

International Forest Products Limited

MANAGEMENT DISCUSSION AND ANALYSIS

Dated as of February 9, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2010 relative to 2009, 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, 2010 and 2009 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 plant and equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for other income (expense) and other income of the investee company. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is 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 forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included in the description of areas which are likely to be impacted by the description of future cash flows and liquidity under the headings "Overview of 2010", "Strong Financial Position", "Income Taxes", "Financing Activities", "Liquidity and Capital Resources", and "Summary of Contractual Obligations"; changes in accounting policy under the heading "Future Accounting Policy Changes"; and in the description of economic conditions under the heading "Outlook". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumptions as to general business and economic conditions in the U.S. and Canada, as well as other factors management believes are appropriate in the circumstances including an assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described in this 2010 annual Management's Discussion and Analysis under "Risks and Uncertainties" and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstance, except as required by law.

OVERVIEW OF 2010

Interfor's results for 2010 were dramatically better than 2009. Growth in export markets, particularly China, provided an alternative to U.S. markets adding upward pressure on North American pricing. This resulted in higher sales values and supported increased operating rates.

Accomplishments in 2010 include:

- the development of lumber and log export markets to take advantage of increasing demand from China;
- increased operating rates, particularly in the B.C. Interior supported by increased demand from export markets as well as improved demand in North American markets;
- marked improvements to the cost structure at the Castlegar sawmill through changes in the operating configuration which allowed the mill to restart and contribute to 2010 earnings;
- the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited which added increased fibre for the Adams Lake sawmill;

- a return to positive operating earnings in the fourth quarter, 2010 for the first time since 2006; and
- an increase of \$16.2 million in positive cash flow from operations, after working capital changes, and an improvement of \$54.4 million in Adjusted EBITDA over 2009.

The challenges of 2009 persisted into 2010, but to a lesser degree. 2010 continued to be impacted by slow North American lumber demand as recovery in the U.S. housing market leveled off. Ongoing high unemployment, foreclosures and an oversupply of homes in the U.S. weighed on the housing sector, but government spending incentives, a slight uptick in housing starts and minimal ending inventories in 2009 caused an increase in demand in the first half of 2010. The pace of improvement eased mid-year for the balance of 2010.

In an effort to lessen reliance on a sluggish U.S. housing market, the Company shifted its focus to the Asian markets where demand for commodities is expected to remain strong. The impact of an industry-wide redirection of wood products to fast-growing emerging markets, particularly China, has had a dual benefit. In addition to finding replacement markets for the lost volume previously consumed by the U.S. the strong export markets have caused a reduction in supply available to the North American market resulting in improved lumber prices through the final months of 2010.

A downside to the Chinese demand for logs and lumber is that holders of timber in the U.S. Pacific Northwest have expanded their log exports to Chinese sawmills. Strong export markets have caused sawlog prices in the U.S. Pacific Northwest to increase for Interfor's U.S. mills who source their fibre through purchase and timber sale agreements.

Results year-over-year have also been impacted by the strengthened Canadian dollar which, relative to its U.S. counterpart appreciated by almost ten percent on average for 2010 compared to 2009.

Interfor continued to benefit from its diversified product lines and markets, focus on effective cash management and cost control, and investment in core assets. The Company continues to look for opportunities to maximize shareholder value, including acquisition of full control over Seaboard Shipping Company Limited ("Seaboard") to ensure access to timely off-shore transportation and the exploration of the biomass energy sector. A brief overview of the more significant developments in 2010 is presented below.

Markets and Pricing

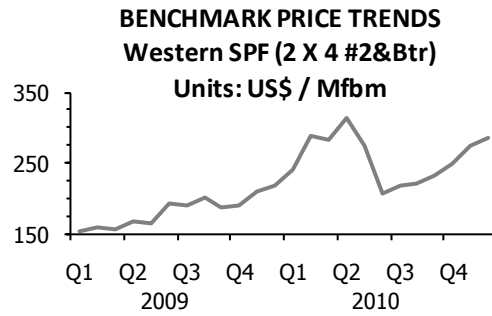
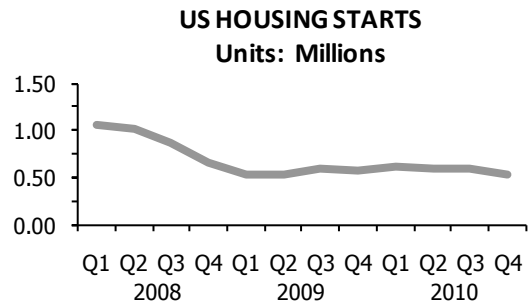
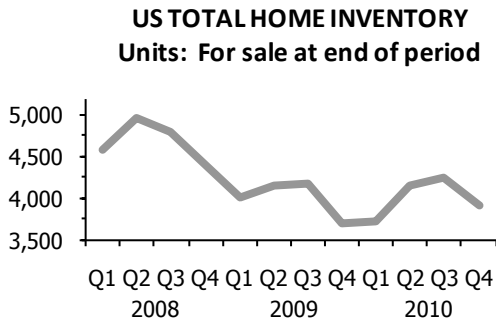
Lumber

- Structural Lumber

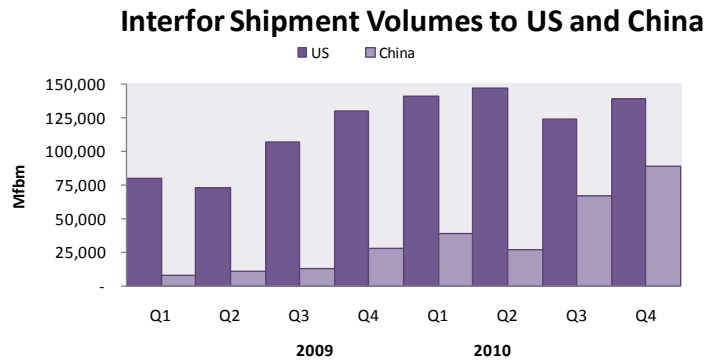
The North American lumber industry continues to be affected by poor U.S. housing starts and a U.S. housing market that is challenged by a supply/demand imbalance. Industry-wide production curtailments in place for most of 2009 continued into early 2010 to balance output with demand levels. As a result, inventory levels were drawn down significantly, leaving inadequate inventory in the supply chain to meet any increases in demand. Consequently, when demand improved at the start of 2010 with government spending incentives, a slight upward movement in U.S. housing starts and the restocking of inventories, production fell short of consumption. During the same period off-shore demand increased, particularly from China, putting even more pressure on the demand for product. The lagged ability of producers to ramp up supply resulted in a dramatic and rapid surge in lumber prices in the first four months of 2010.

U.S. prices peaked in April, 2010, but as homebuyer's tax incentives in the U.S. were withdrawn and as output rose, production quickly outpaced demand bringing the market back into a position of excess supply. Lumber prices fell sharply, particularly as economic indicators in the U.S. showed signs of slower growth.

In mid-2010 prices stabilized with production curtailments again providing a balance between supply/demand. Offshore demand also improved and production was redirected to export markets, particularly those in the Pacific Rim. Reliance on U.S. markets edged down as shipments to China helped offset slower U.S. demand and influenced price increases in both North American and export markets. The average US\$ price for Western SPF 2x4 #2&Btr for 2010 was US\$74 per mfbm higher than 2009 and ended the last week of December 2010 at an average US\$308 per mfbm.

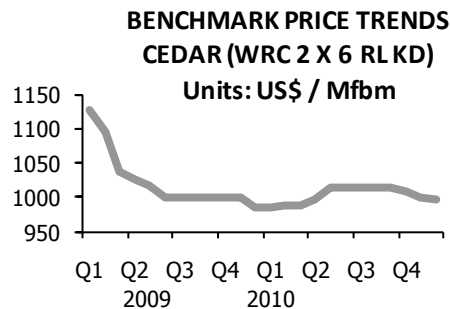


Source: Random Lengths, used with permission



- Cedar

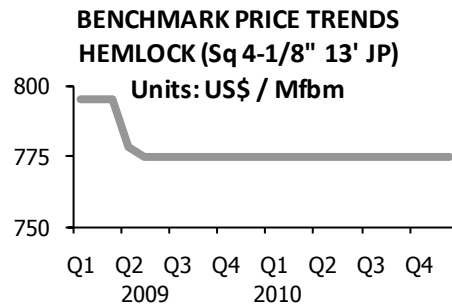
Demand for cedar products weakened significantly in 2009 due to poor North American demand. This resulted in lower prices on North American product lines which did not recover in 2010. The year-over-year average price for knotty Western Red Cedar 2x6 decreased by US\$21 per mfbm with a sharp decline from a January 2009 high of \$US1,127 per mfbm to US\$1,000 per mfbm in June 2009. Prices languished at these levels through 2010.



