



International Forest Products Limited

Vancouver, B.C.

February 12, 2009

Difficult Business Conditions Impact Interfor's 4th Quarter Results

Production curtailments limit inventory exposure;
credit facilities modified to extend maturities and improve access

INTERNATIONAL FOREST PRODUCTS LIMITED ("Interfor" or the "Company") (TSX: IFP.A) reported a net loss of \$3.4 million (\$0.07 per share) for the fourth quarter of 2008, before a non-cash valuation allowance of \$15.1 million (\$0.32 per share) relating to future income tax assets. This compares to a net loss of \$8.9 million (\$0.19 per share) in the fourth quarter of 2007. Including the valuation allowance, Interfor's net loss in the fourth quarter of 2008 was \$18.5 million (\$0.39 per share).

The loss for the quarter includes a one-time recovery of export taxes pursuant to the Softwood Lumber Agreement (\$0.4 million after-tax, or \$0.01 per share) and a recovery of previously expensed costs associated with a timber takeback by the Province of British Columbia (\$1.6 million after-tax, or \$0.03 per share).

Interfor's results for the fourth quarter reflect the sharp decline in business conditions and product prices which began in mid-September.

In the face of reduced demand, operations were actively curtailed in the quarter to limit inventory exposure. Lumber production totalled 118 million board feet compared to 150 million board feet in the fourth quarter of 2007 and 148 million board feet in the immediately preceding quarter. At the indicated rate, the Company's mills operated at less than 40% of available capacity in the fourth quarter.

Lumber sales totalled 133 million board feet compared to 161 million board feet in the fourth quarter of 2007 and 132 million board feet in the third quarter of 2008.

In spite of the difficult business environment and lower production level, EBITDA was positive in the fourth quarter at \$2.0 million, compared to negative \$4.6 million in the same quarter last year.

Cash generated from operations in the fourth quarter was \$5.8 million before changes in working capital and negative \$2.6 million after changes in working capital were taken into account.

Capital spending amounted to \$31.0 million including \$25.7 million on the new Adams Lake sawmill.

After taking account of capital spending, the Company ended the quarter with net debt of \$167.8 million, or 29.2%, of invested capital.

Subsequent to the end of the quarter, the Company obtained a commitment from its lending syndicate to modify its credit facilities, effective April 24, 2009. Under the terms of the commitment, \$35 million will be added to the Company's Revolving Term Line, bringing the amount available under that facility to \$150 million. The maturity date of the line remains unchanged at April 24, 2011. In addition, the maturity date of the Company's Operating Line of Credit will be extended from April 24, 2009 to April 23, 2010. The amounts available under the Operating Line will be reduced from a maximum of \$100 million to \$65 million. The Company's Non-Revolving Term Line of US\$35 million remains unchanged, maturing September 1, 2010. The modifications will enable the Company to fully utilize its credit lines during periods of reduced operating activity and is expected to be sufficient to meet the Company's foreseeable requirements.

The financial crisis impacting the global economy has had a material effect on lumber consumption worldwide, particularly in the United States. Product prices fell sharply in January, but have recovered somewhat in recent weeks as curtailments throughout the industry reduce available supply. In light of the uncertain economic environment, Interfor will maintain its disciplined approach to production and strict controls on capital spending.

Construction at Adams Lake, is on-time and on-budget, with approximately \$16 million left to spend on the project as at year-end. The first line of the new mill was commissioned in 2008 with very encouraging results; a full start-up of the mill is scheduled for the second quarter of 2009.

Forward-Looking Statements

This release contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words "will" and "is expected" and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign-currency exchange rates and other factors referenced herein and in Interfor's current annual report and management information circular available on www.sedar.com. The forward-looking information and statements contained in this report are based on Interfor's current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

ABOUT INTERFOR

Interfor is one of the Pacific Northwest's largest producers of quality wood products. The Company has operations in British Columbia, Washington and Oregon, including two sawmills in the Coastal region of British Columbia, three in the B.C. Interior, two in Washington and two in Oregon. For more information about Interfor, visit our website at www.interfor.com.

There will be a conference call on Friday, February 13, 2009 at 8:00 AM (Pacific Time) hosted by **INTERNATIONAL FOREST PRODUCTS LIMITED** for the purpose of reviewing the Company's release of its Fourth Quarter, 2008 Financial Results.

The dial-in number is **1-866-400-3310**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until February 27, 2009. The number to call is **1-866-245-6755 Passcode 191906**.

