



**INTERFOR®**

**2011**

# **Annual Report**

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**International Forest Products Limited**



## International Forest Products Limited

### FINANCIAL HIGHLIGHTS

	2011	2010
	(in millions of dollars, except share and per share amounts)	
<b>Financial Summary</b>		
Sales	758.0	625.6
EBITDA <sup>(1)</sup>	47.0	53.6
Net earnings (loss)	(13.5)	(5.2)
<b>Per Share Data</b>		
Net earnings (loss) per common share		
- basic	(0.25)	(0.11)
- diluted	(0.25)	(0.11)
Price range per share		
\$ High	7.49	6.25
\$ Low	3.50	3.21
Book value per share	7.00	7.34
Cash Flow per share before working capital change	0.81	0.86
Weighted average shares outstanding (millions)	53.6	47.1
<b>Financial Position</b>		
Total assets	614.8	614.6
Total debt <sup>(2)</sup>	110.7	156.0
Total shareholders' equity	390.8	347.5
Invested capital <sup>(1)</sup>	501.5	519.2
<b>Financial Ratios (%)</b>		
Return on average shareholders' equity <sup>(1)</sup>	(3.6%)	(1.1%)
Return on average invested capital, adjusted <sup>(1)</sup>	(1.9%)	0.2%
Net debt as a % of invested capital, adjusted <sup>(1)</sup>	20.4%	29.7%

Notes:

1. See Glossary for definition.
2. Total debt, excluding short-term advances from the Seaboard partnership (2011 - \$nil, 2010 - \$15.7m)

*"Business conditions in 2011 were similar to those of 2010....in spite of these challenges, Interfor moved ahead with a number of initiatives during the year which will serve the Company well in the years ahead."*

*Message to Shareholders – March 2012*

**For further highlights, please see the Message to Shareholders and Management's Discussion and Analysis on the following pages.**



## International Forest Products Limited

### MESSAGE TO SHAREHOLDERS

#### **OVERVIEW**

Business conditions in 2011 were similar to those of 2010 as economic and political issues in the U.S. and concerns over sovereign debt in Europe undermined confidence levels around the world. In spite of these challenges, Interfor moved ahead with a number of initiatives during the year which will serve the Company well in the years ahead.

Highlights for the year included:

- Production and sales volumes were up 14% and 15% respectively versus 2010;
- The Company's "new look" was introduced;
- Sales to China increased by 64%;
- A \$24 million capital upgrade was announced for the Grand Forks and Castlegar sawmills;
- 8.2 million new Class A shares were issued; and
- Our financing agreements were extended to 2015.

These steps, along with others taken in prior years, have added to Interfor's position in the industry and will make the Company stronger and more profitable as markets recover.

I invite you to review the material covered in the next few pages and later in this report and to form your own views on our progress. Please feel free to forward any comments you have to me directly at [duncan.davies@interfor.com](mailto:duncan.davies@interfor.com)

#### **PRODUCTION AND SALES AHEAD OF 2010; FINANCIAL RESULTS OFF SLIGHTLY**

Interfor took advantage of its strong market position to ramp up production and sales activity in 2011.

For the year, production volumes increased to 1.26 billion board feet from 1.11 billion board feet in 2010, representing a capacity utilization rate of approximately 75% for the year.

In the B.C. Interior, the Company benefited from a full year of production at each of its facilities including the Castlegar sawmill which resumed operations in mid-2010.

In the U.S., the Company's sawmills at Molalla and Gilchrist, Oregon ran steadily throughout the year and delivered strong results.

Production at the sawmills in Washington started the year strong but were negatively impacted in the second half of the year by log availability and cost issues resulting from offshore pressure on log supply.

On the B.C. Coast, production levels were off slightly as log supply issues and other factors impacted operating rates at the Hammond and Acorn sawmills.

Sales volumes kept pace with production during the year. Prices, however, were mixed.

After starting the year on a significant uptick, commodity prices tailed off in the second quarter as the economic recovery in the U.S. stalled and domestic policy measures introduced in China affected credit availability and activity levels in that market.

The Random Lengths' Composite Index, which measures pricing levels for a basket of products, increased from US\$271 in the fourth quarter of 2010 to US\$297 in the first quarter of 2011 before settling back to the US\$255-\$270 range for the balance of the year. For the year, the RCLI was US\$272, down from US\$284 in 2010.

More to the point for West Coast producers, the commodity benchmark SPF 2x4 was flat at US\$255 in 2011 versus US\$256 in 2010 while Hem-Fir studs were up slightly to US\$285 versus US\$263 in 2010.

Compounding the issue from a Canadian standpoint was an increase in the value of the C\$ which came in at US\$1.011 in 2011 versus US\$0.971 in 2010.

In financial terms, the benefits of higher production and sales volumes were more than offset by the combination of lower prices, the high C\$ and higher log costs in the U.S.

All-in, Interfor recorded a net loss of \$13.5 million or \$0.25 per share in 2011 on sales of \$758 million compared with a loss of \$5.2 million or \$0.11 per share on sales of \$626 million in 2010. Excluding one-time items and the effects of unrecognized tax assets, the net loss for the year was \$6.4 million or \$0.12 per share compared with a loss of \$3.4 million or \$0.07 per share in 2010. EBITDA, adjusted to exclude one-time items, was \$46.6 million in 2011 compared with \$48.4 million in 2010.

### **NEW IDENTITY INTRODUCED**

Interfor's new identity – which is displayed in a number of places in this report – was introduced in May to very positive reviews. The “new look” replaces the Company's former Interfor, Adams Lake, Interfor Pacific and CedarPrime brands and is a key element of our plan to fully leverage our size and presence in the marketplace.

By all reports, the new identity has been well-received by customers, employees and other stakeholders. We are looking forward to building on the positive elements of the new brand as we grow the Company in the years ahead.

### **SALES TO CHINA CONTINUE TO INCREASE**

Efforts to increase our presence in China continued to pay dividends in 2011 as shipments to that market increased to 365 million board feet from 222 million board feet in 2010.

For the year, shipments to China represented a full 29% of Interfor's total lumber sales compared to 20% in 2010.

We continue to believe the Chinese market holds tremendous potential. The efforts of the B.C. and Canadian governments and by the industry to promote North American construction technology and products fits well with China's rapidly growing requirements.

Equally important, the growth in the Chinese market has enabled North American producers to increase operating rates to a higher level than would otherwise have been possible given conditions in the U.S.

We remain committed to working with our industry counterparts and with the B.C. and Canadian governments to develop the Chinese market and to growing our volumes to that market in the years ahead.

## **CAPITAL UPGRADE ANNOUNCED FOR GRAND FORKS AND CASTLEGAR**

The turnarounds achieved at our Grand Forks and Castlegar sawmills in recent years have been nothing short of remarkable.

After being curtailed for more than two years, the Castlegar sawmill resumed operations in July 2010 following a number of changes to the operating regime at that mill. A similar transformation had taken place at Grand Forks in 2009.

The credit for these changes is due fully to the management and crews at the two mills who found new and constructive ways to work together. Other local stakeholders also contributed to the new spirit of cooperation at Grand Forks and Castlegar.

The net result has been dramatic improvements in productivity, costs, quality and safety at the two mills. Most significantly, both mills have made solid contributions to our financial results since resuming operations.

Building on the positive climate that has been established at Grand Forks and Castlegar we announced plans in November to move forward with a \$24 million capital upgrade to the two mills.

The project at Grand Forks involves the installation of a new small log line to replace the two production lines currently at the mill along with the funds to complete the installation of an automated lumber grading system. The Grand Forks project is budgeted at \$19 million and involves the installation of the same technology installed recently at our Adams Lake facility.

The investment at Castlegar, which totals \$5 million, consists of a series of high return projects including an automated lumber grading system and other projects focused on the mill's process control and optimization systems.

The projects at Grand Forks and Castlegar will be completed by early 2013. When finished, the mills will operate with a combined two-shift capacity of 375 million board feet per year.

## **EQUITY ISSUE BOLSTERS INTERFOR'S BALANCE SHEET; FINANCING AGREEMENTS EXTENDED**

In late March Interfor took advantage of a strong equity market by agreeing to a bought deal equity issue with a group of Canadian underwriters. The transaction, which closed in early April, resulted in the issuance of 8.2 million Class A Shares at a price of \$7 per share. After accounting for issue costs, Interfor received \$54.9 million in net proceeds from the transaction.

At year-end, Interfor had net debt outstanding of \$100.3 million compared with \$146.7 million at the end of 2010 and a net debt to invested capital ratio of 20% compared to 30% a year earlier.

Subsequent to the equity issue, agreement was reached with the members of our banking syndicate to extend our credit facilities to July 2015. All other terms of our credit lines remained substantially the same except for a reduction in pricing.

Maintaining a strong balance sheet has always been a key element of our management philosophy.

By adding to the Company's equity base and extending our credit facilities we have further strengthened the Company's financial position.

We believe both moves will create significant value for our shareholders in the years ahead.

**LONG-STANDING BOARD MEMBER ANNOUNCES RETIREMENT**

Larry Bell, a member of our Board of Directors since 1998 and Lead Director since 2008, announced recently that he would not be standing for re-election at the Company's Annual General Meeting in May.

Larry's steady hand and experience in financial and governance matters have been especially helpful over the years, most particularly during the global financial crisis in 2008-9. His wise counsel will be missed.

On behalf of our Board and senior management I would like to extend our sincere thanks to Larry for his contributions to the Company.

**BUSINESS OUTLOOK IMPROVING BUT UNCERTAINTY REMAINS**

Some positive signs are beginning to emerge in the U.S. and offshore laying the foundation for better market conditions in 2012 and beyond.

In particular, improvements in economic activity in the U.S. along with better housing numbers are beginning to create a more positive tone in that market. In addition, a pick-up in China is helping to tighten demand/supply balances overall with higher prices evident on most items.

It is important, however, to keep things in context.

The housing recovery in the U.S. is fragile at best and the sovereign debt issue in Europe continues to impact confidence levels around the world.

In the face of this uncertainty we believe it is prudent to maintain the same disciplined approach to managing the business that has served us well in recent years.

At the same time, we are actively focused on those items under our control which need to be addressed if we are going to reach our goal of becoming the most profitable, valuable and respected lumber company in the world.

We're convinced we are on the right track and look forward to making good progress in 2012.

Thank you for your patience and support.

Duncan K. Davies  
President & Chief Executive Officer  
March 2012

**International Forest Products Limited**  
**MANAGEMENT DISCUSSION AND ANALYSIS**

**Dated as of February 17, 2012**

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the year ended December 31, 2011 relative to 2010, the Company's financial condition and future prospects. The MD&A should be read in conjunction with Interfor's Annual Information Form and Consolidated Financial Statements for the years ended December 31, 2011 and 2010 filed on SEDAR at [www.sedar.com](http://www.sedar.com). The financial information contained in this MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS") except as noted herein. In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and impairments (reversals) of plant and equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for other income (expense) and other income of the investee company. The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

**FORWARD LOOKING INFORMATION**

This report contains forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included in the description of areas which are likely to be impacted by the description of future cash flows and liquidity under the headings "Overview of 2011", "Strong Financial Position", "Income Taxes", "Financing Activities", "Liquidity and Capital Resources", and "Summary of Contractual Obligations"; changes in accounting policy under the heading "Future Accounting Policy Changes"; and in the description of economic conditions under the heading "Outlook". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumptions as to general business and economic conditions in Canada, the U.S., Japan and China, as well as other factors management believes are appropriate in the circumstances including an assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described in this 2011 annual Management's Discussion and Analysis under "Risks and Uncertainties" and in Interfor's current Annual Information Form available on [www.sedar.com](http://www.sedar.com). Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstance, except as required by law.

**OVERVIEW OF 2011**

North American lumber demand remained weak in 2011 as weak economic conditions and excess housing inventories in the U.S. continued to constrain new home construction. In contrast, higher lumber demand in China helped to offset weak domestic demand and enabled the Company to increase production levels. Chinese demand cooled in the second half of 2011 as the Chinese government took steps to address concerns over inflation and an overheated housing market.

Against this backdrop of challenging economic conditions the Company did achieve a number of highlights in 2011:

- Increased sales revenues of lumber, chips and logs, with substantial increases of lumber and log export volumes to China;
- Improved productivity rates, increased production and lowered manufacturing cost per unit;
- Generated EBITDA of \$47.0 million for the year;

- Increased capital spending on mills and roads to \$36.1 million;
- Extended syndicated credit facilities to 2015 and reduced the pricing;
- Closed a public offering of 8,222,500 Class A Subordinate Voting shares for gross proceeds of \$57.6 million, strengthening the Balance Sheet;
- Launched a new brand initiative to build the Company's presence in the marketplace and support future growth; and
- Received Board approval of the Kootenay Optimization Plan for \$24 million to be spent over 2012 and 2013.

## **Markets and Pricing**

The year commenced with positive signs based on growing U.S. and China market demand, relatively low North American inventories, and improving North American lumber sales and chip prices. North American lumber production levels increased in 2011 over 2010, however the North American and China markets softened during the second half of the year 2011. North American and China lumber inventories began to grow and prices declined through the second and third quarters; although prices did recover somewhat in the fourth quarter, they never reached the highs of the first quarter, 2011. Additionally, our U.S. priced sales returns continued to be impacted by the strong Canadian dollar which, relative to the U.S. dollar, strengthened by four percent in comparison to 2010.