Source: Random Lengths, used with permission

- Japan

Continued stable economic conditions and the strength of the Yen relative to the US\$ supported prices for the Company's products in Japan. Housing starts continued to show improvement in 2010 but a significant increase in the global supply of lumber for Japan resulted in stagnant lumber prices. Compared to 2009, the average 2010 price for Hemlock Square 4-1/8", as reported by Random Lengths, was flat at US\$775 per mfbm through most of 2009 and 2010.



Source: Random Lengths, used with permission

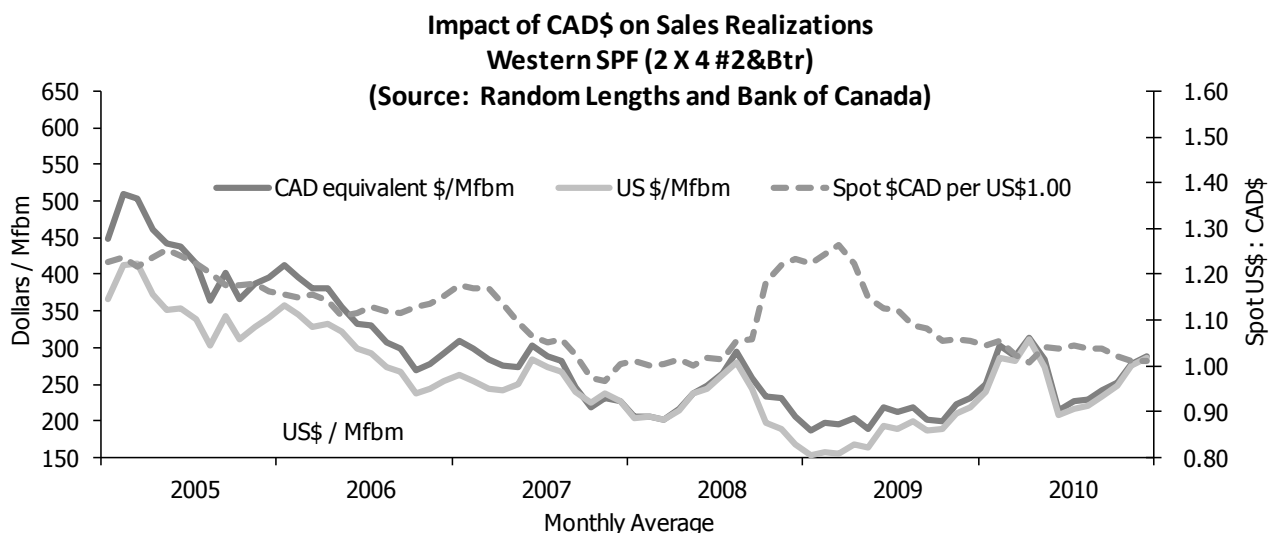
Logs and Residuals

Log sales revenue improved 32.0% compared to 2009 with average prices attained in both Canadian and export log markets higher by \$7 per cubic metre and an improvement of 17.6% in sales volumes over 2009. Compared to 2009, pulp chip and other by-product revenues for 2010 increased 63.7% year over year as higher sales volumes were available with higher sawmill operating rates, particularly in the B.C. Interior.

Volatility of the Canadian Dollar

The Canadian dollar ("CAD\$") strengthened steadily against the US\$ over the final three quarters of 2009 and through 2010, ending the year at CAD\$0.995 per US\$1.00, up 5.7% from the end of 2009. Year-over-year, the average CAD\$ was stronger at \$1.030 for 2010 compared to \$1.142 in 2009.

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 2005 through 2010.



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

As a result of higher commodity lumber prices in early 2010, the export tax paid under the SLA declined in 2010 for the first time since the implementation of the agreement in October 2006, though the decline was short-lived. As the prevailing RLCI moved through the various thresholds, the Option A export charge decreased from 15% to 10% in the month of May 2010 and no export tax was charged on U.S. shipments from Canada in June 2010. Price declines resulted in a 10% export tax in July 2010, and further declines resulted in a return to the 15% export tax level for the balance of 2010.

The Option A export charge was 15% throughout 2009.

Purchase of Kamloops Timber Tenure

On March 15, 2010, the Company completed the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited following an extended period of regulatory review. The tenure represents an Allowable Annual Cut ("AAC") of approximately 275,000 cubic metres and strengthens the Company's long term timber supply for the new Adams Lake sawmill helping to offset anticipated declines in future supply as a result of the Mountain Pine Beetle infestation.

Softwood Lumber Agreement Arbitration

On October 8, 2010, the U.S. Trade Representative's office filed a request for consultations with Canada under the terms of the Softwood Lumber Agreement ("SLA") over its concern that the province of British Columbia is charging too low a price for certain grades of timber harvested on public lands in the B.C. Interior.

Under the terms of the SLA, consultations between the two governments were held but the matter was not resolved and on January 18, 2011 the U.S. Trade Representative filed for arbitration. The arbitration will be conducted by the London Court of International Arbitration ("LCIA"). Decisions by the LCIA are final and binding on both parties. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

While the arbitration process is ongoing, export tax will continue to apply on all shipments of B.C. lumber to the U.S.

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

Strong Financial Position

The Company maintained a strong financial position throughout 2010, ending the year with net debt of \$146.7 million or 29.7% of invested capital. Cash flow from operations, after working capital changes, for the year was positive \$21.0 million. In the fourth quarter of 2010, operating earnings returned to positive levels for the first time in over four years. Adjusted EBITDA at \$48.0 million improved considerably from 2009.

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The Company's Operating Line was extended to February 28, 2011 and the Revolving Term Line increased from

\$150 million to \$200 million, and its maturity date was extended to February 28, 2012. All other terms and conditions of the lines remained substantially unchanged.

In conjunction with the amendments to its credit facilities on January 15, 2010 the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line").

On August 19, 2010, the Company further amended and extended its syndicated credit facilities. The maturity date of the Operating Line was extended from February 28, 2011 to July 28, 2012 and the maturity date of the Revolving Term Line was extended from February 28, 2012 to July 28, 2013. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

At December 31, 2010 the Company had unused available credit and cash of \$113.5 million.

The slow pace of US housing starts continues to colour the near term outlook and despite the shift to Asian markets the U.S. continues to be the largest consumer of our products. The expansion to off-shore markets, however, has driven positive results with increased pricing in both North American and off-shore markets and the Company remains committed to maintaining these customer relationships on a long-term basis.

Currency exchange rates have continued their volatility into 2010 and the Canadian dollar is expected to remain strong relative to its U.S. counterpart 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 opportunities and the upturn in North American markets when it comes.

REVIEW OF OPERATING RESULTS

Selected Annual Financial Information ¹

	2010	2009	2008	2007	2006
	(millions of dollars except share, per share and foreign exchange rate amounts)				
Sales –Lumber	482.0	288.6	297.4	434.5	625.6
–Logs	79.8	60.4	103.6	118.6	103.2
–Wood chips and other by-products	56.2	34.3	30.6	50.2	41.9
–Other	7.7	6.4	5.6	7.7	53.7
Total Sales	625.6	389.8	437.2	611.0	824.4
Operating earnings (loss) before U.S. duty refunds, net, restructuring costs and asset write-downs	(5.4)	(46.5)	(33.5)	(25.1)	15.4
Operating earnings (loss)	(7.0)	(50.8)	(68.4)	(27.1)	104.7
Net earnings (loss)	(3.9)	(23.9)	(55.4)	(13.3)	96.2
Net earnings (loss) per share – basic	(0.08)	(0.51)	(1.18)	(0.28)	1.98
Net earnings (loss) per share – diluted	(0.08)	(0.51)	(1.18)	(0.28)	1.96
EBITDA ⁵	53.1	16.6	13.7	30.8	185.7
Adjusted EBITDA ⁵	48.0	(6.4)	12.3	24.8	68.6
Cash flow from operations per share ²	0.68	(0.46)	0.28	0.51	2.95
Shares outstanding – end of period (millions) ³	47.4	47.1	47.1	47.1	48.1
– weighted average (millions)	47.1	47.1	47.1	47.6	48.5
Average foreign exchange rate per US\$1.00 ⁴	1.0303	1.1420	1.0660	1.0750	1.1341
Closing foreign exchange rate per US\$1.00 ⁴	0.9946	1.0510	1.2180	0.9913	1.1654

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 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

4 Rates are based on Bank of Canada closing foreign exchange rates per US\$1.00.

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 net U.S. duty refunds, other income and other income of the investee company.

