



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

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

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

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

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

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

Duncan K. Davies
President and Chief Executive Officer

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

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

February 5, 2009



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

We have audited the consolidated balance sheets of International Forest Products Limited as at December 31, 2008 and 2007 and the consolidated statements of operations, retained earnings, cash flows, comprehensive income (loss) and accumulated other comprehensive income (loss) for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2008 and 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slanted style. Below the signature is a single horizontal line that starts under the first letter and extends to the right, ending under the last letter.

KPMG LLP, Chartered Accountants

Vancouver, Canada

February 5, 2009

International Forest Products Limited
Consolidated Balance Sheets

(Expressed in thousands of Canadian dollars)
December 31, 2008 and 2007

	2008	2007
Assets		restated - note 1(b)(iv)
Current assets:		
Cash and cash equivalents	\$ 184	\$ 17,795
Deposit (note 2)	-	8,761
Accounts receivable	25,441	37,172
Income taxes recoverable	16,225	8,838
Inventories (note 4)	78,991	76,429
Prepaid expenses	7,779	6,267
Future income taxes (note 15)	2,890	3,083
	<u>131,510</u>	<u>158,345</u>
Investments and other assets (note 5)	19,372	12,270
Property, plant and equipment (note 6)	396,387	300,150
Timber and logging roads (note 7)	90,425	55,050
Goodwill and other intangible assets	13,078	13,078
Future income taxes (note 15)	-	7,000
Long-lived assets held for sale (note 3)	15,138	3,239
	<u>\$ 665,910</u>	<u>\$ 549,132</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 8(a))	\$ 30,589	\$ -
Accounts payable and accrued liabilities	45,163	49,999
Payable to investee company (notes 9 and 23(a))	3,651	-
	<u>79,403</u>	<u>49,999</u>
Reforestation liability, net of current portion (note 11)	15,685	11,874
Long-term debt (note 8(b))	137,414	34,696
Other long-term liabilities (note 10)	12,407	8,859
Future income taxes (note 15)	14,159	13,080
Shareholders' equity:		
Share capital (note 12):		
Issued and fully paid:		
Class A subordinate voting shares	284,500	284,444
Class B common shares	4,080	4,080
Contributed surplus (note 12(a))	5,408	5,408
Accumulated other comprehensive income (loss)	(539)	(33,892)
Retained earnings	113,393	170,584
	<u>406,842</u>	<u>430,624</u>
	<u>\$ 665,910</u>	<u>\$ 549,132</u>

Commitments and contingencies (note 16)
Subsequent events (note 12(a) and note 23)
See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



E.L. Sauder, Director



H.C. Kalke, Director

International Forest Products Limited
Consolidated Statements of Operations

(Expressed in thousands of Canadian dollars, except earnings per share amounts)
Years ended December 31, 2008 and 2007

	2008	2007
Sales	\$ 437,221	\$ 611,008
Costs and expenses:		
Production	411,479	560,348
Selling and administration	16,867	16,776
Long term incentive compensation (recovery)	(1,990)	(476)
Export taxes	3,433	8,755
Amortization of plant and equipment	21,846	30,129
Depletion and amortization of timber, roads and other	19,619	20,726
	<u>471,254</u>	<u>636,258</u>
Operating loss before restructuring costs and write-downs of plant, equipment and timber	(34,033)	(25,250)
Restructuring costs and write-downs of plant, equipment and timber (note 14)	(37,305)	(1,975)
Operating loss	(71,338)	(27,225)
Other earnings (expenses):		
Interest expense on long-term debt	(4,543)	(2,835)
Other interest income (expense), net	(588)	4,163
Other foreign exchange gain (loss)	912	(7,308)
Other income (note 13)	1,418	5,983
Equity in earnings of investee companies (note 5)	4,825	218
	<u>2,024</u>	<u>221</u>
Loss before income taxes	(69,314)	(27,004)
Income taxes (note 15):		
Current (recovery)	(18,533)	(9,570)
Future (recovery)	6,410	(4,113)
	<u>(12,123)</u>	<u>(13,683)</u>
Net loss	\$ (57,191)	\$ (13,321)
Net loss per share (note 17):		
Basic and diluted	\$ (1.21)	\$ (0.28)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Retained Earnings

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2008 and 2007

	2008	2007
Retained earnings, beginning of year, as restated (note 1(b)(iv))	\$ 170,584	\$ 183,905
Net loss	(57,191)	(13,321)
Retained earnings, end of year	\$ 113,393	\$ 170,584

See accompanying notes to consolidated financial statements.

International Forest Products Limited

Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2008 and 2007

	2008	2007
Cash provided by (used in):		
Operating activities:		
Net loss	\$ (57,191)	\$ (13,321)
Items not involving cash:		
Amortization of plant and equipment	21,846	30,129
Depletion and amortization of timber, roads and other	19,619	20,726
Future income taxes (recovery)	6,410	(4,113)
Other assets	(544)	1,030
Reforestation liability	(4,421)	(1,336)
Other long-term liabilities	(1,678)	257
Share of earnings net (in excess) of cash distributions of investee company (note 5)	(4,825)	4,151
Write-down of plant, equipment and timber (note 14)	31,427	-
Unrealized foreign exchange losses (gains)	3,941	(6,094)
Other (note 13)	(1,541)	(6,117)
	13,043	25,312
Cash generated from (used in) operating working capital:		
Accounts receivable	13,335	12,438
Inventories	12,025	2,791
Prepaid expenses	(117)	(2,289)
Accounts payable and accrued liabilities	(16,358)	(46,839)
Income taxes	(8,187)	(36,399)
	13,741	(44,986)
Investing activities:		
Additions to property, plant and equipment	(73,364)	(44,726)
Additions to logging roads and timber	(17,512)	(28,340)
Additions to deferred start up costs	-	(959)
Proceeds on disposal of property, plant and equipment	5,096	8,256
Acquisitions (note 2)	(76,919)	-
Deposit held in escrow for acquisition (note 2)	8,943	(8,761)
Investments and other assets	(2,116)	(2,010)
	(155,872)	(76,540)
Financing activities:		
Repurchase of share capital (note 12(a))	-	(9,846)
Issuance of share capital, net of expenses (note 12(a))	56	892
Increase (decrease) in bank indebtedness	30,589	(582)
Funds from promissory note payable to investee company (note 9)	3,651	-
Additions to long-term debt (note 8(b))	139,064	-
Repayments of long-term debt (note 8(b))	(48,925)	-
	124,435	(9,536)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	85	(314)
Decrease in cash and cash equivalents	(17,611)	(131,376)
Cash and cash equivalents, beginning of year	17,795	149,171
Cash and cash equivalents, end of year	\$ 184	\$ 17,795
Supplementary disclosures:		
Cash interest paid (received), net	\$ 5,131	\$ (1,328)
Cash income taxes paid (received)	(12,330)	26,977