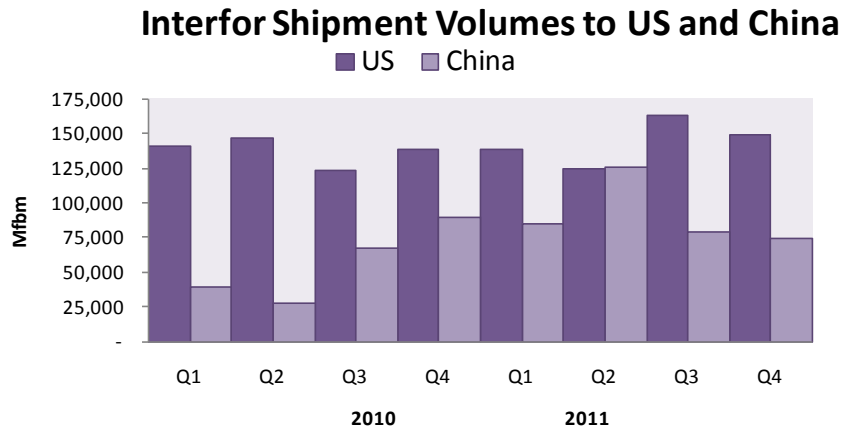
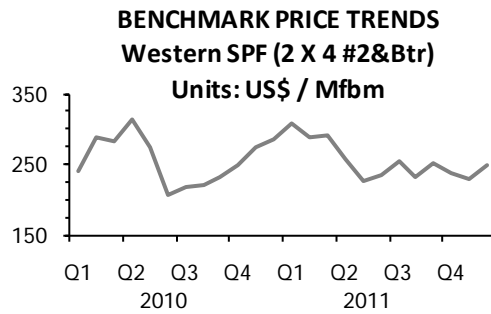
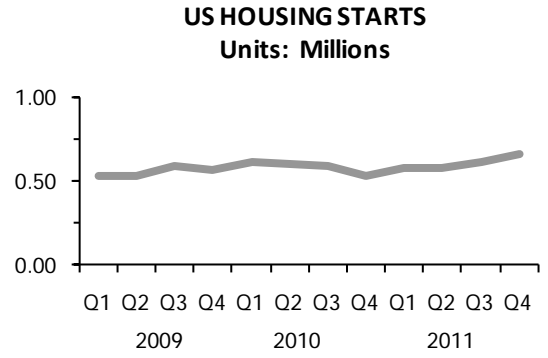
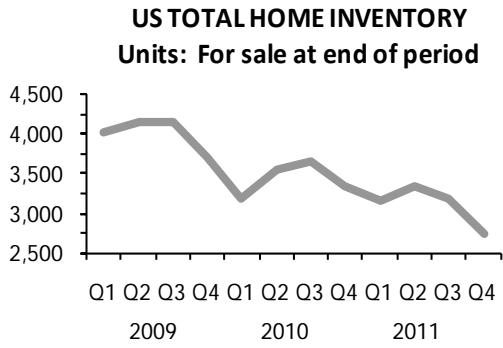
### Lumber

- Structural Lumber

The U.S. market continues to be difficult with high home inventories, the continued overhang of foreclosures and tight credit. 2011 annual housing starts in the U.S. were 607,000, a modest improvement compared to 2010 at 587,000 units. In 2011, North American lumber producers ramped up production and/or started up mills in anticipation of a faster U.S. recovery and ongoing rapid growth in China's lumber demand. However, lumber inventories in both North America and China continued to grow creating a supply/demand imbalance. As a result, during the second half of 2011 producers began reducing production. In Canada, while the economy was stronger than that of its U.S. neighbor, housing starts were relatively flat in 2011 at 194,000 versus 190,000 units in 2010. In 2011 we saw the North American production/capacity ratio rise through the third quarter before falling in the fourth quarter as producers pulled back on production. In 2011 B.C. lumber sales to China have exceeded \$1 billion compared to \$668 million in 2010.

Lumber prices peaked in the first quarter of 2011 with the low inventories and high demand from China. Although U.S. housing starts showed small incremental gains, China's demand slowed significantly in the second half of 2011 and prices began to fall through the second and third quarters with a slight recovery in the fourth quarter. The average US\$ price for Western SPF 2x4 #2&Btr for first quarter, 2011 was US\$296 per mfbm compared to fourth quarter, 2011 at US\$238 per mfbm, and US\$255 per mfbm for the year, 2011 as compared to US\$256 per mfbm in 2010, ending the last week of December, 2011 at US\$261 per mfbm.

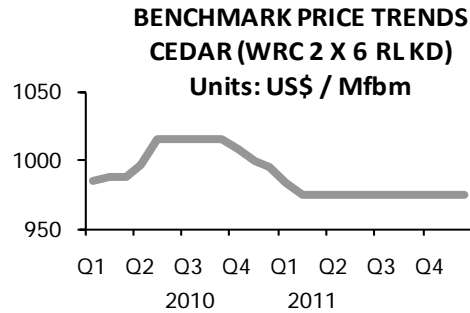




Source: Random Lengths, used with permission

- Cedar

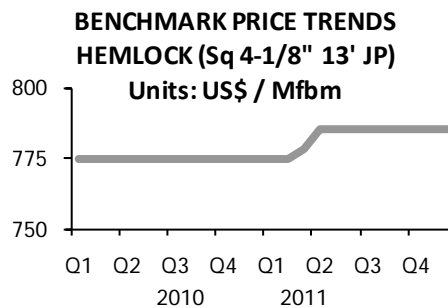
The 2011 North American market demand essentially remained flat with a slight decrease in pricing when compared to 2010. The decrease in the year-over-year average price for knotty Western Red Cedar 2x6 was US\$27 per mfbm; the annual average price in 2011 was US\$976 per mfbm compared to US\$1,003 in 2010.



Source: Random Lengths, used with permission

- Japan

Exports increased over the prior year due in part to Japan's post earthquake reconstruction. Housing starts in 2011 are estimated to be 834,000 compared to 813,000 units in 2010. Compared to 2010, the average 2011 price for Hemlock Square 4-1/8", as reported by Random Lengths, increased by US\$8 per mfbm; the annual average price in 2011 was US\$783 per mfbm versus US\$775 in 2010.



Source: Random Lengths, used with permission

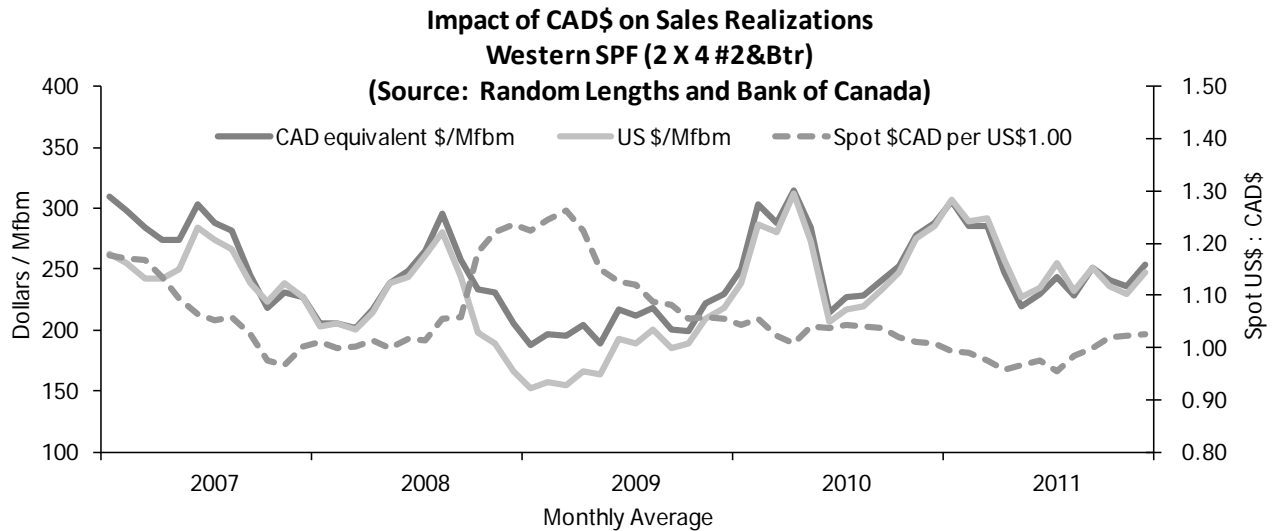
### Logs and Residuals

Interfor log sales revenue in 2011 improved by 36% compared to 2010 with overall average prices higher by \$5 per cubic metre. Sales volume in 2011 increased 25% over 2010 with the majority of the increase coming from the Canadian market. Compared to 2010, chip and residual product revenues increased 22% year over year due to higher chip prices and higher sales volumes generated from higher sawmill operating rates at our B.C. Interior and U.S. mills.

### **Volatility of the Canadian Dollar**

The Canadian dollar ("CAD\$") strengthened throughout the first half of 2011 against the US\$ before weakening in the second half of the year, ending the year at CAD\$1.017 per US\$1.00, down 2.3% from the end of 2010. Year-over-year, the average CAD\$ was stronger at \$0.989 for the year 2011 compared to \$1.030 for the year 2010.

The significance of the volatility of the CAD\$ on Canadian lumber producers' sales realizations is highlighted in the following chart, which shows the average US\$ price and CAD\$ equivalent of a thousand board feet of Western SPF 2x4 #2&Btr for the period 2007 through 2011.



### Export Tax

As a result of the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the United States on October 12, 2006, Canadian softwood lumber exporters pay an export charge when the price of lumber is at or below US\$355 per mfbm, as determined by the framing lumber composite price ("RLCI") produced by Random Lengths Publications Incorporated. The Province of B.C. has the right to choose between an export charge only ("Option A") or a lower export charge with a quota ("Option B"). The Province of B.C. chose Option A for both the B.C. Coast and the B.C. Interior which results in the Company's Canadian lumber exports to the United States being subject to the following taxes:

Price <sup>(1)</sup>	Export Tax (%)
Over US \$355	Nil
US \$336 - \$355	5
US \$316 - \$335	10
US \$315 or under	15

<sup>(1)</sup> Based on the prevailing RLCI

Option A export charge remained at 15% all year, as a result of lower commodity lumber prices throughout 2011.

The Option A export charge varied in 2010 during May to July, from 10% to 0% based on the varying RLCI thresholds reached, with the remaining months of 2010 at 15%.

On January 23, 2012, Canada and the U.S. signed a two year extension (from 2013 to 2015) to the 2006 SLA.

### Softwood Lumber Agreement Arbitration

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

Under the terms of the SLA, consultations between the two governments were held but the matter was not resolved and on January 18, 2011 the U.S. Trade Representative filed for arbitration by the London Court of International Arbitration ("LCIA"). Decisions by the LCIA are final and binding on both parties.

In August, 2011, the U.S. Trade Representative filed a detailed statement of claim with the LCIA. In November, 2011, B.C. lumber producers filed their statement of defense against the U.S. allegations that Canada is exporting mountain pine beetle lumber at unfairly low prices. Oral arguments are to be heard February 2012. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2011.

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

### **Significant customer enters into creditor protection**

On January 31, 2012, Catalyst Paper Corporation ("Catalyst") announced that the company and certain of its subsidiaries had obtained an Initial Order from the Supreme Court of British Columbia under the Companies' Creditors Arrangement Act. Catalyst is the primary buyer of Interfor's chips on the B.C. Coast, under long-term purchase contracts. Catalyst is also a purchaser of Interfor's pulp logs and other residuals.

Catalyst has indicated that the operations of Catalyst and its subsidiaries are intended to continue as usual, and obligations to employees and suppliers during the restructuring process are expected to be met in the ordinary course.

All trade accounts receivable outstanding as at December 31, 2011 have been collected in 2012 and therefore no allowance was provided.

As at February 17, 2012 the trade accounts receivable at risk for non-payment totals approximately \$0.4 million.

The outcome of Catalyst's restructuring and any potential impact to the Company cannot be determined at this point. The court has granted Interfor a security interest as a critical supplier, on all current and future products purchased from Interfor.

### **Strong Financial Position**

The Company continued to strengthen its financial position during 2011, ending the year with net debt of \$100.3 million or 20.4% of invested capital. In April, 2011, Interfor closed a public offering of 8,222,500 Class A Subordinate Voting shares for gross proceeds of \$57.6 million. In addition, cash flow from operations, after working capital changes, for the year was positive \$28.4 million.

In July, 2011, the Company amended and extended its syndicated credit facilities. The maturity dates of the Operating Line and the Revolving Term Line were both extended to July 28, 2015. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

At December 31, 2011 the Company had unused available credit and cash of \$159.7 million.

The Company spent \$36.2 million in capital improvements on its mills, timber, roads and intangibles this year, and management has received approval from the Interfor Board on its 2012 Capital plan. These investments will enhance Interfor's competitiveness and expansion into global markets, as it continues to balance production against sales, while maintaining its focus on margin enhancement and cost containment.