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

	2010	2009	2008	2007	2006
	(millions of dollars)				
Net earnings (loss)	\$(3.9)	\$(23.9)	\$(55.4)	\$(13.3)	\$96.2
Add: Income taxes (recovery)	(0.5)	(9.9)	(11.0)	(13.6)	42.5
Net interest (income) expense	8.5	7.8	5.1	(1.3)	3.4
Interest income on U.S. duty refunds, net of special charge	-	-	-	-	(12.7)
Depletion and amortization	47.1	38.2	41.0	49.7	51.0
Other foreign exchange (gains) losses	0.3	-	(0.9)	7.3	(2.3)
Restructuring costs, asset write-downs and other	1.6	4.4	34.9	2.0	7.6
EBITDA	53.1	16.6	13.7	30.8	185.7
Deduct:					
U.S. duty refunds, net	-	-	-	-	96.9
Other income	-	23.0	1.4	6.0	20.2
Other income of investee company	5.2	-	-	-	-
Adjusted EBITDA	\$48.0	\$(6.4)	\$12.3	\$24.8	\$68.6

Volume and Price Statistics

		2010	2009	2008	2007	2006
Lumber sales	(million fbm)	1,132	668	503	870	1,172
Lumber production ¹	(million fbm)	1,110	661	498	856	1,165
Log sales ²	(thousand cubic metres)	1,081	919	1,319	1,223	1,190
Log production ²	(thousand cubic metres)	2,661	1,295	1,881	1,767	2,381
Average selling price – lumber ³	(\$/thousand fbm)	\$426	\$432	\$591	\$499	\$534
Average selling price – logs ²	(\$/cubic metre)	\$67	\$61	\$74	\$95	\$86
Average selling price – pulp chips	(\$/thousand fbm)	\$40	\$40	\$49	\$49	\$33

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, 2010 to Year ended December 31, 2009

Interfor recorded a net loss of \$3.9 million, or \$0.08 per share for 2010, as compared to a net loss of \$23.9 million, or \$0.51 per share in 2009.

Included in 2010 results is an equity income inclusion of \$6.1 million for a gain on disposal of capital assets by the investee, a valuation charge of \$4.1 million against future tax assets, and other one-time items.

Included in 2009 results are an after-tax gain on the sale of the former Queensboro sawmill site of \$19.0 million, a valuation charge of \$7.4 million against future tax assets, and other one-time items.

Before restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance (refer to Income Taxes), the Company's net loss for 2010 was \$3.1 million after-tax, or \$0.07 per share, as compared to a loss of \$33.7 million after-tax, or \$0.72 per share in 2009.

EBITDA and Adjusted EBITDA for 2010 were \$53.1 million and \$48.0 million, respectively, compared to \$16.6 million and negative \$6.4 million for 2009.

Sales

Total sales revenues were \$625.6 million in 2010, an improvement of \$235.8 million over 2009.

Lumber shipments improved by 464 million board feet in 2010 reflecting the addition of production from Adams Lake, the recommenced operations at Grand Forks and Castlegar sawmills and higher operating rates at the Company's U.S. sawmills. There continues to be a significant shift in markets as strong growth in the China markets helps to offset slower demand in the U.S. For 2010, excluding wholesale programs, shipments to the U.S. accounted for 50% of total lumber shipments, a decline of 10% over 2009 with shipments redirected to China which grew by 11% to 20% of total lumber shipments.

Unit lumber sales values declined by \$6 per mfbm resulting from the sizeable shift in sales mix towards North American structural lumber products and lower value products destined for the Pacific Rim and away from high value cedar and Japan products, particularly with the substantial volumes added by the Adams Lake sawmill. The shift in sales mix more than offset the impact of significantly improved North American structural lumber product prices on the Company's average unit sales price. A stronger Canadian dollar also negatively impacted sales values for products priced in \$US.

Log sales increased by \$19.3 million or 32.0% in 2010 over 2009 with higher sales values attained in both Canadian and export log markets. This was evidenced by improvements of \$7 per cubic metre in the average overall sales price for logs sold by Canadian divisions in 2010 as fir and pulp values moved up and pulp fibre made up a lesser percentage of sales. In addition, Canadian log sales volumes grew by 162,000 cubic metres, or 17.6%.

Compared to 2009, pulp chip and other by-product revenues for 2010 were up \$21.9 million, a reflection of higher sawmill operating rates. Overall 2010 average chip prices remained constant as compared to 2009, with improvements on the B.C. Coast which are tied to pulp prices offset by a slight decline in the U.S. and amplified by the negative impact of the stronger Canadian dollar.

Operating Costs

Production costs for 2010 increased \$182.6 million, or 48.8% over 2009. Comparative production volumes and related costs for 2009 were extremely low as a result of significant market related curtailments in manufacturing and logging, and the curtailment of the Adams Lake sawmill in the first several months of 2009, during the final stages of its rebuild. Lumber production increased by 449 million board feet for 2010 compared to 2009, with most of this increase driven by the B.C. Interior sawmills. The ramp-up of the new Adams Lake sawmill and cost improvements at the Grand Forks and Castlegar sawmills resulted in sizeable increases in operating rates over 2009.

Compared to 2009, B.C. log production grew by 1.4 million cubic metres in 2010. To match production to consumption and reduce inventories, log production had been dramatically curtailed in 2009. Increased fibre consumption resulting from improved operating rates in 2010, the acquisition of additional timber tenures, and improved supply/demand balances led to increased log production on the B.C. Coast and particularly in the B.C. Interior regions. Increased harvesting through higher cost heli-logging on the B.C. Coast contributed to higher logging unit costs in 2010 as the percentage of heli-logged volumes almost doubled those in 2009 to 22% of total log production on the B.C. Coast.

Manufacturing unit cash conversion costs declined by 17.6% in 2010 compared to 2009 primarily as a result of the substantial increase in operating rates and improved cost structures in the B.C. Interior sawmills. For U.S. operations costs were further improved by a stronger Canadian dollar. Sizeable increases in fibre costs in the U.S. Pacific Northwest sawmills, however, served to partially offset the benefits of improved cash conversion costs as fibre supply remains tight.

The export tax paid under the SLA for 2010 increased by \$3.5 million or almost double that of 2009 and resulted from an increase of 135 million board feet in Canadian shipments to the U.S. or 2.7 times the volumes shipped in 2009. 2010 export taxes were also impacted by changing rates through 2010 as commodity lumber prices met certain thresholds during the year and reduced the tax from its maximum of 15% to a low of zero for the month of June 2010. Declines in export tax rates were short-lived, however, and most shipments attracted a rate of 15%.

As the export tax is based on U.S. dollars, the increased expense in 2010 was mitigated by the stronger Canadian dollar in comparison to 2009.

Selling and administration costs in 2010 increased by \$1.1 million as compared to 2009, arising primarily from increased corporate development expenditures. 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 \$1.9 million in 2010 (2009 - LTIC expense of \$3.2 million) due to the Company's rising share price.

An increase in amortization of plant and equipment of 13.2% compared to 2009 resulted from higher operating rates primarily at the Adams Lake sawmill which did not operate until April 20, 2009 when the new sawmill ramped-up.

Road amortization and depletion expense for 2010 increased \$5.7 million or 42.5% compared to 2009 as a result of significantly higher logging activity on the B.C. Coast, which had been dramatically curtailed in 2009 to manage inventory levels, and in the B.C. interior to supply the Adams Lake sawmill.