See accompanying notes to consolidated financial statements.

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

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2008 and 2007

	2008	2007
Net loss	\$ (57,191)	\$ (13,321)
Other comprehensive loss:		
Net change in unrealized foreign currency translation gains (losses) on translation of self-sustaining foreign subsidiaries	33,353	(27,531)
Other comprehensive income (loss)	33,353	(27,531)
Comprehensive loss	\$ (23,838)	\$ (40,852)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Accumulated Other Comprehensive Income (Loss)

(Expressed in thousands of Canadian dollars)
Years ended December 31, 2008 and 2007

	2008	2007
Accumulated other comprehensive loss, beginning of year	\$ (33,892)	\$ (6,361)
Other comprehensive income (loss)	33,353	(27,531)
Accumulated other comprehensive loss, end of year	\$ (539)	\$ (33,892)

See accompanying notes to consolidated financial statements.

1. Significant accounting policies and change in accounting policies:

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

(a) Principles of consolidation:

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

(b) Adoption of new accounting policies and accounting change:

Commencing January 1, 2008, the Company adopted five new Canadian Institute of Chartered Accountants ("CICA") accounting standards, together with a change in accounting policy of an investee company. The main requirements of these new standards and the change in accounting policy and the resulting financial statement impact are described below.

(i) Capital Disclosures:

Section 1535, *Capital Disclosures*, specifies the disclosure of the Company's objectives, policies and processes for managing capital, including: a description of what components of liabilities and shareholders' equity the Company defines as capital, and their balances; and the nature of any externally imposed capital restrictions, how those are managed, and the consequence of any non-compliance, if any. Refer to note 21 for additional disclosures.

(ii) Inventories:

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

The adoption of this new standard had no financial effect on the comparative consolidated financial statements of the Company. Refer to note 4 for additional disclosures.

(iii) Financial Instruments – Disclosure and Presentation:

Handbook Section 3862, *Financial Instruments – Disclosures*, and Section 3863, *Financial Instruments – Presentation*, replace Handbook Section 3861, *Financial Instruments – Disclosure and Presentation*, revising and enhancing disclosure requirements to provide additional information on the nature and extent of risks arising from financial instruments to which the Company is exposed and how it manages those risks. Refer to note 22 for additional disclosures.

(iv) Accounting Changes:

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

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

(b) Adoption of changes in accounting policies (continued):

(iv) Accounting Changes (continued):

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

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

The restatement has not affected net loss previously reported for any of the periods presented in the Statement of Operations.

(c) Cash and cash equivalents:

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

(d) Inventories:

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

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

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

(e) Investments and advances:

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

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

(e) Investments and advances (continued):

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

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

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

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

(g) Deferred start-up costs:

Start-up costs on major plant construction are deferred to the extent these costs meet the criteria under CICA Emerging Issues Committee Abstract 27 and the site reaches sustainable productions levels which are defined as the earlier of:

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

(ii) Six months

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

Startup-costs are amortized over five years on a straight-line basis and are included on the balance sheet in property, plant and equipment.

(h) Reforestation liability:

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

(i) Environmental costs:

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

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

(j) Use of estimates:

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

(k) Income taxes:

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

(l) Share-based compensation:

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

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

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

(m) Sales recognition and presentation policies:

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

(n) Employee future benefits:

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

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

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

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

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

(n) Employee future benefits (continued):

The unamortized net actuarial gains or losses in excess of ten percent of the greater of the benefit obligation and the fair value of the plan assets are amortized on a straight-line basis over the average remaining service period of active employees. The average remaining service period of the active employees covered by the plans is thirteen years in 2008 (2007 - ten years).

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

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

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

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

(p) Foreign currency translation:

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

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

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

(p) Foreign currency translation (continued):

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

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

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

(q) Net earnings per share:

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

(r) Asset retirement obligations:

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

(s) Impairment of long-lived assets and related measurement uncertainty:

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

As at December 31, 2008, the Company tested the recoverability of substantially all of its long-lived assets. The recoverability test performed included management forecasts of undiscounted cash flows arising from the use and disposition of the long-lived assets. Several assumptions are required in conducting these forecasts and the more significant ones include lumber and chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, and the amount of sales to the U.S. from Canada and the level of export taxes. The Company has analyzed external data in determining appropriate assumptions. Based on the assumptions used, the forecasted undiscounted cash flows exceed the carrying value of the Company's long-lived assets and no impairment charge is required at December 31, 2008.

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

(s) Impairment of long-lived assets and related measurement uncertainty (continued):

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

(t) Comparative figures:

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

(u) Future accounting changes:

(i) International Financial Reporting Standards

The CICA has announced that it will transition Canadian generally accepted accounting principles ("GAAP") for publicly accountable entities to International Financial Reporting Standards ("IFRS"). The Company's consolidated financial statements are to be prepared in accordance with IFRS for the fiscal year commencing January 1, 2011.

(ii) Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets* which replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred.

The Company is currently evaluating the implications of the adoption of these new Standards on its consolidated financial statements.