## REVIEW OF OPERATING RESULTS

### Selected Annual Financial Information <sup>1</sup>

	International Financial Reporting Standards		Previous Canadian GAAP <sup>2</sup>		
	2011	2010	2009	2008	2007
	(millions of dollars except share, per share and foreign exchange rate amounts)				
Sales					
–Lumber	538.1	482.0	288.6	297.4	434.5
–Logs	108.4	79.8	60.4	103.6	118.6
–Wood chips and other residual products	68.4	56.2	34.3	30.6	50.2
–Ocean freight and other <sup>3</sup>	43.1	7.7	6.4	5.6	7.7
Total Sales	758.0	625.6	389.8	437.2	611.0
Operating loss before restructuring costs and asset impairments	(4.9)	(3.8)	(46.5)	(33.5)	(25.1)
Operating loss	(5.5)	(5.4)	(50.8)	(68.4)	(27.1)
Net loss	(13.5)	(5.2)	(23.9)	(55.4)	(13.3)
Net loss per share – basic and diluted	(0.25)	(0.11)	(0.51)	(1.18)	(0.28)
Net loss, adjusted for certain one-time and other items <sup>4</sup>	(6.4)	(3.4)	(33.7)	(32.8)	(11.0)
Net loss per share, adjusted for certain one-time and other items – per share <sup>4</sup>	(0.12)	(0.07)	(0.72)	(0.70)	(0.23)
EBITDA <sup>8</sup>	47.0	53.6	16.6	13.7	30.8
Adjusted EBITDA <sup>8</sup>	46.6	48.4	(6.4)	12.3	24.8
Cash flow from operations per share <sup>5</sup>	0.81	0.86	(0.46)	0.28	0.51
Shares outstanding – end of period (millions) <sup>6</sup>	55.9	47.4	47.1	47.1	47.1
– weighted average (millions)	53.6	47.1	47.1	47.1	47.6
Average foreign exchange rate per US\$1.00 <sup>7</sup>	0.9891	1.0303	1.1420	1.0660	1.0750
Closing foreign exchange rate per US\$1.00 <sup>7</sup>	1.0170	0.9946	1.0510	1.2180	0.9913

1 Tables may not add due to rounding.

2 Years are not restated for conversion to IFRS.

3 Other revenues include ocean freight revenues of Seaboard which are included in the consolidated results from the date of acquisition on January 5, 2011. The Company's share of Seaboard results was previously recognized in equity income.

4 Net loss adjusted for certain one-time and other items represents the net loss before restructuring costs, foreign exchange gains and losses, other income (expense), certain one-time items and the effect of unrecognized tax assets.

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

6 As at February 17, 2012, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176 Class B Common shares – 1,015,779, Total – 55,862,955.

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

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

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

	International Financial Reporting Standards		Previous Canadian GAAP <sup>1</sup>		
	2011	2010	2009	2008	2007
	(millions of dollars)				
Net earnings (loss)	(13.5)	(5.2)	(23.9)	(55.4)	(13.3)
Add: Income taxes (recovery)	1.4	0.5	(9.9)	(11.0)	(13.6)
Finance costs	7.1	10.4	7.8	5.1	(1.3)
Depreciation, depletion and amortization	51.6	46.0	38.2	41.0	49.7
Other foreign exchange (gains) losses	(0.2)	0.3	-	(0.9)	7.3
Restructuring costs, asset impairments and other costs (recoveries)	0.6	1.6	4.4	34.9	2.0
EBITDA	47.0	53.6	16.6	13.7	30.8
Deduct:					
Other income	0.4	-	23.0	1.4	6.0
Other income of associate company	-	5.2	-	-	-
Adjusted EBITDA	46.6	48.4	(6.4)	12.3	24.8

1 Years are not restated for conversion to IFRS.

### Volume and Price Statistics

		<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Lumber sales	(million fbm)	1,301	1,132	668	503	870
Lumber production <sup>1</sup>	(million fbm)	1,264	1,110	661	498	856
Log sales <sup>2</sup>	(thousand cubic metres)	1,356	1,081	919	1,319	1,223
Log production <sup>2</sup>	(thousand cubic metres)	3,408	2,661	1,295	1,881	1,767
Average selling price – lumber <sup>3</sup>	(\$/thousand fbm)	\$413	\$426	\$432	\$591	\$499
Average selling price – logs <sup>2</sup>	(\$/cubic metre)	\$72	\$67	\$61	\$74	\$95
Average selling price – pulp chips	(\$/thousand fbm)	\$46	\$40	\$40	\$49	\$49

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

2 B.C. operations

3 Gross sales before duties and export taxes

### Comparison of Year ended December 31, 2011 to Year ended December 31, 2010

Interfor recorded a net loss of \$13.5 million, or \$0.25 per share for 2011, as compared to a net loss of \$5.2 million, or \$0.11 per share in 2010.

Included in 2010 results is an equity income inclusion of \$6.1 million for a gain on disposal of capital assets by an associate company, a change in unrecognized deferred tax assets of \$5.1 million, and other one-time items.

Before restructuring costs, foreign exchange gains (losses), a change in unrecognized deferred tax assets (refer to Income Taxes) and certain one-time items the Company's net loss for 2011 was \$6.4 million after-tax or \$0.12 per share, as compared to a loss of \$3.4 million after-tax, or \$0.07 per share in 2010.

EBITDA and Adjusted EBITDA for 2011 were \$47.0 million and \$46.6 million, respectively, compared to \$53.6 million and \$48.4 million for 2010.

## Sales

Interfor's total sales revenues were \$758.0 million in 2011, an overall improvement of \$132.4 million over 2010. During 2011, the Canadian dollar continued to strengthen which negatively impacted sales values for products priced in U.S. dollars.

Lumber shipments improved by 170 million board feet in 2011 reflecting the additional market demands and availability of production volumes from our B.C. Interior and U.S. operations. The majority of this increased volume went to offshore markets whereas the North American market remained relatively flat. The majority of the increase to offshore export volume was shipped to China. We experienced decreasing shipments to China during the second half of 2011 but the overall year over year increase was 64% compared to 2010. Shipments to the Japan market also increased in 2011 over 2010. The U.S. accounted for 45% of Interfor's total lumber shipments in 2011, a decline of 5% over 2010, while shipments to China and Japan grew to 36% in 2011, an increase of 10% over 2010.

Lumber sales prices for 2011 declined by an average of \$12 per mfbm or 3% compared to 2010. The overall 2011 average net price was affected by lower North American structural lumber prices, higher volumes of lower priced products destined for China and lower prices for cedar products when compared to 2010. Cedar average price was affected by product mix in 2011 compared to 2010. Interfor's diverse markets and product lines minimized the overall decrease in prices in 2011.

Log sales increased by \$28.6 million or 36% in 2011 when compared to 2010. Log prices to overseas markets increased while prices decreased slightly in North America, resulting in overall average prices higher by \$5 per cubic metre. Sales volumes increased to all markets by 25%, with China's volume almost doubling year over year. In 2011, log sales within Canada continued to be our largest market at 80% of the total volume, growing by 160,000 cubic meters or 17% when compared to 2010.

Pulp chip and residual product sales for 2011 were up \$12.1 million, due to higher chip volumes and prices. Overall 2011 average chip price was up 14% in comparison to last year. Compared to 2010, chip and other residuals revenues increased 22% year over year.

Seaboard Shipping Company Limited ("Seaboard") shipping revenues for 2011 were \$34.7 million.

## Operations

In 2011, Interfor produced a total of 1.3 billion fbm of lumber compared to 1.1 billion fbm in 2010; production increased by 154 million fbm or 14% over 2010. This was achieved through increased operating hours, improvements to productivity rates and higher lumber recoveries. Year over year production declined at our two B.C. Coastal mills due to supply interruptions and curtailments resulting from the 2010 storm damage in our coastal woodlands, a Fraser River bridge being repaired, log mix and capital project downtime; and at our Beaver mill due to high log costs. The Adams Lake sawmill continued to show year over year operating improvements. Productivity increased 6%, lumber recovery increased 4% and production volumes increased 4%, while operating five fewer days in 2011. Castlegar continued to ramp up its production in 2011 to over double their 2010 production volume. Molalla also ramped up production in response to market demand producing 49% more lumber than in 2010 while achieving higher lumber recoveries.

B.C. Coastal and Interior log production increased by 747 thousand cubic meters in 2011 over 2010. The increase in logging activity was to support demand for additional lumber production and log exports. Increased harvesting, log trades and timber sales helped to support the increase in fibre requirements on the B.C. Coast and Interior regions. In 2011, total log production volume on the B.C. Coast increased by 15% over 2010. Coastal log production cost per cubic meter decreased by 4% due mainly to increased harvest volumes, reduced high cost heli-logging activity (from 22% in 2010 to 7% in 2011) and the cost recovery of \$1.7 million in settlement of the 2010 storm damage insurance claim. In 2011, total log production in the B.C. Interior increased by 45% over 2010. B.C. Interior's 2011 total log cost per cubic meter increased by 2% over 2010 mainly due to increased logging activity to meet increased operating rates at the Castlegar sawmill. In 2010, Castlegar log costs were positively impacted by high log sales reducing the unit cost of delivered logs. In 2011, the two Peninsula mills experienced increased competition and price pressure for logs due to increased log exports to China. As prices became uneconomical log purchases declined and forced curtailment of our two mills in the fourth quarter of 2011.

In 2011, lumber manufacturing costs, which includes cost of logs and conversion costs for lumber, increased \$77.3 million or 14% as a result of the increased operating rates compared to 2010. When compared to 2010, our Coastal mills experienced an overall increase of 4% in total manufacturing cost per mfbm reflecting higher whitewood prices (driven up by export demand for logs) and lower lumber production volumes. These costs were offset in part by lower cedar log costs and the 2010 insurance cost recovery of \$1.0 million for our Acorn mill received as compensation for the interrupted log supply which resulted from storms in the late fall of 2010. For our B.C. Interior mills, when compared to 2010, the normalized (excluding the impact of Castlegar 2010 high log sales) total log cost per mfbm was flat, however on a whole dollar basis log costs were up due to the increase in log consumption. The B.C. Interior mills' overall total conversion cost per unit was flat due to higher production volumes, however whole dollar conversion costs were up due mainly to the Castlegar mill increase in operating hours, when compared to 2010. Our U.S. mills, in aggregate, experienced 9% higher log costs due to the competitive market demands for logs at our mill in Molalla, Oregon and our two Peninsula mills. In comparison to 2010, the U.S. mills' total conversion cost per mfbm was down 12% due to higher production volumes, however whole dollar conversion costs are up due mainly to the increased operating hours at Molalla and Gilchrist mills. The U.S. mills' costs were also positively impacted by the strength of the Canadian dollar in 2011 as compared to 2010.

In 2011, Seaboard shipping activities increased the year over year consolidated production costs by 8%, when compared to 2010.

#### Corporate and Other

Selling and administration costs in 2011 increased by \$3.0 million as compared to 2010, arising primarily from additional staffing due to export sales growth and initiatives in marketing, sales and logistics to meet customer requirements today and in the future. Long-term incentive compensation ("LTIC"), which is impacted by the Company's share price, the number of grants made under the various plans and vesting periods, resulted in a net expense of \$0.4 million for 2011 (2010 - LTIC expense of \$2.0 million).

The export tax paid under the SLA for 2011 increased by \$1.6 million or 22% from 2010 as a result of the increased volume exported to the U.S. The export tax was 15% all year in 2011. In 2010, by meeting various thresholds during the year, the tax ranged from 15% to a low of zero for the month of June. Volumes exported to the U.S. increased by 3.0 million mfbm or 1% in 2011 over the previous year. The stronger Canadian dollar helped to reduce the impact of the 2011 export taxes payable in U.S. dollars when compared to the 2010 foreign exchange rate.

Amortization of plant and equipment decreased by \$0.2 million or 1% compared to 2010 despite the increased operating days in 2011 over 2010. 2010 depreciation included accelerated depreciation on a number of assets with shortened useful lives, most being retired in late 2010 or early 2011.

Road amortization and depletion expense for 2011 increased \$5.7 million or 31% compared to 2010 as a result of significantly higher logging activity on the B.C. Coast and Interior operations to meet export demand, and higher log consumption and log inventory targets.

Restructuring costs and asset write-downs totaled \$0.6 million in 2011 compared to \$1.6 million in 2010. The 2011 charges include \$0.8 million for the buyout of a logging contractor's Bill 13 entitlements, \$0.4 million reversal of a previous asset impairment charge, \$0.3 million charge for severance costs, and \$0.1 million recovery due to revisions to previously accrued expenses.

The following table shows the components of restructuring costs and impairments (reversals) of plant and equipment for both years:

	2011	2010
	(millions of dollars)	
Contractor buyout	\$ 0.8	\$ 0.0
Plant and equipment impairment (recovery)	(0.4)	0.5
Severance costs	0.3	1.1
Other (recovery)	(0.1)	-
	\$ 0.6	\$ 1.6



## Finance Costs

In 2011, the Company recorded \$5.6 million of total interest expense compared to \$8.5 million in 2010. Reduction in interest expense was achieved by initially reducing our long term debt through our public offering of Class A Subordinated Voting Shares and by extending and modifying our syndicated credit facilities, which resulted in a reduction in pricing. Also, positively impacting interest expense was the further strengthening of the Canadian dollar.

## Equity Income

At the beginning of 2011, the Company acquired 100% ownership of Seaboard and consolidated its activities with the other operations of Interfor. In 2010, the Company recorded equity income of \$11.4 million, which included the gain on the disposals of Seaboard's two vessels of \$6.1 million offset by \$0.9 million in one-time expenses.

## Income Taxes

In 2011, the Company recorded an income tax expense of \$1.4 million and increased its deferred tax assets in relation to certain unused tax losses that are available to carry forward against future taxable income by \$7.0 million. For 2010, the increase in unrecognized deferred tax assets reduced the Company's income tax recovery by \$5.1 million to a net expense of \$0.5 million. Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities. The Company's Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards, totaling approximately \$241 million (2010 - \$260 million), expire between 2014 and 2031, and are available to reduce future taxable income.

The overall effective tax rate is significantly different from the Canadian statutory rate of 26.5% (2010 - 28.5%) mainly due to unrecognized deferred tax assets of \$7.0 million (2010 - \$5.1 million).

## Net Loss

For the year ended December 31, 2011, the Company recorded a net loss of \$13.5 million, \$0.25 per share compared to a net loss of \$5.2 million, \$0.11 per share, for the year ended December 31, 2010. We were able to mitigate our net loss with our strategy of having a diversified market and the benefit of a diversified product line. The Company continues to focus on maximizing shareholder value through product development, cost control, effective cash management and strategic investments on our core assets.

## **Cash Flows**

### Operating Activities

In 2011, before working capital changes, cash generated from operations was \$43.6 million, compared to \$40.7 million in 2010. Total cash generated from operations after changes in working capital was \$28.4 million for the year, a slight decrease from \$29.8 million for 2010.