Restructuring costs and asset write-downs totaled \$1.6 million in 2010, compared to \$4.4 million in 2009. The 2010 charge includes \$0.5 million of impairment charges for assets no longer expected to provide future benefit compared to \$3.1 million in 2009, and a \$1.1 million charge for severance costs compared to \$1.6 million in 2009. 2009 was also partially offset by a \$0.3 million accrual reversal.

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

	2010	2009
	(millions of dollars)	
Plant and equipment write-downs	\$ 0.5	\$ 3.1
Severance costs	1.1	1.6
Other (recovery)	-	(0.3)
	\$ 1.6	\$ 4.4

Interest Expense

In 2010, the Company recorded \$8.5 million of total interest expense, compared to \$7.8 million in 2009. Average debt levels were unchanged year-over-year but an overall increase in bank average lending rates over 2009 resulted in a higher effective interest rate than in 2009. Also impacting interest expense to a much lesser extent was the volatility of the Canadian dollar which averaged 1.0303 in 2010 as compared to 1.1420 in 2009, and a decrease in pricing on the extension of debt facilities in August, 2010.

Other Foreign Exchange Gain

Other net foreign exchange gain was \$0.3 million in 2010 compared to a net foreign exchange gain of \$nil in 2009, which arose due to the following items.

	2010	2009
	(millions of dollars)	
Gain (loss) on:		
Revaluation/settlement of forward exchange contracts	\$ (0.1)	\$ (3.6)
Interest rate swap	-	(2.1)
Revaluation and settlement of US\$ denominated debt	0.1	5.8
Other	0.3	(0.1)
	\$ 0.3	\$ 0.0

Other Income

Other income was negligible in 2010 compared to \$23.0 million in 2009. In 2009, \$21.2 million arose primarily from the sale of the Queensboro property, site of the Company's former Queensboro sawmill division that had been permanently closed in July 2008.

	2010	2009
	(millions of dollars)	
Gain on disposal of surplus property, plant and equipment, and investment	\$ (0.2)	\$ 22.1
Gain on settlement of timber takeback	0.4	1.0
Other	(0.2)	(0.1)
	\$ -	\$ 23.0

Equity Income

The Company recorded equity income of \$11.4 million in 2010, an increase of \$9.6 million over 2009. Of this increase, \$5.2 million arose as the Seaboard Partnership ("Seaboard") disposed of its two vessels, the *Skaubryn* and *Skaugran*, during 2010 for a gain of \$6.1 million offset by \$0.9 million in one-time expenses. The gain, coupled with significantly increased equity participation in the earnings of Seaboard due to greater shipment volumes by the Company relative to the other partners, dramatically improved equity earnings in comparison to 2009. Concurrent with the sale of the ships, Seaboard has entered into a charter agreement which effectively replaces the lumber shipping capacity of the sold vessels. Seaboard expects to continue to operate in a normal fashion.

Income Taxes

The Company recorded an income tax recovery of \$0.5 million for 2010 and increased its valuation allowance against certain future income tax assets arising from loss carry-forwards available to reduce future taxable income by \$4.1 million. For 2009 the increase in the valuation allowance reduced the Company's income tax recovery by \$7.4 million to a net recovery of \$9.9 million. Although the Company expects to realize the full benefit of the loss carry-forwards, due to the cyclical nature of the wood products industry and the economic conditions over the last several years the Company has provided a valuation allowance in respect of its operating loss carry-forwards, net of temporary differences. The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totaling approximately \$260 million (2009 - \$216 million) expire between 2011 and 2030, and are available to reduce future taxable income.

The overall effective rate of 10.6% for 2010 (2009 – 29.3%) differs significantly from the Canadian statutory rate of 28.5% (2009 – 30.0%) mainly due to the valuation allowance of \$4.1 million partially offset by non-taxable income that is accounted for by the equity method.

Net Loss

As a result of the above factors, the Company recorded a net loss of \$3.9 million, \$0.08 per share, for the year ended December 31, 2010 compared to a net loss of \$23.9 million, \$0.51 per share, for the year ended December 31, 2009.

Cash Flows

Operating Activities

Before working capital changes, cash generated from operations was \$32.0 million for 2010, compared to cash used by operations of \$21.6 million as poor lumber markets significantly diminished cash earnings in 2009.

Total cash generated from operations after changes in working capital was \$21.0 million for the year, an improvement of \$16.2 million over 2009.

Cash used in working capital was \$11.0 million (2009 – cash generated by working capital of \$26.4 million). Significant increases in operating rates, particularly in the B.C. Interior sawmills and the U.S. Pacific Northwest ("PNW") operations, resulted in an inventory build-up of \$12.4 million and an increase of \$15.2 million in related payables. Improved operating levels are also reflected in a \$13.5 million increase in accounts receivable over 2009.

Poor lumber markets in the comparative periods of 2009 resulted in weak cash from operations. In response the Company significantly curtailed production with a focus on reducing inventories, resulting in a contribution to cash generated from working capital of \$16.9 million. Income taxes contributed \$16.0 million of the cash generated from operating working capital as the Company collected a refund of taxes paid in prior years.

Investing Activities

Capital expenditures, excluding changes in amounts accrued, totaled \$42.3 million for 2010 (2009 - \$27.6 million), and include the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited, adding approximately 275,000 cubic meters of allowable annual cut to its interior fibre supply. In addition to the timber acquisition, expenditures were predominately for maintenance of operating capacity, some discretionary spending on equipment upgrades and on road construction. Comparative spending for 2009 was predominantly for completion of the new Adams Lake sawmill and road construction.

Cash proceeds from the sale of non-core assets and final settlement compensation under the *Forest Act* for timber and other assets totaled \$1.3 million in 2010 (2009 - \$37.0 million). By comparison, 2009 included \$29.9 million in proceeds from the sale of the Queensboro property, compensation of \$2.0 million under the *Forest Act* for timber takeback and proceeds of \$4.1 million from the sale of surplus property and buildings in Maple Ridge, B.C.

Financing Activities

On January 15, 2010 the Company amended and extended its existing syndicated credit facilities. The Company's Operating Line was extended to February 28, 2011 and the Revolving Term Line increased from \$150 million to \$200 million, and its maturity date was extended to February 28, 2012. All other terms and conditions of the lines remained substantially unchanged.

In conjunction with the amendments to its credit facilities on January 15, 2010 the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line").

On August 19, 2010, the Company further amended and extended its syndicated credit facilities. The maturity date of the Operating Line was extended from February 28, 2011 to July 28, 2012 and the maturity date of the Revolving Term Line was extended from February 28, 2012 to July 28, 2013. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

During the course of 2010, Interfor drew additional funds on the Revolving Term Line primarily to fund the acquisition of the timber tenure from Weyerhaeuser and road construction. Other than letters of credit, the Operating Line remained undrawn throughout 2010. As at December 31, 2010 the unused available credit under these facilities totaled \$104.2 million and, combined with cash of \$9.3 million, gave the Company a total of \$113.5 million of liquidity available.

During 2010, as share options approached their expiry dates and the Company's share price rose a number of option holders exercised their share options, generating \$0.9 million of cash funds.

On January 4, 2010, Seaboard declared an income distribution to its partners. Interfor's share was \$3.1 million and was paid to the Company by way of setoff against the promissory note payable to the Seaboard Limited Partnership. On July 30, 2010, subsequent to the sale of one of its two vessels, Seaboard made another advance to its partners, with the Company's share being \$6.9 million. A second advance of which the Company's share was \$8.8 million was received on December 30, 2010. Both advances were repaid by way of set-off on January 3, 2011 when Seaboard declared an income distribution to its partners.

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.

At December 31, 2010, the Company had cash of \$9.3 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the quarter with net debt of \$146.7 million or 29.7% of invested capital.

The Company believes, based on projected selling prices, cash flow projections and existing credit lines, that it has sufficient resources to meet operating and capital requirements through 2011. The Company continues to maintain its disciplined approach to production, its focus on managing the business for cash, ensuring adequate liquidity is maintained and realizing on the benefits of recent strategic activities and investments. Capital expenditures continue to be monitored.