2. Acquisitions:

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

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

	Kootenay Acquisition (note 2(a))	Beaver and Forks Acquisition (note 2(b))	Total
Net assets acquired:			
Current assets	\$ 9,245	\$ 3,560	\$ 12,805
Property, plant and equipment	22,226	30,659	52,885
Timber and logging roads	40,092	56	40,148
	71,563	34,275	105,838
Liabilities assumed:			
Current liabilities	13,711	19	13,730
Reforestation, post-retirement benefits and other long-term obligations	13,458	-	13,458
Future income taxes	1,731	-	1,731
	\$ 42,663	\$ 34,256	\$ 76,919

2. Acquisitions (continued):

	Kootenay Acquisition	Beaver and Forks Acquisition	Total
Cash consideration funded by:			
Cash on hand	\$ 15,947	\$ 2,117	\$ 18,064
Deposit held in escrow	9,007	-	9,007
Revolving Term Line	17,709	32,139	49,848
	\$ 42,663	\$ 34,256	\$ 76,919

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

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

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

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

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

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

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

International Forest Products Limited

15

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

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

2. Acquisitions (continued):

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

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

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

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

3. Long-lived assets held for sale:

The Company has developed formal plans to dispose of certain surplus properties and has classified these assets as assets held for sale (see also Subsequent events, note 23(b)). These assets include the properties and improvements of the former Queensboro sawmill site located in New Westminster, B.C. and the former Field sawmill site located in Courtenay, B.C. as well as surplus property and buildings located in Maple Ridge, B.C.

4. Inventories:

	2008	2007
Logs	\$ 49,941	\$ 53,631
Lumber	22,484	18,588
Other	6,566	4,210
	\$ 78,991	\$ 76,429

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown to record inventory at the lower of cost and net realizable value at December 31, 2008 was \$20,270,000 (2007 - \$16,019,000).

5. Investments and other assets:

	2008	2007
Seaboard Shipping Company Limited	\$ 10,540	\$ 5,715
Other investments	1,686	1,582
Pension asset (note 18(b))	6,581	4,875
Deferred financing fees, net of accumulated amortization	565	98
	\$ 19,372	\$ 12,270

International Forest Products Limited

16

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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

5. Investments and other assets (continued):

Summarized information of Seaboard is as follows:

	2008	2007
Total assets	\$ 29,009	\$ 22,166
Shareholders' equity	24,238	16,967
Net sales	45,434	48,130
Interfor's shipment percentage	62.2%	58.0%
Interfor's equity in earnings	\$ 4,825	\$ 218
Distributions received	-	4,369

In 2007, a cash distribution was made to the partners, of which the Company's share was \$4,369,000. In accordance with equity accounting, the distributions were recorded as a reduction of the investment. See also note 9.

6. Property, plant and equipment:

2008	Cost	Accumulated amortization	Net book value
Land	\$ 16,408	\$ -	\$ 16,408
Buildings	62,851	30,539	32,312
Machinery and equipment	470,312	148,766	321,546
Automotive equipment	9,547	6,276	3,271
Computer equipment	8,194	6,255	1,939
Site improvements	26,761	8,138	18,623
Deferred startup costs	996	336	660
Other	3,843	2,215	1,628
	\$ 598,912	\$ 202,525	\$ 396,387
2007			
Land	\$ 13,880	\$ -	\$ 13,880
Buildings	65,151	38,861	26,290
Machinery and equipment	385,044	148,971	236,073
Automotive equipment	11,927	10,548	1,379
Computer equipment	7,169	5,831	1,338
Site improvements	27,416	10,393	17,023
Deferred startup costs	5,810	2,358	3,452
Other	2,688	1,973	715
	\$ 519,085	\$ 218,935	\$ 300,150

In light of significant capital improvements and sawmill rebuilds undertaken in 2006 and early 2007, the Company performed a review of its estimates of remaining economic useful life of its plant and equipment in 2007. This resulted in a revision of amortization rates for certain operations to align with current estimates of economic useful life and designed capacity. The recalculated amortization rates have been applied on a prospective basis and did not have a material impact on amortization expense.

At December 31, 2008, machinery and equipment cost includes \$84,178,000 (2007 - \$19,610,000) for the construction of the new Adams Lake sawmill, with the small log line successfully completed in late 2008 and the balance of the project to be completed in early 2009.

International Forest Products Limited

17

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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

7. Timber and logging roads:

2008	Cost	Accumulated amortization	Net book value
Timber	\$ 102,588	\$ 32,761	\$ 69,827
Roads	44,586	23,988	20,598
	\$ 147,174	\$ 56,749	\$ 90,425
2007			
Timber	\$ 67,645	\$ 29,851	\$ 37,794
Roads	43,956	26,700	17,256
	\$ 111,601	\$ 56,551	\$ 55,050

8. Bank indebtedness and long-term debt:

(a) Bank indebtedness:

2008	Canadian Operating Facility	U.S. Operating Facility	Total
Available line of credit	\$ 100,000	\$ 12,180	\$ 112,180
Maximum borrowing available	54,234	7,836	62,070
Operating Line drawings	25,747	6,090	31,837
Outstanding letters of credit included in line utilization	5,105	146	5,251
Unused portion of line	23,382	1,600	24,982
2007			
Available line of credit	\$ 40,000	\$ 9,913	\$ 49,913
Maximum borrowing available	40,000	9,913	49,913
Operating Line drawings	-	-	-
Outstanding letters of credit included in line utilization	4,818	119	4,937
Unused portion of line	35,182	9,794	44,976

In 2008, the Company renewed its existing Canadian operating line of credit ("Operating Line"), increasing the maximum available operating credit to \$100,000,000 (2007 - \$40,000,000). The Operating Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio. Borrowings levels under the line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories. The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The Operating Line is subject to certain financial covenants including a minimum working capital requirement and a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The line matures on April 24, 2009. As at December 31, 2008, the Operating Line was drawn by \$25,747,000 (2007 - \$nil).