Cash used in working capital in 2011 was \$15.2 million compared to \$10.9 million in 2010. In 2011, significant increases in lumber production and a subsequent slowing of the market resulted in a lumber and log inventory build-up of \$25.6 million offset in part by decreases in accounts receivable of \$3.2 million and increases in accounts payable of \$9.6 million. In 2010, we experienced increases in accounts receivable and inventory of \$13.5 million and \$12.4 million respectively, offset in part by an increase in accounts payable of \$15.2 million.

In general, 2011 sales volumes increased and prices decreased when compared to 2010. With the strong Canadian dollar and reduced margins, the result was a reduction of \$1.3 million of cash generated from operations. Throughout the year, the Company has focused on optimizing inventory levels, and purchasing logs and producing products that will provide positive margins.

### Investing Activities

Capital expenditures totaled \$36.2 million for 2011 (2010 - \$42.2 million). In 2011, major discretionary spending for equipment upgrades was higher by \$5.5 million, while major maintenance, road and timber

spending was lower by \$12.1 million, when compared to 2010. In 2010, there was a major acquisition of timber tenure in the Kamloops region from Weyerhaeuser Company Limited, adding approximately 275,000 cubic meters of allowable annual cut to the B.C. Interior fibre supply.

Cash proceeds in 2011 from the sale of surplus equipment totaled \$0.3 million while in 2010 proceeds from the sale of non-core assets and final settlement compensation under the *Forest Act* for timber and other assets totaled \$1.3 million.

Cash of \$4.8 million was received as a result of our acquisition of Seaboard.

### Financing Activities

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net proceeds of \$54.9 million. The closing of the Offering included the exercise in full of the overallotment option of 1,072,500 shares by the Underwriters. In addition, in the first half of 2011, several stock option holders exercised their options generating \$1.4 million in cash.

On July 11, 2011 the Company extended and modified its syndicated credit facilities. The maturity date of the Operating Line was extended from July 28, 2012 to July 28, 2015 and the maturity date of the Revolving Term Line was extended from July 28, 2013 to July 28, 2015. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

During 2011, Interfor drew additional funds on the Revolving Term Line primarily to fund operating and working capital requirements, and capital expenditures for equipment and road construction. The Operating Line remained undrawn in 2011, other than for letters of credit. During the year, the Revolving Term Line was paid down with funds generated from the operations and the share issuance proceeds. As at December 31, 2011 the unused available credit under these facilities totaled \$149.2 million and, combined with cash of \$10.4 million, gave the Company a total of \$159.7 million of liquidity available.

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

During 2010 the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar Non-Revolving Term Line. Interfor drew additional funds on the Revolving Term Line primarily to fund the acquisition of the timber tenure from Weyerhaeuser and road construction.

At December 31, 2011, the Company had cash of \$10.4 million. After deducting the Company's drawings under its Revolving Term Line, the Company ended the year with net debt of \$100.3 million or 20.4% of invested capital.

## FINANCIAL POSITION

### Summary of Financial Position<sup>1</sup>

	International Financial Reporting Standards		Previous Canadian GAAP <sup>4</sup>		
	2011	2010	2009	2008	2007
	(millions of dollars)				
Current assets	162.8	135.4	107.9	131.5	158.3
Current liabilities	75.9	75.8	46.6	79.4	50.0
Working capital	86.9	59.6	61.3	52.1	108.3
Total assets	614.8	614.6	582.5	665.3	545.9
Total long-term liabilities and deferred income taxes	148.1	191.3	177.9	179.7	67.6
Operating debt	-	-	-	30.6	-
Payable to investee company	-	15.7	3.1	3.7	-
Long-term debt	110.7	156.0	144.5	137.4	34.7
Total debt	110.7	171.7	147.6	171.7	34.7
Shareholders' equity	390.8	347.5	358.0	406.2	428.3
Invested capital	501.5	519.2	505.6	577.9	463.0

### Ratio and Investment Information<sup>1</sup>

Current ratio	2.1	1.8	2.3	1.7	3.2
Net debt as a percentage of invested capital, adjusted <sup>2</sup>	20.4%	29.7%	28.2%	29.2%	1.9%
Total debt as a percentage of invested capital	22.1%	33.1%	29.2%	29.7%	7.5%
Return on average shareholders' equity <sup>2</sup>	(3.6)%	(1.1)%	(6.3)%	(13.3)%	(2.9)%
Return on average invested capital, adjusted <sup>2</sup>	(1.9)%	0.2%	(3.4)%	(10.3)%	(3.5)%
Pre-tax return on total assets <sup>1</sup>	(2.0)%	(0.5)%	(9.0)%	(5.1)%	(4.3)%
Cash flow from operations as a percentage of total debt <sup>2</sup>	39.4%	23.7%	(14.6)%	7.6%	70.2%
Equity per share	\$7.00	\$7.34	\$7.60	\$8.62	\$9.09

	2011	2010	2009	2008	2007
	(millions)				
Weighted average shares outstanding for the year	53.6	47.1	47.1	47.1	47.6
Number of shares outstanding at year end:					
Class A subordinate voting <sup>3</sup>	54.9	46.3	46.1	46.1	46.1
Class B common <sup>3</sup>	1.0	1.0	1.0	1.0	1.0
	55.9	47.4	47.1	47.1	47.1

### Re-investment of Cash

	2011	2010	2009	2008	2007
	(millions of dollars)				
Cash flow from operations <sup>2</sup>	43.6	40.7	(21.6)	13.0	24.4
Cash generated from (used in) operating working capital	(15.2)	(10.9)	26.4	0.7	(70.3)
Proceeds on disposal of assets	0.3	1.3	37.0	5.1	8.3
Capital expenditures and acquisitions	(36.2)	(42.2)	(27.6)	(158.9)	(81.8)

1 Tables may not add due to rounding.

2 See Glossary in Annual Information Form for definition.

- 3 As at February 17, 2012, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176 Class B Common shares – 1,015,779, Total – 55,862,955.
- 4 Years are not restated for IFRS

### Current Assets

Cash on hand and deposits at December 31, 2011 totaled \$10.4 million, an increase of \$1.1 million over 2010.

Accounts receivable at December 31, 2011 were \$44.0 million, compared to \$46.0 million in 2010 primarily due to lower lumber export accounts receivable outstanding at the end of the fourth quarter, 2011.

Lumber inventory levels at December 31, 2011 were \$31.7 million, compared to \$27.4 million in 2010. Lumber inventory volumes increased by 18% resulting from the additional production volumes from the B.C. Interior and U.S. mills to meet export demand.

Log inventory levels at December 31, 2011 were \$59.4 million, compared to \$39.1 million in 2010, due to higher log costs, the B.C. Interior seasonal build up of logs prior to spring breakup and overall higher volumes to support the higher operating rates and increased log consumption at our mills.

### Investments in Associate Company, Other Investments and Assets

In 2011, the Company's investments in associate company, other investments and assets decreased by \$15.2 million to \$1.9 million, primarily due to SGP declaring an income distribution on January 3, 2011 which was paid by way of set-off against the note payable. On January 5, 2011, all other partners in the SGP withdrew and the Company became the sole owner of Seaboard. SGP was wound-up on January 7, 2011 and continued operations as Seaboard which is wholly owned by Interfor. Its accounts have been included in the consolidated financial statements of the Company from the date of acquisition of control. As at December 31, 2011, Interfor had a pension asset of \$1.3 million which includes a \$1.1 million Seaboard pension asset, resulting in an increase of \$0.8 million over 2010.

### Property, Plant and Equipment, Timber Licences, Logging Roads, Bridges and Other Intangibles

The Company's net book value of \$434.8 million for property, plant and equipment, timber, logging roads, and other intangible assets decreased \$12.1 million compared to 2010. Capital expenditures were \$36.2 million, of which \$20.0 million related to investments in road building and the balance of \$16.2 million was for equipment upgrades, maintenance of operations, timber and intangibles. The stronger Canadian dollar at the end of 2011 compared to the end of 2010 resulted in an increase in our U.S. capital assets of \$2.9 million due to foreign currency revaluations. Offsetting the investments in capital assets were amortization and depletion expense of \$51.6 million, and various minor disposals and a reversal of an impairment charge.

### Current Liabilities

As at December 31, 2011, the Company had an Operating Line of \$65.0 million. Drawings under this line are subject to borrowing base calculations dependent upon accounts receivable, inventories and certain accounts payable. At year end, the Company had no borrowings other than letters of credit under its Operating Line, and its unused available Operating Line was \$59.9 million, after outstanding letters of credit of \$5.1 million. The Company's working capital ratio at December 31, 2011 was 2.1 to 1.

Accounts payable levels at December 31, 2011 were \$60.7 million, an increase of \$10.6 million over 2010. The increase in trade accounts payables and other accruals results from increased operating rates, particularly from logging activities in B.C and log purchases in the U.S. The current portion of reforestation also increased by \$4.3 million due to increased B.C. log harvest in 2011.

Income tax payable at December 31, 2011 was \$1.1 million, an increase of \$0.8 million over 2010; the increase was primarily due to tax payable for our wholly owned subsidiary, Interfor Japan Ltd.

### Long-Term Liabilities

At July 11, 2011 the Company extended and modified its syndicated credit facilities. In January, 2010 the Company's Revolving Term Line was increased from \$150 million to \$200 million.

The Revolving Term Line bears interest at rates based on bank prime plus a premium, depending upon a financial ratio or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans.

At December 31, 2011, the Revolving Term Line was drawn by \$80.0 million (2010 - \$126.0 million), and by US\$30.2 million (2010 - US\$30.2 million) revalued at the year-end exchange rate to \$30.7 million (2010 - \$30.0 million) for total drawings of \$110.7 million (2010 - \$156.0 million) and leaving an unused available line of \$89.3 million.

Overall, long-term liabilities excluding long-term debt increased by \$2.1 million, due mainly to increases in pensions of \$2.4 million, reforestation of \$0.5 million and other items of \$0.4 million offset by a decrease of \$1.2 million in long-term incentive compensation due to the reclassification to current liabilities.

### Liquidity and Capital Resources

As at December 31, 2011 the Company had available working capital of \$86.9 million (2010 - \$59.6 million), operating and term lines of \$149.2 million (2010 - \$104.2 million) and cash of \$10.4 million.

The Revolving Term Line was increased to \$200 million in January 2010 and the maturity dates of the Operating Line and the Revolving Term Line were both extended to July 28, 2015.

On April 8, 2011 the Company closed a public offering of Class A Subordinate Voting shares for net proceeds of \$54.9 million.

These resources, in addition to cash generated from operations, will be used to support our working capital requirements, debt servicing commitments, and capital expenditures.

The Company has announced its Kootenay Optimization Plan totaling \$24.0 million of capital to be spent at our Grand Forks and Castlegar mill (spending to occur over 2012 and 2013).

Interfor has had positive EBITDA for each of the past six fiscal years, in spite of the difficult economic climate over the last four years. In addition, Interfor showed positive Operating Earnings in the first and third quarters of 2011, as well as in the fourth quarter of 2010.

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

### Summary of Contractual Obligations

The payments due in respect of contractual and legal obligations including projected major capital improvements are summarized as follows:

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
		(millions of dollars)			
Accounts payable and accrued liabilities	\$ 52.7	\$ 52.7	\$ -	\$ -	\$ -
Income taxes payable	1.1	1.1	-	-	-
Long-term debt	110.7	-	-	110.7	-
Reforestation liability	32.0	14.1	7.5	5.1	5.3
Provisions and other liabilities	25.5	7.4	6.8	1.7	9.5
Pension solvency payments	2.7	0.8	1.5	0.1	0.3
Operating leases and contractual commitments	47.9	27.1	14.3	3.5	3.0
<b>Total contractual obligations <sup>1</sup></b>	<b>\$ 272.4</b>	<b>\$ 103.1</b>	<b>\$ 30.0</b>	<b>\$ 121.1</b>	<b>\$ 18.2</b>

<sup>1</sup> Table may not add due to rounding.

### Related Party Transactions

Lumber sales to a significant shareholder amounted to \$0.7 million (2010 - \$0.8 million).

In 2010, shipping services provided by Seaboard totaled \$7.0 million and the Company provided management and other support services to Seaboard totaling \$0.5 million. In January, 2011 Seaboard became a wholly owned subsidiary of Interfor and its accounts were included in the consolidated financial statements of the

company from the date of change in control and all intercompany transactions have been eliminated.

These transactions were conducted on a normal commercial basis, including terms and prices and did not result in any ongoing contractual or other commitments.

#### Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber sales. These are more fully described in Note 9(a) and Note 20(d) in the Consolidated Financial Statements. At December 31, 2011, the total of such instruments aggregated \$18.5 million (2010 - \$12.9 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

#### Summary of Issuance of Shares

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net proceeds of \$54.9 million. The closing of the Offering included the exercise in full of the over-allotment option of 1,072,500 shares by the Underwriters. In addition, several stock option holders exercised their options generating \$1.4 million in cash.