FINANCIAL POSITION

Summary of Financial Position¹

	2010	2009	2008	2007	2006
	(millions of dollars)				
Current assets	139.0	107.9	131.5	158.3	289.7
Current liabilities	74.2	46.6	79.4	50.0	123.8
Working capital	64.8	61.3	52.1	108.3	165.9
Total assets	611.9	582.5	665.3	545.9	673.8
Total long-term liabilities and future income taxes	190.4	177.9	179.7	67.6	72.1
Operating debt	-	-	30.6	-	0.6
Payable to investee company	15.7	3.1	3.7	-	-
Long-term debt	156.0	144.5	137.4	34.7	40.8
Total debt	171.7	147.6	171.7	34.7	41.4
Shareholders' equity	347.3	358.0	406.2	428.3	478.0
Invested capital	519.0	505.6	577.9	463.0	519.4

Ratio and Investment Information¹

Current ratio	1.9	2.3	1.7	3.2	2.3
Net debt as a percentage of invested capital, adjusted ²	29.7%	28.2%	29.2%	1.9%	(29.1)%
Total debt as a percentage of invested capital	33.1%	29.2%	29.7%	7.5%	8.0%
Return on average shareholders' equity ²	(1.1)%	(6.3)%	(13.3)%	(2.9)%	22.3%
Return on average invested capital, adjusted ²	0.5%	(3.4)%	(10.3)%	(3.5)%	25.1%
Pre-tax return on total assets ¹	(0.4)%	(9.0)%	(5.1)%	(4.3)%	2.1%
Cash flow from operations as a percentage of total debt ²	18.6%	(14.6)%	7.6%	70.2%	345.8%
Equity per share	\$7.33	\$7.60	\$8.62	\$9.09	\$9.93

	2010	2009	2008	2007	2006
	(millions)				
Weighted average shares outstanding for the year	47.1	47.1	47.1	47.6	48.5
Number of shares outstanding at year end:					
Class A subordinate voting ³	46.3	46.1	46.1	46.1	47.1
Class B common ³	1.0	1.0	1.0	1.0	1.0
	47.4	47.1	47.1	47.1	48.1

Re-investment of Cash

	2010	2009	2008	2007	2006
	(millions of dollars)				
Cash flow from operations ²	32.0	(21.6)	13.0	24.4	143.1
Cash generated from (used in) operating working capital	(11.0)	26.4	0.7	(70.3)	43.3
Proceeds on disposal of assets	1.3	37.0	5.1	8.3	49.2
Capital expenditures and acquisitions	(42.3)	(27.6)	(158.9)	(81.8)	(90.6)

1 Tables may not add due to rounding.

2 See Glossary in Annual Information Form for definition.

3 As at February 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

Current Assets

Cash on hand and deposits at December 31, 2010 totaled \$9.3 million compared to \$3.8 million from 2009.

Accounts receivable at December 31, 2010 were \$46.0 million, up \$13.0 million over 2009, primarily as a result of higher year-end sales volumes and sales values.

Lumber inventory levels at December 31, 2010 were \$27.4 million, up \$3.1 million compared to 2009. Lumber inventory volumes increased by 16.5% resulting from the additional volumes at the Adams Lake sawmill and the restarted Castlegar sawmill. Lumber inventory unit values decreased primarily due to the reduced levels of higher value cedar lumber in 2010 year-end inventories.

Log inventory levels at December 31, 2010 were \$39.1 million, up \$8.1 million compared to 2009, to support the higher operating rates and increased log consumption of the Adams Lake sawmill and the restarted Castlegar sawmill.

Investments and Other Assets

Investments and Other Assets increased by \$11.6 million to \$28.6 million, up as compared to 2009, primarily due to equity income of \$11.4 million earned from Seaboard in 2010. On January 3, 2011, the Seaboard Partnership declared an income distribution to its partners. Interfor's share was \$15.7 million and was settled by way of setoff against the promissory note payable to the Seaboard Partnership (see Current Liabilities).

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

Property, Plant and Equipment, Timber and Logging Roads

The Company's net book value of \$431.2 million for property, plant and equipment, timber, logging roads, and assets held for sale was a decrease of \$13.2 million over 2009. Capital expenditures including changes in amounts accrued were \$43.1 million, of which \$32.1 million related to investments in road building and the acquisition of the timber tenure from Weyerhaeuser Company Limited and the balance of \$10.9 million was primarily for maintenance of operating capacity with some discretionary spending on equipment upgrades. The stronger Canadian dollar at the end of 2010 compared to the end of 2009 resulted in reduction in capital assets of U.S. operations of \$8.1 million due to foreign currency revaluations. Offsetting the investments in capital assets were amortization and depletion expense of \$46.0 million, and various other minor write-downs and disposals.

Current Liabilities

As at December 31, 2010, 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 unused available Operating Line was \$60.2 million, after outstanding letters of credit of \$4.8 million. The Company's working capital ratio at December 31, 2010 was 1.9 to 1.

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

Accounts payable levels at December 31, 2010 were \$58.3 million for an increase of \$14.8 million over 2009. The increase in trade accounts payables and other accruals results from increased operating rates, particularly from logging activities in B.C. The current portion of reforestation also increased by \$3.0 million due to increased levels of logging in 2010, the Weyerhaeuser timber acquisition and the rescheduling of planting projects which had been delayed for cash management reasons during the global downturn.

In July 2010, the Company received an advance of \$6.9 million from Seaboard, and a further \$8.8 million was received in December 2010. In January 2011, Seaboard declared an income distribution to its partners of which Interfor's share of \$15.7 million was received by way of setoff against the advance payable to Seaboard.

This compares to the advance received in December, 2009 of \$3.1 million which was also settled by way of an income distribution of the same amount in January 2010.

Long-Term Liabilities

As part of its amendment and extension of existing syndicated credit facilities in January, 2010 the Company's Canadian revolving term line (the "Revolving Term Line") was increased from \$150 million to \$200 million, and its maturity date was extended to February 28, 2012. In August, 2010, the Company further amended and extended its existing syndicated credit facilities and the maturity date of the Revolving Term Line was extended to July 28, 2013. Except for a reduction 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.

In conjunction with the amendments to its credit facilities on January 15, 2010, the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line"). At December 31, 2009 the Non-Revolving Term Line was fully drawn at US\$35.0 million and was revalued at the year-end exchange rate to \$36.8 million. The Company subsequently drew a further \$36.7 million and repaid the drawings of US\$35.0 million used to repay the Non-Revolving Term Line.

At December 31, 2010, the Revolving Term Line was drawn by \$126.0 million (2009 - \$76.0 million), and by US\$30.2 million (2009 - US\$30.2 million) revalued at the year-end exchange rate to \$30.0 million (2009 - \$31.7 million) for total drawings of \$156.0 million (2009 - \$107.7 million) and leaving an unused available line of \$44.0 million. Together with the Non-Revolving Term Line which was outstanding at December 31, 2009, drawings totaled \$144.5 million, leaving an unused available line of \$42.3 million.

Overall, long-term liabilities excluding long-term debt, increased only marginally by \$0.7 million, with small decreases in a number of areas slightly offsetting an increase of \$1.2 million in long-term incentive compensation reflecting an increase in the Company's closing share price which rose from \$4.69 at December 31, 2009 to \$5.60 at December 31, 2010.

Liquidity and Capital Resources

As at December 31, 2010, the Company had working capital of \$64.8 million (2009 - \$61.3 million), \$104.2 million (2009 - \$99.2 million) available on its operating and term lines and \$9.3 million in cash.

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 both extended. On August 10, 2010, the maturity dates were further extended to July 28, 2012 for the Operating Line and July 28, 2013 for the Revolving Term Line. 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, and any essential capital expenditures.

Interfor has had positive EDITDA in each of the past five years in total, and, despite the difficult economic climate over the last three years, for ten of the past twelve quarters. In addition, in the fourth quarter, 2010 Interfor showed positive earnings from operations for the first time in over four years.

Interfor believes that its existing credit lines will be sufficient to satisfy the funding of operating and capital requirements for the foreseeable future. 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.