For further information:

John A. Horning
Senior Vice President, Chief Financial Officer and Corporate Secretary
(604) 689-6829



CONSOLIDATED STATEMENTS OF OPERATIONS

For the three months and years ended December 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Sales	\$ 93,490	\$ 115,390	\$ 437,221	\$ 611,008
Costs and expenses:				
Production	90,746	116,528	411,479	560,348
Selling and administration	3,554	3,637	16,867	16,776
Long term incentive compensation expense (recovery)	(909)	(998)	(1,990)	(476)
Export taxes	319	808	3,433	8,755
Amortization of plant and equipment	4,484	6,774	21,846	30,129
Depletion and amortization of timber, roads and other	3,412	3,969	19,619	20,726
	101,606	130,718	471,254	636,258
Operating loss before restructuring costs	(8,116)	(15,328)	(34,033)	(25,250)
Restructuring costs (note 12)	(787)	(335)	(37,305)	(1,975)
Operating loss	(8,903)	(15,663)	(71,338)	(27,225)
Interest expense on long-term debt	(2,001)	(617)	(4,543)	(2,835)
Other interest income (expense)	(463)	400	(588)	4,163
Other foreign exchange gain (loss)	884	(193)	912	(7,308)
Other income (note 11)	255	172	1,418	5,983
Equity in earnings of investee companies	1,925	(159)	4,825	218
	600	(397)	2,024	221
Loss before income taxes	(8,303)	(16,060)	(69,314)	(27,004)
Income taxes (recovery):				
Current	(5,677)	(5,965)	(18,533)	(9,570)
Future	15,904	(1,158)	6,410	(4,113)
	10,227	(7,123)	(12,123)	(13,683)
Net loss	\$ (18,530)	\$ (8,937)	\$ (57,191)	\$ (13,321)
Net loss per share, basic and diluted (note 13)	\$ (0.39)	\$ (0.19)	\$ (1.21)	\$ (0.28)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

For the years ended December 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	Year Dec. 31, 2008	Year Dec. 31, 2007
Retained earnings, beginning of year, as restated (note 2(d))	\$ 170,584	\$ 183,905
Net loss	(57,191)	(13,321)
Retained earnings, end of period	\$ 113,393	\$ 170,584

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months and years ended December 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Cash provided by (used in):				
Operating activities:				
Net loss	\$ (18,530)	\$ (8,937)	\$ (57,191)	\$ (13,321)
Items not involving cash:				
Amortization of plant and equipment	4,484	6,774	21,846	30,129
Depletion and amortization of timber, roads and other	3,412	3,969	19,619	20,726
Future income taxes (recovery)	15,904	(1,158)	6,410	(4,113)
Other assets	(586)	(300)	(544)	1,030
Reforestation liability	(669)	(2,256)	(4,421)	(1,336)
Other long-term liabilities	(986)	(570)	(1,678)	257
Share of earnings net (in excess) of cash distributions of investee company	(1,925)	159	(4,825)	4,151
Write-down of plant, equipment and timber (note 12)	434	-	31,427	-
Unrealized foreign exchange losses (gains)	4,556	(123)	3,941	(6,094)
Other	(292)	(108)	(1,541)	(6,117)
	5,802	(2,550)	13,043	25,312
Cash generated from (used in) operating working capital:				
Accounts receivable	7,752	(2,504)	13,335	12,438
Inventories	12,306	12,447	12,025	2,791
Prepaid expenses	1,191	961	(117)	(2,289)
Accounts payable and accrued liabilities	(22,312)	(14,411)	(16,358)	(46,839)
Income taxes	(7,333)	(3,700)	(8,187)	(36,399)
	(2,594)	(9,757)	13,741	(44,986)
Investing activities:				
Additions to property, plant and equipment	(27,554)	(11,433)	(73,364)	(44,726)
Additions to deferred start-up costs	-	-	-	(959)
Additions to logging roads and timber	(3,448)	(4,200)	(17,512)	(28,340)
Proceeds on disposal of property, plant, equipment, timber and roads	3,121	272	5,096	8,256
Acquisitions (note 5)	7,010	-	(76,919)	-
Deposit held in escrow for acquisition (note 5)	-	(8,761)	8,943	(8,761)
Investments and other assets	(384)	(1,135)	(2,116)	(2,010)
	(21,255)	(25,257)	(155,872)	(76,540)
Financing activities:				
Repurchase of share capital (note 10)	-	-	-	(9,846)
Issuance of share capital (note 10)	-	-	56	892
Increase (decrease) in bank indebtedness	25,191	-	30,589	(582)
Proceeds from loan from Seaboard (note 9)	3,651	-	3,651	-
Additions to long-term debt (note 8(b))	5,000	-	139,064	-
Repayments of long-term debt (note 8(b))	(10,000)	-	(48,925)	-
	23,842	-	124,435	(9,536)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency				
	191	(697)	85	(314)
Decrease in cash and cash equivalents	184	(35,711)	(17,611)	(131,376)
Cash and cash equivalents, beginning of period	-	53,506	17,795	149,171
Cash and cash equivalents, end of period	\$ 184	\$ 17,795	\$ 184	\$ 17,795
Supplementary disclosures				
Cash interest paid (received)	\$ 2,464	\$ 217	\$ 5,131	\$ (1,328)
Cash income taxes paid (received)	(123)	(1,757)	(12,330)	26,977

