing

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

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

Lumber	\$10 increase per thousand fbm	\$5.0 million increase in net income
Chips	\$10 increase per unit ¹	\$2.4 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 purchase agreements or on the open market. The Company relies on 100% purchased wood for its U.S. based mills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

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

Use of Financial and Other Instruments

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

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

Currency Exchange Sensitivity

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

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

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

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

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

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

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

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

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

Cost of Debt Financing and Sensitivity

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

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

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

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

Forest Policy Changes in British Columbia

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

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

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

Allowable Annual Cut ("AAC")

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

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

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

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

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

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

Aboriginal Issues

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

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

Stumpage Fees

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

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

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

Environment

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

Labour Disruptions

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

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

OUTLOOK

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

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

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

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

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

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

ADDITIONAL INFORMATION

Additional information relating to the Company and its operations can be found on its website at www.interfor.com 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.