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)				
Accounts payable and accrued liabilities	\$ 44.4	\$ 44.4	\$ -	\$ -	\$ -
Income taxes payable	0.2	0.2	-	-	-
Payable to investee company ¹	15.7	15.7	-	-	-
Long-term debt	156.0	-	156.0	-	-
Reforestation liability	28.2	9.8	6.9	5.4	6.0
Other long-term liabilities	21.8	4.1	5.4	1.8	10.5
Pension solvency payments	4.2	1.5	1.5	0.8	0.4
Operating leases and contractual commitments	19.3	6.1	5.9	4.1	3.2
Total contractual obligations²	\$ 289.9	\$ 81.8	\$ 175.9	\$ 12.1	\$ 20.1

¹ On January 3, 2011, the Seaboard Partnership declared an income distribution to its partners, of which the Company's share was \$15.7 million and was paid to the company by way of setoff against the promissory note payable to the Seaboard Partnership.

² Table may not add due to rounding.

Related Party Transactions

Lumber sales to a significant shareholder amounted to \$0.8 million (2009 - \$0.9 million). Shipping services provided by Seaboard International Shipping Company Limited totaled \$7.0 million (2009 - \$4.7 million). In addition, the Company provided management and other support services to Seaboard totaling \$0.5 million (2009 - \$nil). 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 7(a) and Note 15(e) in the Consolidated Financial Statements. At December 31, 2010, the total of such instruments aggregated \$12.9 million (2009 - \$12.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Summary of Issuance of Shares

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

SELECTED QUARTERLY FINANCIAL INFORMATION ¹**Quarterly Earnings Summary**

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share, per share and foreign exchange rate amounts)							
Sales – Lumber	137.5	113.1	123.7	107.6	93.1	76.8	62.3	56.5
– Logs	20.6	21.9	19.8	17.4	17.3	17.3	13.0	12.8
– Wood chips and other by-products	15.7	14.0	13.3	13.2	12.2	8.9	5.9	7.4
– Other	2.4	2.4	1.0	1.7	2.9	2.2	0.6	0.6
Total Sales	176.3	151.5	157.9	139.9	125.5	105.2	81.8	77.3
Operating earnings (loss) before restructuring costs and asset write-downs	1.3	(2.3)	(1.4)	(3.1)	(7.8)	(7.0)	(16.4)	(15.2)
Operating earnings (loss)	1.3	(2.8)	(2.4)	(3.1)	(7.8)	(10.4)	(16.3)	(16.3)
Net earnings (loss)	0.6	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)
Net earnings (loss) per share – basic and diluted	0.01	0.03	(0.06)	(0.07)	(0.11)	0.21	(0.32)	(0.29)
EBITDA ⁵	14.6	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)
Adjusted EBITDA ⁵	14.5	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)
Cash flow from operations per share ²	0.19	0.13	0.19	0.17	0.06	(0.07)	(0.23)	(0.22)
Shares outstanding – end of period (millions) ³	47.4	47.1	47.1	47.1	47.1	47.1	47.1	47.1
– weighted average (millions)	47.2	47.1	47.1	47.1	47.1	47.1	47.1	47.1
Average foreign exchange rate per US\$1.00 ⁴	1.0131	1.0395	1.0283	1.0401	1.0571	1.0980	1.1669	1.2446
Closing foreign exchange rate per US\$1.00 ⁴	0.9946	1.0290	1.0646	1.0158	1.0510	1.0707	1.1630	1.2613

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 9, 2011, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 46,374,676 Class B Common shares – 1,015,779, Total – 47,390,455.

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 those calculated using the Bank of Canada closing foreign exchange rate per US\$1.00.

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 and other income of the investee company. EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2010				2009			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	0.6	1.5	(2.6)	(3.4)	(5.0)	9.7	(15.0)	(13.6)
Add: Income taxes (recovery)	(0.1)	(0.1)	0.2	(0.4)	(3.3)	0.1	(3.6)	(3.1)
Interest expense	2.1	2.1	2.3	2.0	2.0	2.2	2.0	1.6
Depletion and amortization	11.9	11.2	12.6	11.4	12.5	9.9	9.5	6.3
Other foreign exchange (gains) losses	0.2	0.1	0.1	-	0.1	-	(0.1)	-
Restructuring costs, asset write-downs and other	-	0.5	1.1	-	0.1	3.3	(0.1)	1.1
EBITDA	14.6	15.3	13.5	9.7	6.3	25.3	(7.3)	(7.7)
Deduct:								
Other income (expense)	(0.3)	(0.1)	0.4	-	0.6	21.7	-	0.6
Other income of investee company	0.4	4.8	-	-	-	-	-	-
Adjusted EBITDA	14.5	10.6	13.1	9.7	5.7	3.6	(7.3)	(8.4)

Volume and Price Statistics

		2010				2009			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	321	277	270	264	234	181	131	122
Lumber production	(million fbm)	303	272	277	258	245	180	115	121
Log sales ¹	(thousand cubic metres)	292	289	262	239	261	242	216	200
Log production ¹	(thousand cubic metres)	794	595	624	648	533	378	312	72
Average selling price – lumber ²	(\$/thousand fbm)	\$428	\$408	\$459	\$408	\$398	\$424	\$477	\$462
Average selling price – logs ¹	(\$/cubic metre)	\$64	\$73	\$68	\$64	\$62	\$69	\$56	\$54
Average selling price – pulp chips	(\$/thousand fbm)	\$42	\$40	\$37	\$40	\$39	\$38	\$40	\$46

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

The impact of the global recession on overall demand and poor lumber sales realizations increased the operating losses in the first three quarters of 2009. Operating rates increased in the fourth quarter of 2009 and first quarter, 2010, as lumber prices rose in response to increased North American demand and a temporary supply/demand imbalance. During the same period off-shore demand increased, particularly from China which continued through the remaining quarters of 2010.

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. All quarters of 2009 and 2010 include the effect of a tax valuation allowance against future tax assets which serves to reduce or eliminate any income tax recoveries on the Statement of Operations. 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, 2010 Compared to Quarter 4, 2009

Overview

The Company recorded net earnings of \$0.6 million, or \$0.01 per share, for the fourth quarter of 2010 as compared to a net loss of \$5.0 million, or \$0.11 per share in the fourth quarter of 2009. Before restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance, the Company's net earnings for the fourth quarter, 2010 was \$0.7 million after-tax, or \$0.01 per share, as compared to a net loss of \$4.4 million after-tax, or \$0.09 per share for the fourth quarter, 2009.

EBITDA and Adjusted EBITDA for the fourth quarter of 2010 were \$14.6 million and \$14.5 million, respectively, compared to \$6.3 million and \$5.7 million, for the comparative quarter in 2009.

Lumber pricing in the North American markets have been impacted by record volumes of lumber, particularly from the Pacific Northwest and B.C., exported to meet increased demand from China as they look to satisfy their growing need for construction lumber and industrial timber applications. Increased shipments to China impacted supply available to the North American markets which improved pricing of North American products due to a supply/demand imbalance and the existence of lean inventories. This is evidenced by the movement

of the average price reported by Random Lengths for SPF 2x4 #2&Btr from US\$233 per mfbm for September, 2010 to US\$285 per mfbm at the end of December, 2010 and is magnified even more in comparison to the fourth quarter, 2009 average price of US\$206 per mfbm.

Improved pricing impacted both sales realizations and ending inventory valuations for the Company in the fourth quarter, 2010 resulting in positive operating earnings in the quarter for the first time since the third quarter, 2006.

Changes in the Castlegar sawmill operating configuration in early 2010, achieved with the support of the mill's employees and other local stakeholders and without the benefit of any significant capital expenditures, continued to contribute a marked improvement in the mill's cost structure and impact fourth quarter, 2010 results.

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

Sales

Compared to the same quarter of 2009, lumber shipments were up 37.1% or 87 million board feet for the fourth quarter of 2010, reflecting additional production from Adams Lake and the recommenced operations at Grand Forks and Castlegar sawmills. Slower growth in demand in the U.S. markets continues to be replaced by strong growth in the demand for product from China. For the fourth quarter, 2010, in comparison to the fourth quarter, 2009 and excluding wholesale programs, 44% of all lumber shipments were directed to the U.S., a decline of 13%, and more than offset by shipments to Chinese markets which grew by 16%.

Relative to the same periods in 2009, unit lumber sales values increased by \$31 per mfbm, or 7.8%, for the fourth quarter, 2010 reflecting significantly improved North American structural lumber product prices, somewhat tempered by the negative impact of a stronger Canadian dollar. Compared to the average of the fourth quarter of 2009, the Canadian dollar appreciated 4 cents relative to its U.S. counterpart.