**SELECTED QUARTERLY FINANCIAL INFORMATION <sup>1</sup>****Quarterly Earnings Summary**

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars except share, per share and foreign exchange rate amounts)							
Sales – Lumber	134.9	136.7	134.0	132.5	137.5	113.1	123.7	107.6
– Logs	22.9	36.0	28.6	20.8	20.6	21.9	19.8	17.4
– Wood chips and other residual products	17.5	17.6	16.8	16.4	15.7	14.0	13.3	13.2
– Other	14.6	9.9	8.7	10.0	2.4	2.4	1.0	1.7
Total Sales	190.0	200.2	188.2	179.7	176.3	151.5	157.9	139.9
Operating earnings (loss) before restructuring costs and asset impairments	(5.0)	1.0	(2.0)	1.0	1.5	(2.0)	(0.9)	(2.4)
Operating earnings (loss)	(4.9)	1.3	(2.1)	0.2	1.5	(2.5)	(2.0)	(2.5)
Net earnings (loss)	(6.5)	0.0	(5.3)	(1.7)	0.8	1.4	(3.5)	(3.8)
Net earnings (loss) per share – basic and diluted	(0.12)	0.00	(0.10)	(0.04)	0.02	0.03	(0.07)	(0.08)
Net earnings (loss), adjusted for certain one-time and other items <sup>4</sup>	(2.5)	(0.5)	(2.9)	(0.5)	0.5	(1.1)	(0.6)	(2.2)
Net earnings (loss), adjusted for certain one-time and other items – per share <sup>4</sup>	(0.04)	(0.01)	(0.05)	(0.01)	0.01	(0.02)	(0.01)	(0.05)
EBITDA <sup>5</sup>	7.9	14.7	11.6	12.8	14.6	15.3	13.7	10.0
Adjusted EBITDA <sup>5</sup>	8.0	14.3	11.6	12.7	14.5	10.6	13.3	10.0
Cash flow from operations per share <sup>2</sup>	0.08	0.26	0.22	0.27	0.22	0.18	0.25	0.21
Shares outstanding – end of period (millions) <sup>3</sup>	55.9	55.9	55.9	47.5	47.4	47.1	47.1	47.1
– weighted average (millions)	55.9	55.9	55.2	47.4	47.2	47.1	47.1	47.1
Average foreign exchange rate per US\$1.00	1.0230	0.9808	0.9680	0.9856	1.0131	1.0395	1.0283	1.0401
Closing foreign exchange rate per US\$1.00	1.0170	1.0482	0.9645	0.9696	0.9946	1.0290	1.0646	1.0158

1 Tables may not add due to rounding.

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

3 As at February 17, 2012, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176 Class B Common shares – 1,015,779, Total – 55,862,955.

4 Net earnings (loss), adjusted for certain one-time and other items represents net earnings (loss) before restructuring costs, foreign exchange gains and losses, other income (expense), certain one-time items and the effect of unrecognized tax assets.

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

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(millions of dollars)							
Net earnings (loss)	(6.5)	0.0	(5.3)	(1.7)	0.8	1.4	(3.5)	(3.8)
Add: Income taxes (recovery)	0.2	0.5	1.2	(0.4)	(0.5)	(0.2)	1.0	0.2
Finance costs	1.3	1.7	1.9	2.3	2.5	2.6	2.8	2.6
Depreciation, depletion and amortization	13.0	13.3	13.6	11.7	11.7	11.0	12.3	11.1
Other foreign exchange (gains) losses	0.1	(0.5)	0.1	0.1	0.2	0.1	0.1	-
Restructuring costs, asset impairments and other costs(recoveries)	(0.1)	(0.3)	0.1	0.8	-	0.5	1.1	-
EBITDA	7.9	14.7	11.6	12.8	14.6	15.3	13.7	10.0
Deduct:								
Other income (expense)	-	0.4	-	-	(0.3)	(0.1)	0.4	-
Other income of associate company	-	-	-	-	0.4	4.8	-	-
Adjusted EBITDA	8.0	14.3	11.6	12.7	14.5	10.6	13.3	10.0

## Volume and Price Statistics

		2011				2010			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Lumber sales	(million fbm)	318	336	334	313	321	277	270	264
Lumber production	(million fbm)	294	313	325	332	303	272	277	258
Log sales <sup>1</sup>	(thousand cubic metres)	310	430	314	301	292	289	262	239
Log production <sup>1</sup>	(thousand cubic metres)	795	1,002	796	816	794	595	624	648
Average selling price – lumber <sup>2</sup>	(\$/thousand fbm)	\$424	\$407	\$401	\$423	\$428	\$408	\$459	\$408
Average selling price – logs <sup>1</sup>	(\$/cubic metre)	\$69	\$74	\$82	\$61	\$64	\$73	\$68	\$64
Average selling price – pulp chips	(\$/thousand fbm)	\$51	\$48	\$44	\$40	\$42	\$40	\$37	\$40

1 B.C. operations

2 Gross sales before duties and export taxes

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

Operating rates increased in the first quarter, 2010, as lumber prices rose in response to increased North American demand and a temporary supply/demand imbalance. During the same period off-shore demand increased, particularly from China, with rapid export market growth through the remaining quarters of 2010 and the first half, 2011 and leveling off for the balance of 2011.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to export markets and priced in U.S. dollars. A strong Canadian dollar reduces the lumber sales realizations in Canada, but reduces the impact of losses in U.S. operations when converted to Canadian dollars. No deferred tax assets arising from loss carry-forwards were recognized during 2010 or 2011.

In the first quarter, 2011 the Company acquired complete control of SGP. It was wound up in early January, 2011 but continued operations as Seaboard and its accounts were consolidated from the date of change in control on January 5, 2011. Other sales revenues include the ocean freight revenues of Seaboard.

### Quarter 4, 2011 Compared to Quarter 4, 2010

#### Overview

The Company recorded a net loss of \$6.5 million, or \$0.12 per share, for the fourth quarter of 2011 compared to net earnings of \$0.8 million, or \$0.02 per share in the fourth quarter of 2010. Before restructuring costs, foreign exchange gains (losses), other one-time items and a tax valuation allowance, the Company's net loss for the fourth quarter, 2011 was \$2.5 million after-tax or \$0.04 per share, as compared to a net income of \$0.5 million after-tax, or \$0.01 per share for the fourth quarter, 2010.

EBITDA and Adjusted EBITDA for the fourth quarter of 2011 were \$7.9 million and \$8.0 million, respectively, compared to \$14.6 million and \$14.5 million, for the comparable quarter in 2010.

During the fourth quarter of 2011, lumber prices in the North American market decreased significantly compared to 2010. The average price reported by Random Lengths for SPF 2x4 #2&Btr was US\$238 per mfbm for the fourth quarter, 2011 compared to US\$269 per mfbm for the same quarter in 2010 and compared to



US\$246 per mfbm in the third quarter, 2011. The Canadian dollar was weaker this quarter, which had a positive effect on revenues priced in U.S. dollars, as compared to the same quarter in 2010.

The Company focused on reducing lumber inventories through to the end of the fourth quarter, 2011; however inventories ended the year higher than in 2010. Generally, mill productivity rates were up during the quarter, however curtailments were taken at some the mills.

### Sales

For the fourth quarter of 2011, total sales revenues were \$190.0 million which represented an 8% increase over the same quarter in 2010.

For the fourth quarter, 2011, lumber sales volumes were 318 million fbm and revenues were \$134.9 million. This is a 1% decrease in volume and a 2% decrease in revenues compared to the same period in 2010. Interfor increased shipments to the U.S. and Japan in the fourth quarter of 2011, offset by reductions of shipments to China and Canada when compared to the same quarter in 2010. In the fourth quarter, 2011 Interfor's lumber sales values decreased by \$4 per mfbm or 1% compared to 2010. In the fourth quarter, 2011 the Canadian dollar depreciated by 1 cent relative to its U.S. counterpart, when compared to the average of the same quarter in 2010.

Log sales were up \$2.4 million, or 11%, for the fourth quarter, 2011 as sales volumes increased by 18,000 m<sup>3</sup> or 6% over the same period in 2010. On the B.C. Coast, where the majority of log sales are transacted, the price per cubic meter improved by 10% in the fourth quarter of 2011, compared to the same period in 2010 reflecting higher export volumes and improved log markets.

Compared to the same periods of 2010, pulp chip and other residuals revenues for the fourth quarter of 2011 were up \$1.8 million, resulting from higher overall chip prices. Average chip prices for the fourth quarter, 2011 increased by 20% even though pulp prices were lower over the same quarter, 2010. Chip price increases in the U.S. were enhanced by the weaker Canadian dollar in the fourth quarter, 2011 versus same period in 2010.

Other revenues for the fourth quarter, 2011 are mainly from Seaboard at \$10.8 million; in 2010, Seaboard results were reported as equity income.

### Operations

For the fourth quarter of 2011, production volumes decreased by 9 million fbm or 3% compared to the same quarter, 2010. Production costs for the fourth quarter of 2011 increased \$19.6 million or 13%, which includes \$11.5 million of costs related to Seaboard, compared to the same period in 2010. Lumber production, in general, decreased mainly due to curtailments and/or reduced operating rates at many of our mills due to high log costs during the quarter. In the fourth quarter 2011, the Peninsula mills were curtailed due to log supply issues. Although there were lower total operating hours, higher productivity rates and lumber recoveries minimized the decrease in overall production volume when compared to the same quarter in 2010.

Overall unit manufacturing costs per mfbm were higher in the fourth quarter of 2011, when compared to 2010 due to higher log costs. Log costs per mfbm during the fourth quarter, 2011 versus the same quarter last year were driven up on the B.C. Coast due to higher depletion and road amortization costs, and at the U.S. mills due to higher market price of purchased logs and the weaker Canadian dollar. Fibre supply for the Peninsula mills remains tight and prices high due to local demands and competition from the export log market. In the B.C. Interior, log consumption unit costs were lower due to overall lower delivered log cost and higher lumber recoveries compared to previous year's quarter. The B.C. Coast conversion unit costs this quarter, 2011 were higher compared to same quarter, 2010 due to lower production volumes and operating hours mainly due to log mix and maintenance at our Hammond mill. In the U.S., the unit conversion costs at the Washington mills were slightly higher due to lower production volumes and at the Oregon mills were lower due to higher production volumes. At the B.C. Interior mills, unit conversion costs were down due to higher productivity rates and production volumes.

Compared to the same quarter in 2010, B.C. log production remained flat overall with Coastal woodlands harvesting slightly less volume and the Interior harvesting slightly more volume, due mainly to the Castlegar mill operating more hours and at increased productivity rates offset in part, by the reduction of Grand Fork's head rig capacity.

### Corporate and Other

Selling and administrative costs for the fourth quarter, 2011 increased by \$1.0 million compared to the same quarter, 2010 primarily as a result of increased sales and export market administrative staff to support sales and marketing initiatives. LTIC expense is impacted by the change in the Company's share price and showed an expense of \$0.9 million for the fourth quarter, 2011.

Compared to the same period, 2010, Canadian shipments to the U.S. for the fourth quarter, 2011 decreased by 4.2 million fbm, or 7%, which resulted in a decrease in export taxes of \$0.2 million as the tax rate for both periods remained at 15%.

Amortization of plant and equipment for the fourth quarter in 2011 decreased by \$0.6 million in comparison to the same period in 2010 due to the lower total operating hours at our manufacturing facilities.

Road amortization and depletion expense for the fourth quarter of 2011 increased by \$1.9 million or 42% compared to the same quarter, 2010 as a result of changes in areas being logged and a significant reduction in heli-logging activity on the B.C. Coast, and increased harvesting in the Interior.

### Finance Costs, Other Foreign Exchange Gain (loss), Other Income

Fourth quarter, 2011, interest expense was reduced by \$1.0 million compared to same period in 2010, due to the lower rates of the renegotiated Revolving Term Line and the lower average balance outstanding in the quarter; this was partially offset by a weaker Canadian dollar in fourth quarter 2011. Other foreign exchange gains (losses) were negligible for both years.

Other income was negligible in the fourth quarter, 2011 compared to an expense of \$0.3 million for the fourth quarter, 2010 from the disposal of surplus equipment and roads. In the fourth quarter, 2010, the Company reported equity participation in the earnings of Seaboard of \$1.7 million. Seaboard's results are consolidated in 2011.

### Income Taxes

The Company recorded an income tax expense of \$0.2 million in the fourth quarter of 2011 as compared to a \$0.5 million recovery in the comparative period of 2010. The unrecognized deferred tax assets in relation to unused tax losses that are available to carry forward against future taxable income were increased by \$3.9 million (fourth quarter, 2010 – decreased by \$0.3 million). Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due the cyclical nature of the forest products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities.

### Cash Flow

Cash generated by the Company from operations, after changes in working capital, was \$3.9 million for the fourth quarter of 2011, compared to cash generated of \$5.4 million for the fourth quarter of 2010. Net earnings for the fourth quarter 2011 was \$7.2 million lower than the same period in 2010, which resulted in quarterly cash from operations of \$4.6 million in 2011 compared to \$10.6 million in 2010.

In the fourth quarter of 2011, funds were drawn from the Revolving Term Line for operating and capital requirements, which were partially repaid during the quarter. In the fourth quarter, 2010 the Company received an \$8.8 million advance from Seaboard which it used to pay down a portion of its Revolving Term Line.

Capital expenditures on plant and equipment for the fourth quarter, 2011 were \$3.5 million, of which \$2.2 million was on high return discretionary projects and \$1.3 million on maintenance of operating capacity. Spending on road construction totaled \$5.4 million. Comparable spending for the fourth quarter, 2010 of \$8.9 million was divided evenly between high return discretionary and maintenance projects, and road construction.

The Company had cash of \$10.4 million at December 31, 2011 and ended the quarter with net debt of \$100.3 million or 20.4% of invested capital.

## Controls and Procedures

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company's disclosure controls and procedures as of December 31, 2011. The evaluation was carried out under the supervision of, and with the participation of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"). Based on the evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of December 31, 2011.

As required by Multilateral Instrument 52-109 issued by the Canadian Securities Administrators, Interfor carried out an evaluation of the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") as of December 31, 2011. The evaluation was carried out within the COSO framework and under the supervision of, and with the participation of the CEO and the CFO. Based on the evaluation, the CEO and CFO concluded that the Company's ICFR were effective as of December 31, 2011.