On February 5, 2009, the Company received a financing commitment with respect to its Operating Line from its lenders, details of which are described in note 23(c).

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

(a) Bank indebtedness (continued):

The Company renewed its existing U.S. operating line of credit ("U.S. Line") in 2008. The terms and conditions of the line remained unchanged, except for an increase to the interest rate margins and the provision of a parent guarantee. The U.S. Line is subject to a borrowing base calculation dependent upon certain accounts receivable and inventories of the Company's subsidiary, Interfor Pacific Inc. ("IPI"). As at December 31, 2008, the maximum borrowing available was US\$6,433,000 (2007 – US\$10,000,000), of which US\$1,314,000 (2007 – US\$9,880,000) was unused. The line utilization includes outstanding letters of credit of US\$120,000 (2007 – US\$120,000). The U.S. Line bears interest at U.S. bank prime plus a margin or, at the Company's option, at rates for LIBOR plus a margin, dependent in all cases upon a financial ratio. The line is secured by the accounts receivables and inventories of IPI and is subject to certain financial covenants including a maximum ratio of total debt to total capitalization. The U.S. Line matures on April 24, 2009.

Offsetting drawings under the operating lines are cash balances less outstanding cheques of \$1,248,000 (2007 - \$nil).

(b) Long-term debt:

The Company renewed its existing Revolving Term Line in 2008 increasing it from \$10,000,000 to \$115,000,000. The terms and conditions of the line remained unchanged, except for an increase to the interest rate margins. The Revolving Term Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio. The line matures on April 24, 2011.

To fund the Kootenay and Beaver acquisitions and the Adams Lake sawmill capital project, the Company utilized the Revolving Term Line. As at December 31, 2008, the Revolving Term Line was drawn by US\$30,200,000 revalued at the December 31, 2008 exchange rate to \$36,784,000, and \$58,000,000 for total drawings of \$94,784,000 (2007 - \$nil), leaving an unused available line of \$20,216,000. The portion of the line drawn in \$US funds was designated as a hedge against the Company's investment in its self-sustaining U.S. operations effective October 1, 2008 and unrealized foreign exchange losses of \$4,645,000 (2007 - \$nil) arising on revaluation of the Non-Revolving Term Line were recognized in Other comprehensive income.

On February 5, 2009, the Company received a financing commitment with respect to its Non-Revolving Term Line from its lenders, details of which are described in note 23(c).

The U.S. dollar non-revolving term line (the "Non-Revolving Term Line") remains fully drawn at US\$35,000,000 (2007 – US\$35,000,000) and was revalued at the year-end exchange rate to \$42,630,000 (2007 - \$34,696,000). Effective September 1, 2008, the maturity date of the Non-Revolving Term Line was extended to September 1, 2010. The Non-Revolving Term Line bears interest at rates based on bank prime plus a margin or, at the Company's option, at rates for LIBOR based loans plus a margin, in all cases depending upon a financial ratio. The foreign exchange loss of \$7,934,000 (2007 - \$5,716,000 gain) arising on revaluation of the Non-Revolving Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations.

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

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

(b) Long-term debt (continued):

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

2009	\$	-
2010		42,630
2011		94,784
2012		-
2013		-

\$ 137,414

9. Payable to investee company:

On December 29, 2008, the Seaboard Limited Partnership ("the Seaboard Partnership"), made an advance to its partners, with Interfor's share of the advance being \$3,651,000. The Company signed an unsecured promissory note which was payable on demand on or before January 2, 2009 and was non-interest bearing until January 2, 2009 and bears interest at the rate of 4% per annum thereafter.

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

10. Other long-term liabilities:

	2008	2007
Road deactivation and environmental	\$ 4,817	\$ 3,150
Pension and other post-retirement benefits (notes 18(b) and (e))	4,927	3,304
Long term incentive compensation		
Share and option based (notes 12(b), (c), and (d))	340	1,461
Total shareholder return plan	810	405
Other	1,513	539
	<u>\$ 12,407</u>	<u>\$ 8,859</u>

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

The Company recorded compensation expense of \$405,000 (2007 - \$405,000) for the year ended December 31, 2008.

11. Reforestation liability:

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

International Forest Products Limited

20

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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

11. Reforestation liability (continued):

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

	2008	2007
Reforestation liability, beginning of year	\$ 16,429	\$ 20,437
Reforestation expense on current production	3,317	2,460
Reforestation liability addition on acquisition of Kootenay operations	14,289	-
Reforestation liability reduction on disposal of timberlands	-	(199)
Reforestation expenditures	(10,392)	(6,577)
Accretion expense	831	925
Changes in estimated future reforestation expenditures	(129)	(617)
	\$ 24,345	\$ 16,429
Consisting of:		
Current portion included in accounts payable and accrued liabilities	\$ 8,660	\$ 4,555
Long term reforestation liability	15,685	11,874
	\$ 24,345	\$ 16,429

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2008 is \$27,339,000 (2007 - \$19,200,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at the Company's estimated credit-adjusted risk-free interest rate of 7.0%. Reforestation expense incurred due to current production and accretion expense are included in production costs for the year.

12. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2008 and 2007 consists of:

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

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

5,000,000 preference shares without par value

Share transactions during 2008 and 2007 were as follows:

	Number			Amount
	Class A	Class B	Total	
Balance, December 31, 2006	47,119,896	1,015,779	48,135,675	\$ 295,166
Shares issued on exercise of options	189,280	-	189,280	892
Share repurchases	(1,220,100)	-	(1,220,100)	(7,534)
Balance, December 31, 2007	46,089,076	1,015,779	47,104,855	288,524
Shares issued on exercise of options	12,400	-	12,400	56
Balance, December 31, 2008	46,101,476	1,015,779	47,117,255	\$ 288,580

12. Share capital:

(a) Share transactions (continued):

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

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

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

The Company did not repurchase any Class A shares through the normal course issuer bid in 2008. During 2007 the Company acquired 1,220,100 Class A shares at a total cost of \$9,846,000 and the shares were cancelled as purchased with the excess of the cost of the shares over the assigned value totalling \$2,312,000 charged to contributed surplus.