Log sales were up \$3.3 million, or 18.9%, for the fourth quarter, 2010 as sales volumes increased by 32,000 m³ or 12.1% vis-à-vis its comparative in 2009. Unit sales values on the B.C. Coast, where the majority of log sales are transacted, moved up 5.2% reflecting improved log markets and a lesser pulp log component.

Compared to the same periods of 2009, pulp chip and other by-product revenues for the fourth quarter of 2010 were up \$3.5 million, a reflection of higher sawmill operating rates. Average chip prices for the fourth quarter, 2010 increased on both the B.C. Coast as well as in the U.S. reflecting increased global demand for pulp over the same quarter, 2009. More significant price increases in the U.S. were negated by the stronger Canadian dollar.

Operating Costs

Production costs for the fourth quarter of 2010 increased \$40.8 million, or 35.8% compared to the same period in 2009. Lumber production increased by 58 million board feet for the fourth quarter, 2010 compared to the same quarter, 2009 driven by increased production at the B.C. Interior sawmills.

Unit cash conversion costs remained constant, quarter-over-quarter as compared to 2009 as increased per unit conversion costs resulting from a curtailment at the Beaver sawmill were offset by a stronger Canadian dollar. In addition, fibre supply for the U.S. Pacific Northwest sawmills remains tight and resulted in sizeable increases in log costs for U.S. operations.

Compared to the same period in 2009, B.C. log production grew by 260,000 cubic metres for the fourth quarter, 2010 driven by the seasonality of logging in the B.C. interior and the increased demand for logs in the B.C. Interior sawmills resulting from improved operating rates as compared to 2009. Unit logging costs for the fourth quarter remained relatively constant, year-over-year.

Compared to the same period, 2009, Canadian shipments to the U.S. for the fourth quarter, 2010 rose by 25 million board feet or 70.2% which corresponds with a 70% increase in export taxes, or \$1.0 million as the tax rate for both periods remained at 15%.

Selling and administrative costs for the fourth quarter, 2010 increased by \$0.6 million compared to the same quarter, 2009 primarily as a result of additional corporate development expenditures and expansion of export sales administration. Long-term incentive compensation ("LTIC") expense is impacted by the change in the

Company's share price and showed an expense of \$1.4 million for the fourth quarter, 2010, reflecting a 40.4% increase in the Company's share price over the quarter. Similarly, LTIC expense in the fourth quarter, 2009, resulted from a 49.8% improvement of the share price for that quarter.

Fourth quarter, 2010 amortization of plant and equipment remained flat in comparison to the fourth quarter, 2009 despite the inclusion of Castlegar sawmill for 2010 as the investment in capital assets at the mill is extremely low.

Road amortization and depletion expense for the fourth quarter of 2010 declined by \$0.5 million or 10.8% for the quarter vis-à-vis the same quarter, 2009 as a result of decreased logging activity on the B.C. Coast with log production lower by 58,000 cubic metres or 13.8%.

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

Fourth quarter, 2010, interest expense was virtually unchanged as compared to the fourth quarter of 2009, with an increase in average lending rates in 2010 partially offset by a stronger Canadian dollar. Other foreign exchange gains (losses) were negligible for both years.

The Company reported Other income (expense) of (\$0.3) million for the fourth quarter, 2010 from the disposal of surplus equipment and roads as compared to a gain of \$0.6 million realized in the fourth quarter, 2009. Increased equity participation in the earnings of Seaboard with greater shipment volumes by the Company relative to the other partners, improved equity earnings in comparison to 2009.

Income Taxes

The Company recorded an income tax recovery of \$0.1 million in the fourth quarter of 2010 as compared to a \$3.3 million recovery in the comparative period of 2009. The valuation allowance against certain future income tax assets arising from loss carry-forwards available to reduce future taxable income was increased by \$0.1 million (fourth quarter, 2010 - \$1.0 million). Although the Company expects to realize the full benefit of the loss carry-forwards, the Company has provided a valuation allowance in respect of its operating loss carry-forwards, net of temporary differences.

Cash Flow

Cash generated by the Company from operations, after changes in working capital, was \$3.7 million for the fourth quarter of 2010, compared to cash used of \$12.7 million for the fourth quarter of 2009. The increase in accounts receivable partially offset by a rise in accounts payable was the result of the higher operating rates and export shipments in the fourth quarter of 2010.

Capital expenditures continued to be closely monitored. Spending of \$4.6 million on plant and equipment was evenly divided between high return discretionary projects and spending related to maintenance of operating capacity, with spending on road construction totaling \$4.6 million. Comparative spending for the fourth quarter, 2009 was primarily for road construction as all other capital expenditures were severely curtailed.

In the fourth quarter, 2010 the Company received an \$8.8 million advance from Seaboard which it used to pay down a portion of its Revolving Term Line. An advance from Seaboard of \$3.1 million received in the fourth quarter, 2009 was used together with drawings of \$15.0 million on the Revolving Term Line to fund cash used in operations and priority capital expenditures.

The Company had cash of \$9.3 million at December 31, 2010 and ended the quarter with net debt of \$146.7 million or 29.7% of invested capital.

Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2010. 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, 2010.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") as of December 31, 2010. 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, 2010.

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, 2010 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 collectability 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 letters of credit or are prepaid in advance of shipment.

The Company regularly reviews the collectability 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 2010, despite the impacts of the global economic downturn and historical low housing starts. Based on this past experience and its detailed review of trade accounts receivable past due, a negligible reserve (2009 - \$0.1 million) 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 collectability 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 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 and adjusted for unusual items. 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, 2010, 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 or contracted 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 regularly 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. Interfor sponsors various defined contribution pension plans available, based on eligibility requirements, to all Canadian salaried and all US employees. The Company sponsors two defined benefit plans for those hourly employees not covered by forest industry union plans. It also sponsors a post-retirement medical and life insurance plan.

The Company retains independent actuarial consultants to value the defined pension benefit obligations, the post retirement medical and life insurance obligations and related 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 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, 2010, the Company adopted three new CICA accounting standards:

- (a) Handbook Section 1582, *Business Combinations* which replaces CICA Handbook Section 1581, *Business Combinations*, and establishes revised standards for the recognition, measurement, presentation and disclosure of business acquisitions and aligns Canadian GAAP with 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 had no retrospective impact on the consolidated financial statements.

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 has identified a number of key areas that will be impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and asset retirement obligations; share-based payments; employee future benefits; and future income taxes. Management is finalizing the determination of the impact of the application of IFRS on the financial statements and having these impacts audited.

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

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

Property, plant and equipment

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

transition date. The impact is expected to increase property, plant and equipment on the Balance Sheet as at January 1, 2010 by \$15.7 million.

Cumulative translation adjustments

IFRS 1 provides an exemption that allows the cumulative translation adjustments to be set to zero at the date of transition as an adjustment to Retained earnings in the opening Balance Sheet. Interfor expects to take advantage of this exemption which would result in Accumulated other comprehensive loss and Retained earnings in the opening Balance sheet to each decrease by \$24.9 million at January 1, 2010.

Employee future benefits

IFRS 1 provides an exemption that allows recognition of all unamortized actuarial gains and losses at the transition date as an adjustment to Retained earnings in the opening Balance Sheet. The impact of this is expected to be a reduction in Investments and other assets on the Balance Sheet as at January 1, 2010 by \$7.2 million for the defined benefit pension plan liabilities of the Company. In addition, Investments and other assets are expected to be reduced by a further \$0.8 million to reflect the Company's share of its investee's pension adjustment as at January 1, 2010.

Business combinations

IFRS 1 provides an exemption which eliminates the requirement to restate business combinations entered into prior to the date of transition. Interfor does not expect to restate any of its previous business combination accounting.

Impairment of assets

IFRS requires the assessment of asset impairment to be based on a comparison of the asset carrying value and its recoverable amount, usually based on its value in use as represented by its discounted future cash flows. Under Canadian GAAP the assessment of impairments provides for a two-step test with no impairment recognized if the undiscounted future cash flows exceed the carrying value of the related asset. Discounting is required only as a second step to quantify an impairment.