See accompanying notes to consolidated financial statements



CONSOLIDATED BALANCE SHEETS

December 31, 2008 and December 31, 2007 (unaudited)

(thousands of Canadian dollars)

	Dec. 31, 2008	Dec. 31, 2007
	restated - note 2(d)	restated - note 2(d)
Assets		
Current assets:		
Cash and cash equivalents	\$ 184	\$ 17,795
Deposit (note 5)	-	8,761
Accounts receivable	25,441	37,172
Income taxes recoverable	16,225	8,838
Inventories (note 7)	78,991	76,429
Prepaid expenses	7,779	6,267
Future income taxes	2,890	3,083
	131,510	158,345
Investments and other assets (note 2(d))	19,372	12,270
Property, plant and equipment, net of accumulated amortization	396,387	300,150
Timber and logging roads, net of accumulated depletion and amortization	90,425	55,050
Goodwill and other intangible assets	13,078	13,078
Future income taxes	-	7,000
Long-lived assets held for sale (note 6)	15,138	3,239
	\$ 665,910	\$ 549,132
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 19(a))	3,651	-
	79,403	49,999
Reforestation liability, net of current portion	15,685	11,874
Long-term debt (note 8(b))	137,414	34,696
Other long-term liabilities	12,407	8,859
Future income taxes	14,159	13,080
Shareholders' equity:		
Share capital (note 10)		
Class A subordinate voting shares	284,500	284,444
Class B common shares	4,080	4,080
Contributed surplus	5,408	5,408
Accumulated other comprehensive income (loss)	(539)	(33,892)
Retained earnings (note 2(d))	113,393	170,584
	406,842	430,624
	\$ 665,910	\$ 549,132

Commitment and Contingencies (note 18)

Subsequent events (note 19)

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder
Chairman

H.C. Kalke
Director



CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months and years ended December 31, 2008 and 2007 (unaudited)

(thousands of Canadian dollars)	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Net loss	\$ (18,530)	\$ (8,937)	\$ (57,191)	\$ (13,321)
Other comprehensive income (loss), net of income taxes (recovery):				
Net change in unrealized foreign currency translation gains (losses)	20,845	(1,172)	33,353	(27,531)
Other comprehensive income (loss)	20,845	(1,172)	33,353	(27,531)
Comprehensive income (loss)	\$ 2,315	\$ (10,109)	\$ (23,838)	\$ (40,852)

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)
For the years ended December 31, 2008 and December 31, 2007 (unaudited)

(thousands of Canadian dollars)	Year Ended Dec. 31, 2008	Year Ended Dec. 31, 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 period	\$ (539)	\$ (33,892)

See accompanying notes to consolidated financial statements

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

1. Significant accounting policies:

These unaudited interim consolidated financial statements include the accounts of International Forest Products Limited and its subsidiaries (collectively referred to as "Interfor" or the "Company"). These interim consolidated financial statements do not include all disclosures required by Canadian generally accepted accounting principles for annual financial statements, and accordingly, these interim consolidated financial statements should be read in conjunction with Interfor's most recent audited annual consolidated financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application used in the Company's audited annual consolidated financial statements as at and for the year ended December 31, 2008.

2. Adoption of changes in accounting policies:

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.

(a) Capital disclosures:

CICA Handbook 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 16 for additional disclosures.

(b) Inventories:

CICA 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 write downs.

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 of 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.