The CEO and CFO acknowledge responsibility for the design of ICFR, and confirm that there were no changes in these controls that occurred during the most recent interim period ended December 31, 2011 which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## Critical Accounting Estimates

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

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

All North American sales are conducted under standard industry terms. All log and lumber sales outside of the North American markets are either insured to 90% of their value by the Export Development Corporation or letters of credit or are prepaid in advance of shipment.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has experienced minimal bad debts and this held true for 2011, despite the impacts of the global economic downturn. Based on this past experience and its detailed review of trade accounts receivable past due, a reserve of \$0.1 million (2010 - negligible) was set up for specific trade receivables.

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

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

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

The Company conducts a review of external and internal sources of information to assess for any indications of impairment. External factors include adverse changes in expected future prices, costs and other market and economic factors. Internal factors include changes in the expected useful life of the asset or changes to the planned capacity of the asset.

Key assumptions used are based on industry sources, including Forest Economic Advisors, LLC and Resources Information Systems Inc., as well as management estimates. Assumptions encompass lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, the level of sales to the U.S. from Canada, the export tax rate, future capital required to maintain the assets in their current operation condition, and other items.

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

Appropriate discount rates are determined by reference to current market conditions, specific company factors and asset specific factors.

Interfor assesses the recoverability of Property, Plant and Equipment, and Timber and Logging Roads at each reporting date. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that an impairment may exist. The Company assessed the recoverability of these assets as at December 31, 2011, and concluded that there were no impairments.

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

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

Each of these estimates is reviewed regularly on an ongoing basis.

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

*Pension and Other Post-retirement Benefits.* Interfor sponsors various defined contribution pension plans available, based on eligibility requirements, to all Canadian salaried and all U.S. employees. The Company

sponsors three defined benefit plans for those hourly employees not covered by forest industry union plans. It also sponsors a post-retirement medical and life insurance plan.

The Company retains independent actuarial consultants to value the defined pension benefit obligations, the post retirement medical and life insurance obligations and related plan asset values. Actuarial assumptions used in the valuation of obligations and values include assumptions of the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and assumed rates of increase for employee compensation and health care costs. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

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

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

## **NEW ACCOUNTING POLICIES AND ACCOUNTING POLICY CHANGES**

### **Convergence with International Financial Reporting Standards**

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010.

While IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles ("GAAP"), there are significant differences on recognition, measurement, and disclosures. The Company identified a number of key areas impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and other decommissioning obligations; share-based payments; employee future benefits; and deferred income taxes.

Note 28 to the consolidated financial statements provides more detail on key Canadian GAAP to IFRS differences, accounting policy decisions and *IFRS 1, First-Time Adoption of International Financial Reporting Standards* optional exemptions for significant or potentially significant areas that have had an impact on Interfor's financial statements on transition to IFRS or may have an impact in future periods.

### *IFRS Transitional Impact on Equity*

As a result of the policy choices selected and changes required under IFRS, Interfor has recorded an increase in equity of \$3.4 million as at the date of transition, January 1, 2010. The table below outlines adjustments to equity on adoption of IFRS on January 1, 2010 and December 31, 2010 for comparative purposes<sup>1</sup>:

	January 1 2010	December 31 2010
	(millions of dollars)	
Equity under Canadian GAAP	\$ 358.0	\$ 347.3
Transition election to fair value property	15.7	15.7
Employee future benefits	(6.9)	(9.0)
Decommissioning liabilities	(2.8)	(3.3)
Share based compensation	(2.1)	(2.2)
Equity participation in associate's income	(0.9)	(1.1)
Deferred income taxes	0.3	-
<b>Total IFRS adjustments to equity</b>	<b>3.4</b>	<b>0.2</b>
<b>Equity under IFRS</b>	<b>\$ 361.4</b>	<b>\$ 347.5</b>

<sup>1</sup> Table may not add due to rounding

### *IFRS Impact on Comprehensive Income*

The following is a summary of the adjustments to Comprehensive Income for the year ended December 31, 2010 under IFRS:<sup>1</sup>

	Year ended December 31, 2010
	(millions of dollars)
Comprehensive loss under Canadian GAAP	\$ (11.6)
Profit adjustments	
Employee future benefits	0.4
Decommissioning liabilities	(0.5)
Share based compensation	(0.1)
Equity participation in associate's income <sup>2</sup>	-
Plant and equipment <sup>2</sup>	-
Deferred income taxes	(0.9)
<b>Total IFRS adjustments to net earnings</b>	<b>(1.3)</b>
Other comprehensive income adjustments	
Employee future benefits – actuarial gains (losses)	(2.5)
Equity participation in associate's employee future benefits	(0.1)
Deferred income taxes	0.6
<b>Total other comprehensive income adjustments</b>	<b>(2.0)</b>
<b>Comprehensive income (loss) under IFRS</b>	<b>\$ (14.8)</b>

<sup>1</sup> Table may not add due to rounding

<sup>2</sup> Due to rounding, amount appears to have no impact

### *IFRS Impact on Cash Flow Statement*

The only impact of IFRS on the Statement of Cash Flows is in the presentation of cash interest paid as a financing activity. Under previous Canadian GAAP, cash interest paid was included as an operating activity.

As a result, this presentation change will increase the cash flows from operating activities and reduce cash flows from financing activities in future periods by the equivalent amount. For the year ended December 31,

2010 operating cash flows increased by \$8.9 million compared to Canadian GAAP, with cash flow from financing activities reduced by the same amount. There is no impact on cash and cash equivalents as a result of this presentation change.

#### *IFRS Impact on Financial Statement Presentation*

The transition to IFRS has resulted in numerous presentation changes in the financial statements. The significant changes are summarized as follows:

- Other intangible assets include software licences. These licences were previously included in Property, plant and equipment;
- The Statement of Financial Position presents additional disclosure of balances separately including employee future benefits assets and provisions and the investment in associate company;
- Finance costs include interest on debt, accretion expense for decommissioning provisions, and amortization of prepaid financing costs. Accretion was previously included in Production costs. Amortization of prepaid financing costs was previously included in Depletion and amortization of timber, roads and other; and
- Interest paid is presented as a financing activity in the Statement of Cash Flows, as previously described.

The above changes are reclassifications within the financial statements and have no impact on net earnings or equity.

#### *IFRS Impact on Key Performance Measures*

The transition to IFRS did not significantly impact the Company's financial covenants and key ratios that have an equity component.

#### *IFRS Impact on Controls and Information Systems*

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

### **New Accounting Policy – Derivative Financial Instruments, Interest Rate Swaps**

On August 25, 2011, the Company entered into two interest rate swaps and designated these financial instruments as cash flow hedges. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense based on BA CDOR. As these derivatives are designated as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under the Revolving Term Line, the effective portion of changes in the fair value of the derivative is recognized in Other comprehensive income (loss) and presented in the Hedging reserve in Equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in Net earnings (loss).

### **Future Accounting Policy Changes**

IFRS 9, Financial Instruments, replaces the multiple classification and measurement models in IAS 39, Financial Instruments: Recognition and Measurement, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IAS 19, Employee Benefits, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option. This standard is in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements other than the effect of the elimination of the corridor method.

The standard-setting bodies that set IFRS have significant ongoing projects that could impact the IFRS accounting policies selected. Specifically, it is anticipated that there will be additional new or revised IFRS or IFRIC standards in relation to financial instruments and leases currently on the International Accounting Standards Board agenda.

## **RISKS AND UNCERTAINTIES**

### **Pricing**

Interfor's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Product selling prices are, in turn, affected by such factors as the general level of economic activity in the markets in which Interfor sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada, Japan and China), and log and chip supply/demand relationships. Interfor's financial results may be significantly affected by changes in the selling prices of its products. Based on 2011 levels of operations, a \$10 change in the Company's average selling price of its products would impact net earnings as follows:

Lumber	\$10 increase per thousand fbm	\$9.8 million increase in net income
Chips	\$10 increase per unit <sup>1</sup>	\$4.4 million increase in net income

<sup>1</sup> Interfor sells chips in either volumetric units (VU's or GPU's - B.C. Coastal operations) or bone dry units (BDU's - B.C. Interior and Pacific Northwest operations).

### **Competition**

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number are, in certain product lines, lower cost producers than Interfor.

Factors which affect the Company's competitive position include:

- the foreign exchange rate;
- the cost of labour;
- the costs of harvesting or purchasing logs;
- the quality of its products and customer service;
- the ability to secure space on vessels for overseas shipments and on trucks and railcars for North American shipments;
- the cost of export taxes payable on sales to the U.S.; and
- its ability to maintain high operating rates and thus lower manufacturing costs.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

### **Availability of Log Supply**

The log requirements of Interfor's mills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market. Logs produced but unsuitable for use in Interfor's mills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian mills generally purchase less than 50% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre for its U.S. based mills, with some logs provided by the Company's Canadian coastal logging operations for the sawmills located on the Olympic Peninsula. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on Interfor's business, financial position, results of operations and cash flow.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, Interfor must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the



engineering for roads. Interfor expects to fund its ongoing road development through the cash generated from operations and through utilization of its existing bank facilities.

### **Use of Financial and Other Instruments**

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

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

Lumber futures are traded through a well established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time the risk of credit loss on these instruments is considered low.

### **Currency Exchange Sensitivity**

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

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

The Company actively manages its currency exchange risk for fluctuations in US\$ and Japanese Yen by identifying opportunities from time to time to enter into foreign exchange contracts to effectively hedge its net exposure. As at December 31, 2011, the Company has outstanding obligations to sell a maximum of US\$16.3 million at an average rate of CAD\$1.0334 to the US\$1.00, sell Japanese ¥90.0 million at an average rate of ¥75.65 to the US\$1.00 and buy a maximum of US\$2.0 million at an average rate of CAD\$1.01775 to the US\$1.00 during 2011. All foreign currency gains or losses to December 31, 2011 have been recognized in the Statement of Operations and the fair value of the foreign currency contracts has been recorded as an asset of \$0.3 million in accounts receivable (2010 - \$0.5 million asset fair value recorded in accounts receivable and a negligible liability in accounts payable).

Based on the Company's net exposure to foreign currencies resulting from forward contracts in 2011, the sensitivity of Interfor's net earnings is as follows:

US\$	\$0.01 increase vs. CAD\$	\$1.9 million increase in net income
Japanese Yen	1¥ increase vs. US\$	\$0.1 million increase in net income

Until 2010, Interfor's U.S. operations produced and sold products almost exclusively for the U.S. market, but with the poor U.S. housing starts and increased demand from China and other overseas markets there has been sizable growth in export sales in the last two years. All revenues and expenses are denominated in US\$. All foreign currency denominated assets and liabilities of the U.S. foreign operations with a U.S. dollar functional currency is translated at exchange rates in effect at the balance sheet date. Revenues and expenses are translated at the average rates for the period. Unrealized gains and losses arising upon translation of net foreign currency investment positions in U.S. dollar functional currency foreign operations, together with any gain or losses arising from hedges of those net investment positions to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the

previously recorded net unrealized gains (losses) thereon in the Translation Reserve are reclassified to the Statement of Operations.

The Company recorded a \$2.7 million unrealized foreign exchange gain on translation of its U.S. operations with a functional currency of \$US (2010 - \$7.6 million loss) to Other comprehensive income (loss) in 2011.

On October 1, 2008, the Company designated the US\$30.2 million drawn under its Revolving Term Line for the acquisition of its Beaver operations as a hedge against its investment in its U.S. operations. Unrealized foreign exchange loss of \$0.7 million (2010 - \$1.7 million gain) have been recorded in Other comprehensive income (loss) in 2011.

In 2010, in conjunction with the amendments to its credit facilities on January 15, 2010, the Company drew US\$35.0 million (\$35.8 million) on its Revolving Term Line and repaid and cancelled its U.S. dollar Non-Revolution Term Line. Upon repayment of the loan, the foreign exchange gain of \$1.0 million realized on repayment of the Non-Revolution Term Line was recognized in Other foreign exchange gain (loss) on the Statement of Operations. The Company subsequently drew a further \$36.7 million and repaid the drawings of US\$35.0 million used to repay the Non-Revolution Term Line, realizing a foreign exchange loss of \$0.9 million which was recognized in Other foreign exchange gain (loss) on the Statement of Operations in 2010.

### **Cost of Debt Financing and Sensitivity**

As at December 31, 2011 Interfor had drawn from its operating and term credit facilities of floating rate debt a total of \$110.7 million (2010 - \$160.8 million), including letters of credit.

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

On August 25, 2011, the Company entered into two interest rate swaps, each with notional value of \$25 million and maturing July 28, 2015. Under the terms of the swaps the Company pays an amount based on a fixed annual interest rate of 1.56% and receives a 90 day BA CDOR which is recalculated at set interval dates. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. As these interest rate swaps have been designated as cash flow hedges the fair value of these interest rate swaps at December 31, 2011 being a liability of \$0.5 million (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts payable and accrued liabilities and a charge of \$0.5 million has been recognized in Other comprehensive income.

Based on the Company's average debt level during 2011, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$0.4 million in net earnings.

### **Regulatory Issues**

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

From time to time the changes in government policy or regulation may impact the company's operations. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

### **Allowable Annual Cut ("AAC")**

Interfor holds cutting rights in B.C. that represent an AAC of approximately of 3.77 million cubic meters. Of this amount 3.5 million cubic meters is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures (timber Licences and non-replaceable forest licences) that will expire over time.

The AAC is regulated by the Ministry of Forests and Range and subject to periodic reviews that assess and then make determinations to set harvesting rates for each tenure. Many factors affect the AAC such as timber

inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

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

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

### **Aboriginal Issues**

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

The courts have also established that the Crown has a duty to consult with aboriginal groups and where appropriate accommodate aboriginal interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long standing complex issues. In British Columbia the Province has initiated a New Relationship process with First Nations that is intended to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement. The Province and First Nations groups on the B.C. Coast have signed Reconciliation Protocols that provides a shared decision making process for resource and land use, as well as new forest sector opportunities. These agreements overlap portions of Interfor's Coastal tenures. The agreement will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

### **Stumpage Fees**

Stumpage is the fee the Crown charges companies to harvest timber from Crown land. Stumpage payments for a harvesting area is based on a competitive market pricing system (MPS) that has been established for both the coast and interior regions of B.C..