As such, impairments are more likely under IFRS standards. Where an impairment is required under IFRS, future amortization charges will decrease with a lower amortization base.

IFRS also provides for the reversal of previously recognized asset impairments, excluding goodwill, where conditions justify such reversals. Canadian GAAP does not allow reversal of impairments recognized in the financial statements.

These changes in standards may result in the potential for more impairments recognized against income in the future as well as more volatility as reversals occur.

Based on the Company's analysis, Interfor does not expect any impairments to be recorded as at January 1, 2010 under IFRS.

Provisions

IFRS has a broader threshold for the recognition of provisions than that provided under Canadian GAAP and may result in additional liabilities being recognized under IFRS and requires the discount rate for evaluation of asset retirement obligations to reflect the current risk-free interest rate. As a result, the Company expects to increase its Reforestation liability, net of current portion on the Balance Sheet by \$1.9 million, and its Other long-term liabilities by \$0.9 million under IFRS on January 1, 2010, for a total of \$2.8 million increase in liabilities.

Share based compensation

IFRS requires recognition of compensation expense for share based compensation to be based on fair values rather than implicit values, determined through the use of Black-Scholes and other option modeling techniques. As a result, the Company expects to increase the current portion recorded in Accounts payable and accrued liabilities by \$0.4 million and the long term portion in Other long-term liabilities by \$0.5 million as at January 1, 2010 under IFRS.

Future income taxes

As a result of the aforementioned adjustments, future income taxes on the Balance Sheet as at January 1, 2010 are expected to be reduced by \$0.3 million under IFRS.

Presentation of financial statements

There are a number of presentation changes and reclassifications amongst line items on the financial statements that are expected under IFRS. In addition, IFRS requires significantly more financial statement note disclosure than required under Canadian GAAP standards. These will be fully disclosed in our March 31, 2011 quarter-end financial statements.

The impact of the changeover from Canadian GAAP to IFRS is expected to be as follows¹:

	Retained earnings	Accumulated other comprehensive loss
	(millions of dollars)	
Balance as at January 1, 2010 under Canadian GAAP	\$ 88.9	\$ (24.9)
Transition election to fair value property at Hammond sawmill site	15.7	-
Employee future benefits adjustments to reflect unamortized actuarial gains (losses)	(8.0)	-
Increase in decommissioning liabilities resulting from change to credit-free discount rate	(2.8)	-
Increase in share based compensation liability to reflect fair values	(0.9)	-
Reduction in future income taxes liability arising from aforementioned adjustments	0.3	-
	4.4	-
Transition election to set cumulative translation adjustments to zero	(24.9)	24.9
Balance as at January 1, 2010 under IFRS	\$ 68.4	\$ -

¹ Table may not add due to rounding

Since the impacts of conversion to IFRS standards are still in process of being finalized and audited, it is possible that further differences may arise that could have a significant impact on the Company's financial statements under IFRS. Interfor expects to meet all filing requirements and deadlines for its first reporting under IFRS for the March 31, 2011 quarter-end.

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, Japan and China), 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 2010 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	\$8.5 million increase in net income
Chips	\$10 increase per unit ¹	\$4.2 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 ability to secure space on vessels for overseas shipments and on trucks and railcars for North American shipments;
- 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 almost entirely on purchased fibre for its U.S. based mills, with some logs for the sawmills located on the Olympic Peninsula provided by the Company's Canadian coastal logging operations. 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 for 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, 2010, the Company has outstanding obligations to sell a maximum of US\$22.5 million at an average rate of CAD\$1.0168 to the USD\$1.00 and sell Japanese ¥75.0 million at an average rate of ¥83.03 to the US\$1.00 during 2011. All foreign currency gains or losses to December 31, 2010 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts has been recorded as an asset of \$0.5 million in accounts receivable and a negligible liability in accounts payable (2009 - \$0.4 million asset fair value recorded in accounts receivable).

Based on the Company's net exposure to foreign currencies and related financial instruments in 2010, the sensitivity of Interfor's net earnings is as follows:

US\$	\$0.01 increase vs. CAD\$	\$1.3 million increase in net income
Japanese Yen	1¥ increase vs. US\$	\$0.1 million increase in net income

Until 2010, Interfor's U.S. operations produced and sold products almost exclusively for the U.S. market, but with the poor U.S. housing starts and increased demand from China and other overseas markets there has been some sizable growth in export sales in 2010. 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 \$7.6 million an unrealized foreign exchange loss on translation of its self-sustaining operations in 2010 (2009 - \$24.3 million loss) to Other comprehensive income (loss).

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 \$1.7 million (2009 - \$5.0 million gain) have been recorded in Other comprehensive income (loss) in 2010.

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 conjunction with the amendments to its credit facilities on January 15, 2010, the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar non-revolving term line (the "Non-Revolving Term Line"). Upon repayment of the loan, the foreign exchange gain of \$1.0 million realized on repayment of the Non-Revolving Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

The Company subsequently drew a further \$36.7 million and repaid the drawings of US\$35.0 million used to repay the Non-Revolving Term Line, realizing a foreign exchange loss of \$0.9 million which was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

Cost of Debt Financing and Sensitivity

As at December 31, 2010 Interfor had drawn a total of \$160.8 million (2009 - \$149.5 million) of floating rate debt under its operating and term credit facilities, including letters of credit.

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.

Based on the Company's average debt level during 2010, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$1.1 million in net earnings.

Regulatory Issues

Interfor's operations are subject to extensive provincial, state, federal or other laws and regulations that apply to most aspects of our business activities. Where applicable, Interfor is required to obtain approvals, permits and licences for its operations as a condition to operate.

From time to time the changes in government policy or regulation may impact the company's operations. 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 3.7 million cubic metres. Of this amount 3.5 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.

Reductions in Interfor's AAC from any new protected areas are subject to compensation, once these areas have been formally removed. Currently there are no compensation claims outstanding.

The amount of timber available for harvest in the B.C. Southern Interior is expected to remain high for the next five years as a consequence of an accelerated harvest to address the impact from the pine beetle epidemic. The overall timber supply is expected to be reduced in the BC interior once the surplus of dead pine is no longer useable. The amount and duration of the AAC increase and subsequent decline will vary by location.

Aboriginal Issues

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 courts have also established that the Crown has a duty to consult with aboriginal groups and where appropriate accommodate aboriginal interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long standing complex issues. In British Columbia 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 the years ahead 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. Stumpage payments for a harvesting area is based on a competitive market pricing system (MPS) that has been established for both the coast and interior regions of BC.

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 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.

On July 1, 2010 The Ministry of Forests and Range implemented changes to the interior market pricing system in response to the Mountain Pine Beetle (MPB) epidemic. These changes included the introduction of stand as a whole pricing with cruise based billing for MPB damaged timber. The impact of these changes is to increase the overall market sensitivity to pricing of MPB damaged timber. These changes in the pricing system are consistent with Canada's obligation under the 2006 Softwood Lumber Agreement ("SLA").

On October 8, 2010, the U.S. Department of Commerce informed Canada that it was requesting consultations under the SLA agreement with respect to current and past pricing of MPB damaged timber. As of December 31, 2010 the consultation period was still in effect. On January 18, 2011 the U.S. government filed for arbitration under the terms of the SLA, with the arbitration to be conducted by the London Court of International Arbitration as required by the SLA. Decisions by the LCIA are final and binding on both parties. As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2010.

Periodic changes in the British Columbia government's administrative policy can affect the market price for timber 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 Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian 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 (Acorn and Hammond) expired 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 agreements are ongoing, with employees continuing 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

Business conditions remain uncertain. The North American market has softened in recent weeks as harsh weather has impacted building activity in a number of regions. Sales to China and other offshore markets continue to positively impact pricing in North America. Cedar remains soft; Japan is stable.

The Canadian dollar is expected to remain relatively stable in 2011, hovering near parity relative to its U.S. counterpart throughout the year.

The Company will continue to diversify its lumber markets to reduce its reliance on the U.S.

Interfor is continuing to move ahead with its high return capital program. So far, a total of \$4.3 million has been spent and a number of projects are scheduled for completion in the first six months of 2011. Total capital spending in the first quarter of 2011 is expected to be in the range of \$10 million; spending for the year is projected at \$45 - \$47 million.

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.