The adoption of this new standard had no financial effect on the comparative consolidated financial statements of the Company. Refer to Note 7 for additional disclosures.

(c) Financial instruments – Disclosure and Presentation:

CICA 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 17 for additional disclosures.

(d) Equity investment:

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

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

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

3. Comparative figures:

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

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

4. Seasonality of operating results:

The Company operates in the solid wood business which includes logging and manufacturing operations. Logging activities vary throughout the year due to a number of factors including weather, ground and fire season conditions. Generally, the Company operates the bulk of its logging divisions in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Manufacturing operations are less seasonal than logging operations but do depend on the availability of logs from the logging operations and from third party suppliers. In addition, the market demand for lumber and related products is generally lower in the first quarter due to reduced construction activity which increases during the spring, summer and fall.

5. Acquisitions:

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

The purchase price of each of these 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 5(a))	Beaver and Forks acquisition (note 5(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
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

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

5. 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.

6. 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 19(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.

7. Inventories:

	Dec. 31, 2008	Dec. 31, 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 in order to record inventory at the lower of cost and net realizable value at December 31, 2008 was \$20,270,000 (December 31, 2007 - \$16,019,000).

8. Cash, bank indebtedness and long-term debt:

(a) Bank indebtedness:

	Canadian Operating Facility	U.S. Operating Facility	Total
2008			
Available line of credit	\$ 100,000	\$ 12,180	\$ 112,180
Maximum borrowing available	54,234	7,836	62,070
Operating Line borrowings	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 borrowings	-	-	-
Outstanding letters of credit included in line utilization	4,818	119	4,937
Unused portion of line	35,182	9,794	44,976

In the second quarter of 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 19(c).

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

8. Cash, bank indebtedness and long-term debt (continued):

(a) Bank indebtedness (continued):

In the second quarter of 2008, there was an increase to the interest rate margins in the U.S. operating line of credit ("U.S. Line") and in the third quarter, 2008, the maturity date was extended to April 24, 2009 and the Company provided a parent guarantee on the line. 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") and is secured by a security interest in the accounts receivable and inventories of the U.S. operating subsidiary.

Offsetting drawings under the operating lines at December 31, 2008 are cash balances less outstanding cheques of \$1,249,000 (2007 - \$nil).

(b) Long-term debt:

On April 25, 2008, 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 and an extension of the maturity date to April 24, 2011. 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.

To fund the Kootenay and Beaver acquisitions and the Adams Lake sawmill capital project, the Company utilized the Revolving Term Line and as at December 31, 2008, the 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 (December 31, 2007 - \$nil) leaving an unused available line of \$20,216,000.

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 19(c).

The U.S. dollar non-revolving term line (the "Non-Revolving Term Line") remains fully drawn at US\$35,000,000 (December 31, 2007 - US\$35,000,000) and was revalued at the quarter-end exchange rate to \$42,630,000 (December 31, 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 premium depending upon a financial ratio or, at the Company's option, at rates for LIBOR based loans plus a margin. The foreign exchange loss of \$7,934,000 (December 31, 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.

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 note 19(a)).

10. Share capital:

On November 9, 2006, the Company commenced a normal course issuer bid ("NCIB 05") to acquire up to 2,366,000 Class A Subordinate Voting shares ("Class A Shares"). NCIB 05 terminated on November 8, 2007. Purchases are made at market prices with a maximum of two percent of the outstanding shares being purchased in any 30-day period. As the Company acquired Class A shares, the shares were cancelled and the excess of the cost of the shares over the assigned value was charged to contributed surplus.

On January 3, 2008, the Company commenced a normal course issuer bid ("NCIB 06") to acquire up to 1,300,000 Class A shares (representing approximately 2.8% of the outstanding Class A shares) through the facilities of the Toronto Stock Exchange. The Company did not repurchase any Class A shares through the normal course issuer bid in 2008. NCIB 06 terminated on January 7, 2009.