Movements in contributed surplus during 2008 and 2007 were as follows:

	2008	2007
Beginning balance, contributed surplus	\$ 5,408	\$ 7,720
Excess of cost of shares over assigned value on shares repurchased and cancelled	-	(2,312)
Ending balance, contributed surplus	\$ 5,408	\$ 5,408

At December 31, 2008, Class A shares are reserved for possible future issuance as follows:

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

(b) Share option plan:

The Company has an employee share option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. Options outstanding at December 31, 2008 are exercisable at prices ranging from \$3.65 to \$5.00 per share, being the closing market price for the shares on the dates that the options were granted. The options expire at various dates between April 25, 2009 and April 30, 2011.

12. Share capital (continued):

(b) Share option plan:

Details of the Company's share option plan for the years ended December 31, 2008 and 2007 are as follows:

	2008		2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	1,409,840	\$ 4.51	1,633,920	\$ 4.63
Granted	-	-	-	-
Exercised	(12,400)	4.49	(189,280)	4.71
Expired or cancelled	(376,100)	4.31	(34,800)	9.00
Outstanding, end of year	1,021,340	\$ 4.59	1,409,840	\$ 4.51
Options exercisable, year end	1,021,340	\$ 4.59	1,409,840	\$ 4.51

The options outstanding at December 31, 2008 have a weighted average remaining life of 1.4 years.

(c) Share Appreciation Rights Plan:

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

	2008		2007	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,226,720	\$ 5.99	1,162,700	\$ 5.62
Granted	352,000	5.21	170,500	7.93
Exercised	(3,900)	4.33	(92,980)	4.75
Expired or cancelled	(146,500)	5.02	(13,500)	7.08
Outstanding, end of year	1,428,320	\$ 5.90	1,226,720	\$ 5.99
Units exercisable, year end	793,140	\$ 5.62	766,680	\$ 5.28

International Forest Products Limited

23

Notes to Consolidated Financial Statements
Years ended December 31, 2008 and 2007

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

12. Share capital (continued):

(c) Share Appreciation Rights Plan (continued):

Details of units outstanding under the SAR Plan at December 31, 2008 are as follows:

Strike price	Number outstanding, December 31, 2008	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2008	Weighted average strike price
\$4.33-\$5.21	665,360	6.1	\$ 4.78	328,360	\$ 4.33
\$6.07-\$7.30	610,960	5.3	6.60	464,780	6.53
\$8.02	152,000	8.1	8.02	-	-
	1,428,320		\$ 5.90	793,140	\$ 5.62

The Company recorded a compensation recovery of \$728,000 (2007 – recovery of \$705,000) for the year ended December 31, 2008. Accrued compensation payable on unexercised units totaled \$nil (2007 - \$732,000) at December 31, 2008.

(d) Deferred Share Unit Plan:

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

Participants in the TSR Plan may elect to receive their award in DSU's at the end of any performance period. As there were no awards earned under the TSR Plan in 2008, this option was not utilized (2007 - no DSU's issued under the TSR Plan).

DSU's may also be granted directly to Directors or senior employees of the Company at the discretion of the Board and Directors may also elect to take DSU's as payment of their annual retainer. In 2008 a total of 42,669 DSU's (2007 – 37,839) were granted to or taken by Directors under the plan at an average value of \$4.12 (2007 - \$7.79) per unit.

The Company recorded compensation recovery of \$1,667,000 (2007 – recovery of \$175,000) for the year ended December 31, 2008 in respect of the DSU Plan. Subsequent changes to share values will result in adjustments to compensation expense. At December 31, 2008, the Company had 363,863 (2007 – 359,194) DSU's outstanding. At December 31, 2008, accrued compensation payable in respect of the DSU Plan totaled \$526,000 (2007 - \$2,041,000).

13. Other income:

	2008	2007
Gain on disposal of investments, surplus property, plant, equipment and timber	\$ 794	\$ 4,767
Gain on settlement of timber takeback	747	1,350
Other, net	(123)	(134)
	\$ 1,418	\$ 5,983

13. Other income (continued):

In 2008, the Company disposed of surplus investments, plant, property, and equipment as well as a timber licence. In addition, the Company received compensation from the Province of British Columbia for the loss of logging rights for timber licences in the Central Coast (see note 16(b)) and for obsolete infrastructure. These dispositions combined to generate sales proceeds of \$5,096,000 and a gain of \$1,541,000.

In 2007, the Company disposed of surplus property, plant and equipment and sold its interest in Tree Farm Licence 54. These dispositions combined to generate sales proceeds of \$6,906,000 and a gain of \$4,767,000. In addition, under the terms of the *Forest Revitalization Act*, the Company received \$1,350,000 in additional compensation for bridges resulting from the 2003 legislated takeback of certain logging rights on the B.C. Coast. The Company recorded \$1,350,000 as proceeds on the disposal of bridges in 2007.

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

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

	2008	2007
Plant, equipment and timber write-downs	\$ 31,427	\$ -
Severance and other restructuring costs, net of recoveries	4,852	1,975
Other	1,026	-
	\$ 37,305	\$ 1,975

During 2008, the Company permanently closed both its Albion remanufacturing operation located in Maple Ridge, B.C., and its Queensboro sawmill located in New Westminster, B.C. The Company recorded severance and remediation costs totaling \$5,437,000 related to the permanent closures as well as an impairment charge of \$29,750,000 on the plant and equipment to reduce the carrying values of these assets to estimated fair values.

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

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

In 2007, the Company recorded severance and other restructuring costs totalling \$2,315,000 in respect of early retirements and contractor buyouts, partially offset by the recovery of \$340,000 from the B.C. Forestry Revitalization Trust set up by the Government of British Columbia as reimbursement for severance costs of workers who were displaced by the reductions in harvesting rights taken under the *Forestry Revitalization Act*.