Amending the stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The primary variable in MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that go into determining an individual stumpage rate for each cutting permit.

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

On October 8, 2010, the U.S. Department of Commerce informed Canada that it was requesting consultations under the SLA agreement with respect to current and past pricing of MPB damaged timber. On January 18, 2011 U.S. Trade Representative's office filed for arbitration under the provisions of the Softwood Lumber Agreement over its concern that the Province of B.C. is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The arbitration will be conducted by the LCIA. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the U.S. Trade Representative filed a detailed statement of claim with the LCIA and Canada delivered its response in November, 2011. A hearing before the arbitration panel is expected to take place in early 2012 with a final decision expected by the end of 2012.

As the arbitration process is still in its early stages, the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2011.

Periodic changes in the British Columbia government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

## **Environment**

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

## **Labour Disruptions**

The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers' Union ("USW") union. The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) has an expiry date of June 30, 2013 while the USW agreement for the B.C. Coast (Acorn and Hammond) expires on June 15, 2014. The Company also has 18 employees in the B.C. Interior who are members of the Canadian Marine Service Guild, and their collective agreement expires September 30, 2014.

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

## **OUTLOOK**

Business conditions have improved in recent weeks with a more positive tone in the US and higher activity levels in China. That said, the global economic environment remains uncertain. Interfor expects to maintain operating rates at current levels or above for the next few quarters but will remain alert to activity level in order to keep inventory levels in balance.

Considerable attention is being devoted to the Grand Forks and Castlegar capital projects with a goal of completing construction by the end of the first quarter of 2013 rather than the budgeted completion at the end of the third quarter of 2013.

The Canadian dollar is expected to trade close to par against the U.S. dollar.

With the prospect of continuing challenges in the North American markets, the Company continues its disciplined approach to production, inventory management and capital spending and looks to continuing to build its relationships with the emerging export markets.

## **ADDITIONAL INFORMATION**

Additional information relating to the Company and its operations can be found on its website at [www.interfor.com](http://www.interfor.com) and in the Annual Information Form and on SEDAR at [www.sedar.com](http://www.sedar.com). Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.



**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 International Financial Reporting Standards 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 read "D. Davies".

Duncan K. Davies

President and Chief Executive Officer

A handwritten signature in black ink, appearing to read "John A. Horning".

John A. Horning

Senior Vice President, Chief Financial Officer and  
Corporate Secretary

February 17, 2012

**International Forest Products Limited**  
**CONSOLIDATED FINANCIAL STATEMENTS**  
**INDEPENDENT AUDITORS' REPORT**

To the Shareholders

We have audited the accompanying consolidated financial statements of International Forest Products Limited (the "Company") which comprise the consolidated statements of financial position as at December 31, 2011, December 31, 2010 and January 1, 2010, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2011 and December 31, 2010, and notes, comprising a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*


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

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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of International Forest Products Limited as at December 31, 2011, December 31, 2010 and January 1, 2010, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2011 and December 31, 2010 in accordance with International Financial Reporting Standards.



KPMG LLP, Chartered Accountants

February 17, 2012  
Vancouver, Canada

**International Forest Products Limited**  
**Consolidated Statements of Financial Position**

(Expressed in thousands of Canadian dollars)  
December 31, 2011 and 2010 and January 1, 2010

	<i>Note</i>	December 31 2011	December 31 2010	January 1 2010
<b>Assets</b>				
<i>(note 28)</i>				
Current assets:				
Cash and cash equivalents	9	\$ 10,435	\$ 9,301	\$ 3,802
Trade accounts receivable and other		44,000	45,961	32,951
Income taxes recoverable	19	-	-	230
Inventories	5	97,645	71,762	60,159
Prepayments		10,757	8,334	7,777
		162,837	135,358	104,919
Employee future benefits	22	1,256	515	972
Investment in associate company	6	-	16,074	7,855
Other investments and assets	6	2,836	2,636	1,164
Property, plant and equipment	7	340,034	347,990	370,994
Logging roads and bridges	8	16,753	17,063	16,485
Timber licences	8	76,792	80,154	67,010
Other intangible assets	8	1,250	1,723	2,255
Goodwill	8	13,078	13,078	13,078
Asset classified as held for sale	7	-	-	3,424
		\$ 614,836	\$ 614,591	\$ 588,156
<b>Liabilities and Shareholders' Equity</b>				
Current liabilities:				
Trade accounts payable and accrued liabilities		\$ 60,692	\$ 50,053	\$ 38,482
Reforestation liability	12	14,121	9,785	6,772
Income taxes payable	19	1,058	230	-
Payable to associate company	10	-	15,738	3,096
		75,871	75,806	48,350
Reforestation liability	12	17,777	17,325	16,588
Long-term debt	9	110,713	156,037	144,525
Employee future benefits	22	8,186	5,815	5,428
Provisions and other liabilities	11	11,467	12,158	11,856
Equity:				
Share capital:				
Issued and fully paid:				
Class A subordinate voting shares	13	342,285	285,362	284,500
Class B common shares		4,080	4,080	4,080
Contributed surplus	13	7,476	5,408	5,408
Translation reserve		(4,929)	(7,646)	-
Hedge reserve		(503)	-	-
Retained earnings		42,413	60,246	67,421
		390,822	347,450	361,409
		\$ 614,836	\$ 614,591	\$ 588,156

Commitments and contingencies (*note 20*); Subsequent events (*note 27*).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:



E.L. Sauder, Director



G.H. MacDougall, Director

**International Forest Products Limited**  
**Consolidated Statements of Comprehensive Income**  
(Expressed in thousands of Canadian dollars, except earnings per share amounts)  
Years ended December 31, 2011 and 2010

	<i>Note</i>	2011	2010
			<i>(note 28)</i>
Sales		\$ 758,016	\$ 625,618
Costs and expenses:			
Production		681,363	556,551
Selling and administration		20,548	17,508
Long term incentive compensation		449	1,966
Export taxes		9,029	7,427
Depreciation of plant and equipment	<i>7</i>	27,291	27,475
Depletion and amortization of timber, roads and other	<i>8</i>	24,263	18,521
		<u>762,943</u>	<u>629,448</u>
Operating loss before restructuring costs and write-downs of plant and equipment		(4,927)	(3,830)
Restructuring costs and write-downs of plant and and equipment	<i>18</i>	(580)	(1,578)
Operating loss		(5,507)	(5,408)
Other earnings (expenses):			
Finance costs	<i>16</i>	(7,094)	(10,441)
Other foreign exchange gain (loss)		204	(280)
Other income (expense)	<i>17</i>	371	(25)
Equity in earnings of associate company	<i>4,6</i>	-	11,431
		<u>(6,519)</u>	<u>685</u>
Loss before income taxes		(12,026)	(4,723)
Income taxes:	<i>19</i>		
Current		817	60
Deferred		610	410
		<u>1,427</u>	<u>470</u>
Net loss		(13,453)	(5,193)
Other comprehensive loss:			
Foreign currency translation differences		2,632	(7,433)
Defined benefit plan actuarial losses	<i>22</i>	(4,541)	(2,490)
Equity share of associate company's defined benefit plan actuarial losses		-	(115)
Loss in fair value of interest rate swaps	<i>26</i>	(503)	-
Income tax on other comprehensive loss	<i>19</i>	250	410
		<u>(2,162)</u>	<u>(9,628)</u>
Comprehensive loss		<u>\$ (15,615)</u>	<u>\$ (14,821)</u>
Net loss per share:			
Basic and diluted	<i>21</i>	\$ (0.25)	\$ (0.11)

See accompanying notes to consolidated financial statements.



**International Forest Products Limited**  
**Consolidated Statements of Changes in Equity**

(Expressed in thousands of Canadian dollars, except earnings per share amounts)  
 Years ended December 31, 2011 and 2010

	<i>Note</i>	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
Balance at January 1, 2010	28	\$ 284,500	\$ 4,080	\$ 5,408	\$ -	\$ -	\$ 67,421	\$ 361,409
Net loss:		-	-	-	-	-	(5,193)	(5,193)
Other comprehensive loss:								
Foreign currency translation differences, net of tax	19	-	-	-	(7,646)	-	-	(7,646)
Defined benefit plan actuarial losses, net of tax	19, 22	-	-	-	-	-	(1,867)	(1,867)
Equity in associate company's defined benefit plan actuarial losses	22	-	-	-	-	-	(115)	(115)
Contributions:								
Share options exercised	13	862	-	-	-	-	-	862
Balance at December 31, 2010		285,362	4,080	5,408	(7,646)	-	60,246	347,450
Net loss:		-	-	-	-	-	(13,453)	(13,453)
Other comprehensive loss:								
Foreign currency translation differences, net of tax	19	-	-	-	2,717	-	-	2,717
Defined benefit plan actuarial losses, net of tax	19, 22	-	-	-	-	-	(4,376)	(4,376)
Loss in fair value of interest rate swaps	26	-	-	-	-	(503)	-	(503)
Contributions:								
Share options exercised	13	1,370	-	-	-	-	-	1,370
Share issuance, net of share issue expenses and tax	13	55,553	-	-	-	-	-	55,553
Changes in ownership interests in investee:								
Acquisition of subsidiary	4	-	-	2,068	-	-	(4)	2,064
Balance at December 31, 2011		\$ 342,285	\$ 4,080	\$ 7,476	\$ (4,929)	\$ (503)	\$ 42,413	\$ 390,822

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, 2011 and 2010

	<i>Note</i>	2011	2010
<i>(note 28)</i>			
Cash provided by (used in):			
Operating activities:			
Net loss		\$ (13,453)	\$ (5,193)
Items not involving cash:			
Depreciation of plant and equipment	7	27,291	27,475
Depletion and amortization of timber, roads and other	8	24,263	18,521
Income tax expense	19	1,427	470
Finance costs	16	7,094	10,441
Other assets		238	(5)
Reforestation liability	12	(90)	(670)
Other liabilities and provisions		(2,761)	287
Equity in earnings of associate company	4,6	-	(11,431)
Write-down (reversals) of plant, equipment, and roads	7,8	(423)	809
Unrealized foreign exchange losses (gains)		191	(71)
Other expense (income)		(184)	25
		43,593	40,658
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		3,191	(13,461)
Inventories		(25,613)	(12,423)
Prepayments		(1,698)	(551)
Trade accounts payable and accrued liabilities		9,588	15,161
Income taxes refunded (paid)		(622)	396
		28,439	29,780
Investing activities:			
Additions to property, plant and equipment	7	(16,099)	(10,745)
Additions to logging roads	8	(19,987)	(16,261)
Additions to timber and other intangible assets	8	(126)	(15,218)
Proceeds on disposal of property, plant and equipment	17	273	1,325
Cash received on acquisition of subsidiary	4	4,846	-
Investments and other assets		(921)	(4,383)
		(32,014)	(45,282)
Financing activities:			
Issuance of share capital, net of expenses	13	56,256	862
Interest payments		(5,629)	(8,881)
Funds from promissory note payable to associate	10	-	15,738
Additions to long-term debt	9	100,000	125,819
Repayments of long-term debt	9	(146,000)	(112,534)
		4,627	21,004
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		82	(3)
Increase in cash and cash equivalents		1,134	5,499
Cash and cash equivalents, beginning of year		9,301	3,802
Cash and cash equivalents, end of year		\$ 10,435	\$ 9,301

See accompanying notes to consolidated financial statements.

**1. Nature of operations:**

International Forest Products Limited and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia and in the U.S. Pacific Northwest for sale to markets around the world.

The Company is a publicly listed company incorporated under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1H7.

The consolidated financial statements of the Company as at and for the year ended December 31, 2011 comprise the Company and its subsidiaries.

**2. Statement of Compliance:**

## (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"). These are the Company's first annual consolidated financial statements prepared in accordance with IFRSs and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 28.

These consolidated financial statements were approved by the Board of Directors on February 17, 2012.

## (b) Basis of measurement:

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- (i) Derivative financial instruments are measured at fair value
- (ii) Long-term debt is measured at fair value at inception and at amortized cost thereafter;
- (iii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (iv) The employee benefit assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the defined benefit obligations on a plan by plan basis.

## (c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian dollars, which is the parent company's functional currency. Certain of the Company's subsidiaries have a functional currency of the U.S. dollar and are translated to Canadian dollars. All financial information presented in Canadian dollars has been rounded to the nearest thousand except per share amounts.

## (d) Use of estimates and judgements:

The preparation of the consolidated financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and 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. Actual results may differ from these estimates.

**2. Statement of Compliance (continued):**

## (d) Use of estimates and judgements (continued):

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, share-based compensation, recoverability of assets, rates for depreciation, depletion and amortization, and determination of fair values of assets and liabilities acquired in business combinations and impairment analysis of non-financial assets including goodwill.

**3. Significant accounting policies:**

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and in preparing the opening IFRS statement of financial position at January 1, 2010 for the purposes of the transition to IFRSs, unless otherwise indicated.

## (a) Basis of consolidation:

These condensed 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, transactions and unrealized income and expenses arising from intercompany transactions have been eliminated on consolidation.

## (i) Business combinations:

For business acquisitions on or after January 1, 2010, the Company measures goodwill at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in net earnings. Transaction costs, other than those associated with the issue of debt or equity securities, are expensed as incurred.

As part of its transition to IFRSs, the Company elected not to restate those business combinations that occurred prior to January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under the Company's previous accounting framework, Canadian generally accepted accounting principles ("GAAP").