The Company also issued Class A shares as previously granted share options were exercised. There were no changes to the Class B shares.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

10. Share capital (continued):

The transactions in share capital are described below:

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Acquisitions under normal course issuer bid				
Number of shares purchased and cancelled	-	-	-	1,220,100
Cost	\$ -	\$ -	\$ -	\$ 9,846
Excess of cost of shares over assigned value charged to contributed surplus	-	-	-	2,312
Shares issued on exercise of options				
Number of shares	-	-	12,400	189,280
Proceeds	\$ -	\$ -	\$ 56	\$ 892

11. Other income:

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Gain on disposal of surplus plant and equipment, timber, and other	\$ 131	\$ 117	\$ 794	\$ 4,767
Gain on settlement of timber takeback	216	-	747	1,350
Other (expense)	(92)	55	(123)	(134)
	\$ 255	\$ 172	\$ 1,418	\$ 5,983

In the first quarter of 2008, the Company disposed of surplus equipment, generating a gain of \$28,000. In the second quarter of 2008, the Company received compensation through the *Forest Revitalization Act* for obsolete infrastructure due to the timber takeback. This, coupled with additional sales of surplus equipment generated a gain of \$595,000 and sales proceeds of \$837,000.

Additional surplus equipment and a timber licence were sold in the third quarter of 2008, for sales proceeds of \$1,110,000 and a gain of \$627,000. In the fourth quarter of 2008, the Company received further compensation from the Province of British Columbia for a timber takeback in the Central Coast which combined with further disposals of surplus equipment to generate additional proceeds of \$3,121,000 and a gain of \$292,000.

In the addition to the sale of its interest in Tree Farm Licence 54 in the first quarter of 2007, the Company disposed of surplus property, plant and equipment throughout 2007. These dispositions combined to generate sales proceeds of \$6,906,000 and a gain of \$4,767,000. Under the terms of the *Forest Revitalization Act*, the Company received \$1,350,000 in additional compensation for lost infrastructure and road construction costs resulting from the 2003 legislated takeback of certain logging rights on the B.C. Coast. This was recorded as proceeds on the disposal of roads in the third quarter of 2007.

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

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Plant, equipment and timber write-downs	\$ 434	\$ -	\$ 31,427	\$ -
Severance and other restructuring costs, net of recoveries	353	335	4,852	1,975
Other	-	-	1,026	-
	\$ 787	\$ 335	\$ 37,305	\$ 1,975

During the first quarter of 2008, the Company recorded severance costs of \$2,240,000, as it permanently closed its Albion remanufacturing operation located in Maple Ridge, B.C., and also offered voluntary severance to hourly workers at its idled Queensboro sawmill located in New Westminster, B.C. In the second quarter of 2008, the Queensboro sawmill was permanently closed following more than one year of curtailment, and further voluntary and permanent shutdown severance and remediation costs totalling \$3,259,000 were recorded, together with an impairment charge of \$29,750,000 on the plant and equipment.

In the third quarter, 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 \$26,000.

The Company took an impairment charge on timber of \$434,000 as well as additional severance costs of \$353,000 in the fourth quarter, 2008.

During the first quarter of 2007, the Company recorded severance costs of \$250,000, net of recoveries 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*. In the second quarter, 2007, the Company recorded additional severance costs of \$1,013,000, and \$377,000 for logging phase contractor buyouts and other restructuring.

The Company recorded net severance costs of \$335,000 in the fourth quarter, 2007, after recoveries of \$252,000 for restructuring costs previously expensed.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

13. Net earnings (loss) per share:

	3 Months Dec. 31, 2008			3 Months Dec. 31, 2007		
	Net loss	Shares	Per share	Net loss	Shares	Per share
Basic earnings (loss) per share	\$ (18,530)	47,117	\$ (0.39)	\$ (8,937)	47,105	\$ (0.19)
Share options	-	-	-	-	332*	-
Diluted earnings (loss) per share	\$ (18,530)	47,117	\$ (0.39)	\$ (8,937)	47,105*	\$ (0.19)

	Year Dec. 31, 2008			Year Dec. 31, 2007		
	Net loss	Shares	Per share	Net loss	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.

14. Segmented information:

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

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

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Canada	\$ 26,341	\$ 52,953	\$ 162,825	\$ 222,276
United States	40,408	47,013	162,352	272,571
Japan	12,625	3,845	40,823	51,402
Other export	14,116	11,579	71,221	64,759
	\$ 93,490	\$ 115,390	\$ 437,221	\$ 611,008

Sales by product line are as follows:

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Lumber	\$ 65,559	\$ 70,754	\$ 297,434	\$ 434,468
Logs	18,311	35,617	103,620	118,571
Wood chips and other by products	8,869	7,169	30,610	50,260
Other	751	1,850	5,557	7,709
	\$ 93,490	\$ 115,390	\$ 437,221	\$ 611,008

The Company has capital assets, goodwill and other intangible assets located in:

	Dec. 31, 2008	Dec. 31, 2007
Canada	\$ 317,141	\$ 232,988
United States	197,887	138,529
	\$ 515,028	\$ 371,517

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

15. Employee future benefits:

The total benefits cost under its various pension, retirement savings and other post-retirement benefit plans, including those acquired through the P&T asset acquisition, are as follows:

	3 Months Dec. 31, 2008	3 Months Dec. 31, 2007	Year Dec. 31, 2008	Year Dec. 31, 2007
Canadian employees deferred profit sharing plan	\$ 286	\$ 512	\$ 1,273	\$ 1,688
Defined benefit plan	62	(183)	156	177
Unionized employees' pension plan	249	160	1,492	1,476
Post-retirement benefits plan	53	-	53	-
U.S. employees 401(k) plan	138	121	495	582
Senior management supplementary pension plan	92	(121)	467	192
Total pension expense	\$ 880	\$ 489	\$ 3,936	\$ 4,115

16. 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 10. 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.

17. 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 (December 31, 2007 - \$34,696,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

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

As at December 31, 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).

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

17. Financial instruments (continued):

(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.

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 (December 31, 2007 - \$nil), and no reserve in respect of doubtful accounts was set up (December 31, 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.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

17. Financial instruments (continued):

(b) Financial risk management (continued):

(i) Credit risk (continued):

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

	Dec. 31, 2008
Canada	\$ 7,644
United States	8,728
Japan	3,976
Other	5,093
	<u>\$ 25,441</u>

(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 (see note 19(c))	\$ 31,837	\$ 31,837	\$ -	\$ -	\$ -
Long-term debt (see note 19(c))	137,413	-	137,413	-	-
Reforestation liability	24,346	8,660	7,154	4,652	3,880
Other long-term liabilities	17,698	5,292	5,003	1,393	6,010
Operating leases and contractual commitments	25,380	11,330	7,360	4,380	2,310
Total contractual obligations	<u>\$ 236,674</u>	<u>\$ 57,119</u>	<u>\$ 156,930</u>	<u>\$ 10,425</u>	<u>\$ 12,200</u>

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 19(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.

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 17(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 (December 31, 2007 - \$USnil). 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 (December 31, 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	-
	<u>11,936</u>	<u>11,031</u>	<u>6,623</u>

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.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

17. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk (continued):

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 17(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.

18. Commitments and contingencies:

(a) Contractual obligations for Adams Lake sawmill construction:

The Company has undertaken commitments under various contracts totalling \$4,827,000 as at December 31, 2008, relating to construction of a new sawmill at its Adams Lake operation in the southern B.C. Interior. These amounts are expected to be paid over the next year.

(b) Softwood Lumber Agreement:

The Softwood Lumber Agreement ("SLA") includes a surge mechanism that increases the export tax by 50% (the "Surge Tax") when the monthly volume of exports exceeds a certain trigger volume, as defined in the SLA. This calculation is based on estimated trailing U.S. lumber consumption. In 2007, the U.S. Coalition for Fair Lumber Imports (the "Coalition") asserted that the consumption volumes used in calculation of the applicability of a surge tax should be based on a 12 month rolling average actual volume. Under current market conditions, the use of actual consumption rather than expected consumption would decrease the surge trigger volume, and could cause the exporters to be liable for additional Surge Tax. This issue was brought before the London Court of International Arbitration ("LCIA").

On March 4, 2008, the LCIA ruled in favour of the Canadian provinces utilizing the export charge only option ("Option A") under the SLA, including the Province of B.C., supporting the Canadian position that Surge Tax was not applicable to shipments to the U.S. over the period under review for Option A provinces.

(c) 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.

(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.

19. 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.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three months and years ended December 31, 2008 and 2007 (unaudited)

19. Subsequent events (continued):

(c) Bank financing:

On February 4, 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.

20. Future Accounting Changes:

(a) 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. The impact of the transition to IFRS on the Company's consolidated financial statements has not been determined.

(b) Goodwill and Intangible Assets

Effective January 1, 2009, the Company will adopt new CICA Handbook Section 3064, *Goodwill and Intangible Assets*. This section replaces CICA Handbook Section 3062, *Goodwill and Intangible Assets*, and establishes revised standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The new standard also provides guidance for the treatment of various preproduction and start-up costs and requires that these costs be expensed as incurred. The Company is still evaluating the full impact of this standard on its consolidated financial statements.



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