As at December 31, 2008, \$2,850,000 (2007 - \$2,115,000) in severance and other cash restructuring costs are included in accounts payable and accrued liabilities. The Company expects to pay this amount in 2009 in accordance with its restructuring plans. In addition, a further \$862,000 (2007 - \$nil) in other restructuring reserves are also included in accounts payable and accrued liabilities.

International Forest Products Limited

25

Notes to Consolidated Financial Statements

Years ended December 31, 2008 and 2007

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

15. Income taxes:

Future income taxes are determined as follows:

	2008	2007
Future income tax assets:		
Losses carried forward	\$ 47,440	\$ 25,035
Reforestation, restructuring and other accruals deductible when paid	10,390	8,571
Tax credits	1,149	203
	58,979	33,809
Valuation allowance	(18,336)	-
	40,643	33,809
Future income tax liabilities:		
Property, plant and equipment	(51,782)	(36,544)
Other	(130)	(262)
	\$ (11,269)	\$ (2,997)
Current future income tax assets	\$ 2,890	\$ 3,083
Non-current future income tax assets	-	7,000
Non-current future income tax liabilities	(14,159)	(13,080)
	\$ (11,269)	\$ (2,997)

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

	2008	2007
Income tax expense (recovery) at the statutory rate of 31.00% (2007 – 34.12%)	\$ (21,488)	\$ (9,213)
Valuation allowance on U.S. future income tax assets	15,057	-
Non-taxable income of investments accounted for by the equity method	(1,496)	(74)
Entities with different tax rates	(1,122)	(621)
Non-taxable portion of capital losses (gains)	331	(590)
Decrease in future income tax rates	(1,157)	(1,171)
Other	(2,248)	(2,014)
	\$ (12,123)	\$ (13,683)

The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately \$133,000,000 (2007 - \$69,700,000) expire between 2014 and 2028, and are available to reduce future taxable income. The Company has provided a valuation allowance in respect of approximately \$49,000,000 of its U.S. operating loss carry-forwards, net of temporary differences. The Company has \$252,000 (2007 - \$203,000) of Alternative Minimum Tax Credits arising from its U.S. operations which have an indefinite carry-forward. The Company also has B.C. Manufacturing and Processing tax credit and Canadian investment tax credit carry-forwards of \$897,000 which expire between 2010 and 2014.

16. Commitments and contingencies:

(a) Operating leases and contractual obligations:

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

2009	\$ 11,330
2010	4,430
2011	2,930
2012	2,450
2013	1,930

(b) Central and North Coast Land Use Decisions:

On February 7, 2006, the Crown announced land use decisions for the Central Coast and the North Coast containing detailed agreements for the use and management of public lands in the region.

On September 29, 2006, the Chief Forester of the Crown announced temporary reductions in the allowable annual cut ("AAC") in the plan areas by 572,000 cubic metres. The Company's portion of this reduction is estimated to be 127,000 cubic metres, or approximately 8% of the Company's AAC within this region. In addition, the land use decisions affected several timber licences (temporary tenures) that represented approximately 5% of the harvesting rights in the region.

The Crown acknowledged that licensees would be fairly compensated for the return of tenure and related infrastructure costs. In 2008, the Company received \$4,750,000 in compensation for the loss of logging rights for timber licences, forestry and engineering work and other expenditures related to the timber returned pursuant to the decisions. Compensation received as settlement of expenditures previously expensed was recorded as a recovery of production costs in 2008. The amount and timing of any further compensation payable to Interfor as a result of AAC reductions is not yet determinable, and will be recorded when the amounts can be reasonably estimated.

(c) Surety Performance Bonds

The Company has posted \$6,611,000 in surety performance bonds, with expiry dates ranging March 2009 through August 2014.

(d) Commitment

In early 2008, the Company entered into an agreement, subject to certain approvals, to acquire a timber tenure in the Kamloops region currently owned by Weyerhaeuser Company Limited. The Company expects to conclude this agreement during 2009.

(e) Contingency

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

(f) Other contingencies:

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

17. Net earnings per share:

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

	2008			2007		
	Net loss	Weighted average number of Shares	Per share	Net loss	Weighted average number of Shares	Per share
Basic earnings						
(loss) per share	\$ (57,191)	47,109	\$ (1.21)	\$ (13,321)	47,575	(0.28)
Share options	-	45*	-	-	556*	-
Diluted earnings						
(loss) per share	\$ (57,191)	47,109	\$ (1.21)	\$ (13,321)	47,575	\$ (0.28)

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

18. Pension and other post-retirement plans:

In Canada, the Company maintains savings and retirement plans which include a Group Registered Retirement Savings Plan ("RRSP") and a Deferred Profit Sharing Plan ("DPSP") that are available to all salaried employees, a defined benefit pension plan that is available to all hourly employees not covered by a union pension plan, and a defined benefit pension plan and post-retirement medical and life insurance plan for certain unionized employees in the Interior of B.C. In addition, the Company contributes to an industry-wide defined benefit pension plan for United Steelworkers unionized employees.

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

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

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Company to its funded pension plans, cash contributed to the DPSP and 401(k) plans, cash contributed to a multiemployer defined benefit pension plan, and cash paid under senior management supplementary pension plans was \$5,837,000 (2007 - \$6,419,000).

(a) RRSP AND DPSP for Canada:

In Canada, all salaried employees of the Company are provided with the opportunity of making voluntary contributions based on a percentage of an employee's earnings to the RRSP. The Company matches employees' RRSP contributions in the DPSP with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions. For the DPSP, the Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2008, the pension expense for this plan is equal to the Company's contribution of \$1,273,000 (2007 - \$1,688,000).

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

(b) Defined benefit plans:

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

	Other Post-retirement Benefits		Pension Benefits	
	2008	2007	2008	2007
Accrued benefit obligation:				
Beginning of year	\$ -	\$ -	\$ 21,738	\$ 18,203
Acquisitions (note 2)	1,010	-	8,915	-
Actuarial (gain) loss	-	-	-	2,595
Service cost	13	-	390	557
Interest cost on accrued benefit obligation	40	-	1,539	1,153
Benefit payments	(37)	-	(1,297)	(770)
Impact of new discount rate at year-end	(152)	-	(5,974)	-
End of year	874	-	25,311	21,738
Plan assets:				
Fair value, beginning of year	-	-	21,361	19,611
Acquisitions (note 2)	-	-	8,031	-
Expected return on plan assets	-	-	1,892	1,424
Employer contributions	37	-	2,347	1,971
Employee contributions	-	-	116	270
Benefit payments	(37)	-	(1,297)	(770)
Actuarial gain (loss)	-	-	(6,875)	(1,145)
Fair value, end of year	-	-	25,575	21,361
Funded status				
- plan surplus (deficit)	(874)	-	264	(377)
Unamortized actuarial loss (gain)	(152)	-	5,918	5,252
Accrued benefit asset (liability) \$	(1,026) \$	- \$	6,182 \$	4,875 \$
Plan assets consist of:				
Asset category			2008	2007
			Percentage of plan assets	
Equity securities			56%	62%
Debt securities			40%	35%
Other			4%	3%
Total			100%	100%

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

(b) Defined benefit plans (continued):

The Company's accrued benefit asset (liabilities) are included in the Company's balance sheet as follows (notes 5 and 10):

	Post-Retirement Benefits		Pension Benefits	
	2008	2007	2008	2007
Investments and other assets	\$ -	\$ -	\$ 6,581	\$ 4,875
Accounts payable and accrued liabilities	(40)	-	-	-
Other long-term liabilities	(986)	-	(399)	-
	\$ (1,026)	\$ -	\$ 6,182	\$ 4,875

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

	Post-Retirement Benefits		Pension Benefits	
	2008	2007	2008	2007
Current service cost	\$ 13	\$ -	\$ 274	\$ 279
Interest cost	40	-	1,539	1,153
Expected return on plan assets	-	-	(1,892)	(1,424)
Amortization of experience losses	-	-	235	169
	\$ 53	\$ -	\$ 156	\$ 177

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

	Post-Retirement Benefits		Pension Benefits	
	2008	2007	2008	2007
Accrued benefit obligation as of December 31				
Discount rate	7.25%	-	7.25%	5.5%
Compensation increases ¹	-	-	3.5%	Not applicable
Pension expense				
Discount rate ²	6.0%	-	5.5%	5.5%
Expected return on plan assets	-	-	7.0%	7.0%
Compensation increases ¹	3.5%	-	Not applicable	Not applicable

For measurement purposes at December 31, 2008, Interfor has assumed a 7.60% health care cost trend in 2009 grading down to 4.27% in 2015 (2007 – not applicable).

¹Compensation increases only relate to the Canadian Merchant Service Guild ("CMSG") plans.

²The discount rate for the CMSG pension plan was 6%.

(c) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2008, the pension expense for these plans is equal to the Company's contribution of \$1,492,000 (2007 - \$1,476,000). The Company's liability is limited to its contributions.

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

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

For the 401(k) plan, IPI and Cedarprime Inc., the Company's U.S. operating subsidiaries, match employee contributions based on a percentage of the employee's earnings and vest immediately. The Company's funding obligations are satisfied upon crediting contributions to an employee's account. For 2008, the pension expense for this plan is equal to the Company's contribution of \$495,000 (2007 - \$582,000).

A second component to the 401(k) plan with contributions based on a discretionary profit sharing allocation was replaced with the matching component in 2005. Previous contributions under profit sharing allocation component continue to vest in years two through six of employment at a rate of 20% per annum. During 2008 the Company made no cash contributions (2007 - \$nil) and recorded no expense in respect of this component of the plan (2007 - \$nil).

(e) Senior management supplementary pension plans:

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

The Company also maintains a defined benefit pension plan for the survivor of a retired senior executive. The accrued benefit obligation is \$761,000 (2007 - \$947,000), of which \$304,000 (2007 - \$415,000) is funded.

The amounts accrued are as follows:

	2008	2007
Accrual for defined contribution commitments	\$ 3,361	\$ 3,058
Accrual for defined benefit commitments	457	532

19. Related party transactions:

Lumber sales to a significant shareholder amounted to \$1,021,000. In 2007 the Company had lumber sales to an affiliate of a significant shareholder in the amount of \$511,000. Shipping services provided by Seaboard totaled \$5,553,000 (2007 - \$7,991,000). These transactions were conducted on a normal commercial basis, including terms and prices.

20. Segmented information:

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

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

	2008	2007
Canada	\$ 162,825	\$ 222,276
United States	162,352	272,571
Japan	40,823	51,402
Other export	71,221	64,759
	\$ 437,221	\$ 611,008

20. Segmented information (continued):

Sales by product line are as follows:

	2008	2007
Lumber	\$ 297,434	\$ 434,468
Logs	103,620	118,571
Wood chips and other by products	30,610	50,260
Other	5,557	7,709
	\$ 437,221	\$ 611,008

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

	2008	2007
Canada	\$ 317,141	\$ 232,988
United States	197,887	138,529
	\$ 515,028	\$ 371,517

21. Capital management:

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

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

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

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

22. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2008, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of \$168,003,000 (2007 - \$34,696,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

22. Financial instruments (continued):

(b) Derivative financial instruments:

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

As at December 31, 2008, the Company has outstanding obligations to sell a maximum of US\$4,500,000 at an average rate of US\$1.2339 to the CAD\$1.00, sell Japanese ¥51,000,000 at an average rate of ¥83.11 to the CAD\$1.00, and Japanese ¥65,000,000 at an average rate of ¥92.85 to the USD\$1.00, and sell Euros €90,000 at an average rate of \$1.5908 to the CAD\$1.00 during 2009. All foreign currency gains or losses to December 31, 2008 have been recognized in the Statement of Operations and the fair value of these foreign currency contracts of \$113,000 has been recorded in accounts payable and accrued liabilities. In 2008, the Company had entered into a forward contract to purchase US\$15,000,000 which was unwound at December 31, 2008, and the Company recorded \$3,657,000 in realized foreign exchange gains.

During September 2005, the Company entered into a cross currency interest rate swap. The Company has agreed to receive US\$20,000,000 at maturity on September 1, 2009 in exchange for payment of CAD\$23,530,000 (an exchange rate of 1.1765). In addition, during the term of the swap the Company will pay an amount based on annual interest of 5.84% on the CAD\$23,530,000 and will receive 90 day LIBOR plus a spread of 200 basis points on the US\$20,000,000. LIBOR will be recalculated at set interval dates. The swap will mature on September 1, 2009 and has been marked to market with all gains or losses on the swap recognized in the Statement of Operations and total foreign exchange gains of \$4,179,000 recognized in 2008 (2007 - \$3,584,000 loss). The fair value of this cross currency interest rate swap is \$409,000 at December 31, 2008 and has been recorded in accounts receivable (2007 - \$3,584,000 fair value recorded in accounts payable and accrued liabilities).

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

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

The Company had previously designated its US\$35,000,000 dollar Non-Revolving Term Line as a hedge against its investment in its self-sustaining U.S. operations. Effective April 1, 2007, the Company terminated the designation of the hedging relationship and discontinued its hedge accounting. Previously recognized unrealized foreign exchange gains of \$5,544,000 as a result of applying hedge accounting continue to be recorded in Accumulated Other Comprehensive Income. Unrealized foreign exchange losses of \$7,934,000 (2007 - \$5,716,000 gain) were recorded in Other foreign exchange gain (loss) in the Statement of Operations.

(d) Financial risk management:

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

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

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

22. Financial instruments (continued):

(d) Financial risk management (continued):

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

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

(i) Credit risk:

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

Accounts receivable

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

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

The Company regularly reviews the collectibility of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and based on this past experience, the Company believes that no impairment allowance is necessary in respect of trade accounts receivable past due. As at December 31, 2008, there were no trade accounts receivable past due which were considered uncollectible (2007 - \$nil), and no reserve in respect of doubtful accounts was set up (2007 - \$nil).

Deposits

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

Guarantees

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

Exposure to credit risk

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

22. Financial instruments:

(d) Financial risk management (continued):

(i) Credit risk (continued):

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

	2008
Canada	\$ 7,644
United States	8,728
Japan	3,976
Other	5,093
	\$ 25,441

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations.

The Company also maintains a revolving Canadian Operating Line and a U.S. Operating Line of credit that can be drawn down to meet short-term financing needs.

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

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
Operating Line (note 23(c))	\$ 31,837	\$ 31,837	\$ -	\$ -	\$ -
Long-term debt	137,414	-	137,414	-	-
Reforestation liability	24,345	8,660	7,153	4,652	3,880
Other long-term liabilities	17,698	5,291	5,003	1,393	6,011
Operating leases and contractual commitments	25,380	11,330	7,360	4,380	2,310
Total contractual obligations	\$236,674	\$ 57,118	\$156,930	\$ 10,425	\$ 12,201

On February 5, 2009, the Company received a financing commitment with respect to its Operating Line and Revolving Term Line from its lenders, details of which are described in note 23(c). The maturity date of the Operating Line will be extended 364 days to April 23, 2010.

(iii) Market risk:

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

22. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk

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

At December 31, 2008, the Company has US\$ drawings under its Revolving Term Line of US\$30,200,000 (2007 – US\$nil). The US\$ drawings under this Line have been designated as a hedge against the investment in the Company's self-sustaining U.S. operations.

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

As at December 31, 2008, the Company's accounts receivable were denominated in the following currencies:

	CAD	USD	Japanese ¥
Accounts receivable	11,936	6,176	6,623
Accounts receivable held by self-sustaining foreign subsidiaries	-	4,855	-
	11,936	11,031	6,623

As at December 31, 2008, the domestic operations of the Company held cash and cash equivalents of US\$179,000 and bank indebtedness of \$26,786,000. Bank indebtedness of self-sustaining and other foreign U.S. subsidiaries totalled US\$3,913,000.

Based on the Company's net exposure to foreign currencies as at December 31, 2008, including USD denominated cash held in deposits and cash equivalents and USD denominated debt and other USD denominated financial instruments, the sensitivity of the USD balances to the Company's net annual earnings is as follows:

U.S. Dollar	\$0.01 increase vs CAD\$	\$500,000 increase in net income
Japanese Yen	1 ¥ increase vs CAD\$	\$50,000 increase in net income

Interest rate risk

The Company reduces its exposure to changes in interest rates on borrowings by entering into cross currency interest rate swaps, as described in Note 22(b) Derivative financial instruments.

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

Other market price risk

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

23. Subsequent events:

(a) Seaboard Partnership income distribution:

On January 2, 2009, the Seaboard Partnership declared an income distribution to its partners. Interfor's share was \$3,651,000 and was paid to the Company by way of setoff against the promissory note payable to the Seaboard Partnership.

(b) Property sale:

On December 31, 2008, the Company received a non-refundable deposit in respect of the sale of one of its properties classified as held for sale. This sale is expected to close in early 2009 for net proceeds of \$4,150,000.

(c) Bank financing

On February 5, 2009, the Company obtained a written financing commitment from its lenders in respect of its syndicated credit facilities. The Operating Line will decrease from \$100,000,000 to \$65,000,000 and the maturity date will be extended 364 days to April 23, 2010. In addition, the Revolving Term Line will increase from \$115,000,000 to \$150,000,000, with no change to its maturity date. Except for an increase in pricing, all other terms and conditions of the lines remain substantially unchanged.