## (ii) Investment in associate companies:

Investments over which the Company is able to exert significant influence but not control are accounted for on the equity basis and are recognized initially at cost. The consolidated financial statements include the Company's share of the profit or loss and other comprehensive income of equity-accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that it ceases.

**3. Significant accounting policies (continued):**

## (a) Basis of consolidation (continued):

## (ii) Investment in associate companies (continued):

Until January 5, 2011, the Company held 60% of the outstanding common shares of Seaboard Shipping Company Ltd. ("SSCL") with the remaining common shares held by other British Columbia forestry companies. Although the Company owned over 50% of the common shares of SSCL, the shareholders had entered into agreements that limited the Company's ability to control SSCL's strategic decisions. In addition, net earnings of SSCL were distributed based on a percentage of shipments of product by the shareholders and not based on common share ownership. The Company accounted for its investment in SSCL using the equity method with the investment adjusted for earnings of SSCL based on the Company's percentage of earnings as determined based on its shipment percentage and decreased for distributions made by SSCL.

On January 5, 2011 Seaboard became a wholly owned subsidiary of the Company and its accounts were consolidated from the date of change in control.

## (b) Foreign currency:

## (i) Foreign currency transactions:

Transactions in foreign currencies are effectively translated to the respective functional currency at exchange rates at the transaction date. Monetary assets and liabilities denominated in foreign currencies are revalued at each reporting date. Non-monetary assets and liabilities denominated in foreign currencies measured at historical cost are translated using the transaction date exchange rate.

Foreign currency gains or losses arising on revaluation are recognized in Net earnings. Where revaluations relate to trade accounts receivable those foreign currency gains or losses are adjusted to sales revenue; where revaluations relate to trade accounts payable those foreign currency gains or losses are adjusted to production costs.

## (ii) Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the U.S. dollar. Revenues and expenses denominated in foreign currencies are translated to Canadian dollars at average rates for the period, which approximate the transaction date.

Foreign currency denominated assets and liabilities are translated into Canadian dollars at exchange rates in effect at the reporting date. Since January 1, 2010, related unrealized gains and losses are included in Foreign currency translation differences in Other comprehensive income and in the Translation reserve in equity.

Unrealized foreign exchange gains and losses residing in the Translation reserve will be released to net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

Foreign exchange gains or losses arising from a monetary item receivable from a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future and which in substance is considered to form part of the net investment in the foreign operation, are recognized in Foreign currency translation differences in Other comprehensive income and presented in the Translation reserve in equity.

**3. Significant accounting policies (continued):**

## (b) Foreign currency (continued):

## (iii) Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's investments in foreign operations.

Foreign currency differences arising on the re-translation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in Foreign currency translation differences in Other Comprehensive Income to the extent that the hedge is effective and presented in the Translation Reserve in equity. To the extent that the hedge is ineffective, such differences are recognized in Other foreign exchange gain (loss) in net earnings.

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 the Translation reserve. 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 net earnings. When the hedged net investment is disposed of, the relevant amount in the Translation reserve is reclassified to Net earnings as part of the gain or loss on disposal.

## (c) Financial instruments:

## (i) Non-derivative financial instruments:

Non-derivative financial instruments are comprised of cash and cash equivalents, trade and other receivables, trade accounts payable and accrued liabilities, provisions, and loans and borrowings including long-term debt. The Company recognizes receivables, payables and loans on the date that they are originated at fair value plus any direct transaction costs. All other financial assets are recognized initially on the trade date at which the Company becomes party to the contractual provisions of the instrument.

Cash and cash equivalents comprise cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less. Cash and cash equivalents and trade and other receivables are designated as loans and receivables are initially measured at fair value plus any direct transactions costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses.

Trade payables and accrued liabilities, provisions, and loans and borrowings including long-term debt are designated as other financial liabilities and are initially measured at fair value and thereafter at amortized cost using the effective interest rate method.

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

## (ii) Derivative financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign currency exposures. 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.

**3. Significant accounting policies (continued):**

## (c) Financial instruments (continued):

## (ii) Derivative financial instruments (continued):

The Company has chosen not to designate its derivative forward foreign exchange contracts as hedges. These derivative financial instruments are designated as held for trading and, consequently, are carried on the Statement of Financial Position at fair value, with changes in fair value being recorded as an adjustment to Sales in Net earnings.

The Company also trades lumber futures in managing price risk and which are designated as held for trading with changes in fair value being recorded in Other income (expense) in Net earnings. Trading activities are closely monitored and restricted including a maximum number of outstanding contracts outstanding at any point in time.

The Company at times holds derivative interest rate swaps to hedge its interest rate risk exposures and may designate these financial instruments as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under its long-term debt. The effective portion of changes in the fair value of the derivative are recognized in Other comprehensive income and presented in the Hedging Reserve in equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in Net earnings.

The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis.

## (iii) Share capital:

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

## (d) 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.

## (e) Inventories:

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

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

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

**3. Significant accounting policies (continued):**

## (f) Property, plant and equipment:

Property, plant and equipment are recorded at cost or deemed cost less accumulated depreciation and accumulated impairment losses. Depreciation on machinery and equipment is provided on the basis of hours operated relative to the asset's lifetime estimated operating hours. Depreciation on all other assets is provided on a straight-line basis (ranging from 2.5% to 33%) over the estimated useful lives of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

Maintenance costs are recorded as expenses during the period as incurred, with the exception of programs that extend the useful life of the asset or increase its value, which are then capitalized.

As part of its transition to IFRSs, the Company elected to measure a property at its Hammond sawmill site at its fair value and use that fair value as its deemed cost at the date of transition, January 1, 2010 (note 28).

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

## (g) Logging roads and bridges:

Logging roads and bridges are recorded at cost less accumulated amortization and accumulated impairment losses. Road and bridge amortization is computed on the basis of timber cut relative to available timber.

Amortization methods, useful lives and residual values are reviewed annually and adjusted if appropriate.

## (h) Intangible assets:

## (i) Timber licences:

Timber licences are recorded at cost less accumulated depletion and accumulated impairment losses. Timber licence depletion is 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 annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

## (ii) Goodwill:

Goodwill is measured at cost less accumulated impairment losses. See note 3(a) for the policy on measurement of goodwill at initial recognition. In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recognized under previous Canadian GAAP.

## (iii) Other intangible assets:

Other intangible assets are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization on other intangible assets is provided on a straight-line basis over five years being the estimated useful lives of the assets. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.



**3. Significant accounting policies (continued):**

## (i) Impairment of non-financial assets:

At each reporting date, the Company assesses its non-financial assets to determine whether there are any indications of impairment. Impairment tests are carried out annually for goodwill.

The Company conducts a review of external and internal sources of information to assess for any indications of impairment. External factors include adverse changes in expected future prices, costs and other market and economic factors. Internal factors include changes in the expected useful life of the asset or changes to the planned capacity of the asset.

Key assumptions used are based on industry sources, including Forest Economic Advisors, LLC and Resources Information Systems Inc., as well as management estimates. Assumptions encompass lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, the level of sales to the U.S. from Canada, the export tax rate, future capital required to maintain the assets in their current operation condition, and other items.

If any indication of impairment exists, an estimate of the asset's recoverable amount is calculated. The recoverable amount is determined as the higher of the fair value less direct costs to sell for the asset and the asset's value in use. If the carrying amount of the asset exceeds its recoverable amount, the asset is impaired and an impairment loss is charged to net earnings to reduce the carrying amount in the Statement of Financial Position to its recoverable amount.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties.

Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal. Value in use is determined by applying assumptions specific to the Company's continued use of the asset and does not take into account future capital enhancements.

In testing for indications of impairment and performing impairment calculations, assets are considered as collective groups, referred to as cash generating units ("CGUs"). CGUs are the smallest identifiable group of assets, liabilities and associated goodwill that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

Impairment assessments are based on a range of estimates and assumptions, including lumber and chip sales prices, operating rates of the assets, raw material and conversion costs, sales volumes, the level of export taxes, and an appropriate discount rate. The Company has analyzed external data in determining appropriate assumptions.

For non-financial assets other than goodwill, impairments previously recognized may be reversed if the internal and external factors and estimates that led to the initial recognition of an impairment in a prior period indicate that the loss has decreased or no longer exists. An impairment loss is reversed if the recoverable amount exceeds the current carrying amount. The reversal is only to a maximum of the carrying amount that would have been recorded had the impairment loss not been recognized originally. An impairment loss for goodwill is not reversed.

**3. Significant accounting policies (continued):**

## (j) Reforestation and other decommissioning provisions:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences and to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of reforestation and road deactivation 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.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimate and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities in terms of reforestation; and road structure and terrain for road deactivation.

Discount rates reflect the risks specific to the decommissioning provision. Adjustments are made to decommissioning provisions each period for changes in the timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time are recognized as Finance costs and revisions to fair value calculations are recognized as Production costs in Net earnings as they occur.

## (k) 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.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings.

## (l) Employee 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 defined benefit obligation, and the associated annual cost of accruing benefits for the defined benefit pension plans and other post-retirement benefits is calculated using the projected unit credit method.

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

**3. Significant accounting policies (continued):**

## (l) Employee benefits (continued):

Actuarial gains and losses arise from actual experience being different from the assumptions, or changes in actuarial assumptions used to determine the defined benefit obligation. Actuarial gains and losses are recognized in Retained earnings through Other comprehensive income in the year they arise.

For defined contribution plans, pension expense is the amount of contributions the Company is required to make in respect of services rendered by employees, the Company has no legal or constructive obligation to pay further amounts. Plans administered by the government are treated as defined contribution plans as is the industry-wide unionized employees' pension plan.

## (m) Equity-settled share based compensation:

The Company has a Share Option Plan and follows the fair value method of accounting for share options. 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 with a corresponding increase to contributed surplus. In accordance with IFRS 2, *Share-based Payment*, no compensation cost has been recognized for share options granted prior to November 7, 2002. No share options have been granted after November 7, 2002.

## (n) Cash-settled share based compensation:

The Company has a Share Appreciation Rights ("SAR") Plan, a Deferred Share Unit ("DSU") Plan and a Total Shareholder Return ("TSR") Plan for directors, officers and certain other eligible employees. The TSR Plan was modified in 2011 to allow for the issuance of Performance Share Units ("PSUs"). The Company follows the fair value method of accounting for SARs, DSUs, and TSRs.

Compensation expense is recorded for SARs over the vesting period based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest.

Compensation expense is recorded for DSUs at the time of the grant, as the DSU Plan allows for immediate vesting, based on the fair value at the date of the grant.

Compensation expense is recorded for TSRs over the performance period based on the estimated fair value of the TSRs at the date of the grant. Fair value is measured using a combination of call options which are valued using a Black-Scholes pricing model.

The fair value of the SARs, DSUs, and TSRs are subsequently measured at each reporting date with any changes in fair value reflected in the Long-term incentive compensation in net earnings. Liabilities are recorded in Trade accounts payable and accrued liabilities and in Other liabilities on the Statement of Financial Position.

## (o) Sales revenue:

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

## (p) Finance income and costs:

Finance income comprises net interest income on funds invested.

Finance costs comprise net interest expense on borrowings, the unwinding of the discount on decommissioning provisions, the amortization of prepaid finance costs and other related transaction costs.

**3. Significant accounting policies (continued):**

## (q) Income tax:

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

## (r) 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 (loss) per share is determined by adjusting the Net earnings and the weighted average shares outstanding during the reporting period for the effects of all dilutive potential common shares, which comprise share options granted.

## (s) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these consolidated financial statements.

IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted.

IAS 19, *Employee Benefits*, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option. This standard is in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

**3. Significant accounting policies (continued):**

(s) New standards and interpretations not yet adopted (continued):

As at the reporting date, no assessment has been made of the impact of these standards on the Company's financial statements other than the effect of the elimination of the corridor method.

**4. Acquisition:**

On January 5, 2011, all other partners in the Seaboard General Partnership ("SGP") withdrew with the exception of Interfor. SGP was wound-up on January 7, 2011 and continues shipping operations as Seaboard Shipping Company Limited ("Seaboard"), which became a wholly-owned subsidiary of Interfor. Seaboard's accounts are included in the consolidated financial statements of the Company from the date of change in control.

This acquisition has been accounted for using the purchase method. At the date of change in control the identifiable assets acquired and liabilities and residual equity assumed were recorded at fair value based on management's best estimates and allocated as follows:

	<i>Note</i>	
Assets acquired:		
Cash		\$ 4,846
Other current assets		1,950
<u>Employee future benefits</u>	<u>22</u>	<u>1,659</u>
		8,455
Liabilities assumed:		
Current trade accounts payable and accrued liabilities		(4,792)
Income taxes payable		(630)
Employee future benefits	22	(326)
Deferred income taxes		(307)
Residual equity assumed:		
Contributed surplus	13	(2,068)
Withdrawing partners' share of actuarial losses recognized through Other comprehensive income		4
<u>Previous carrying value of investment in associate</u>		<u>\$ 336</u>

There was no cash consideration paid and the net assets acquired were equal to the existing interest in Seaboard at the date of change in control.

For the year ended December 31, 2011 Seaboard contributed \$39,875,000 in sales revenue and \$2,298,000 in net earnings.

# International Forest Products Limited

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Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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

## 5. Inventories:

	2011	2010	January 1, 2010
Logs	\$ 59,412	\$ 39,107	\$ 31,011
Lumber	31,729	27,353	24,301
Other	6,504	5,302	4,847
	\$ 97,645	\$ 71,762	\$ 60,159

Inventory expensed in the period includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at December 31, 2011 was \$10,006,000 (2010 - \$6,253,000).

## 6. Investments and other assets:

	2011	2010	January 1, 2010
Seaboard General Partnership	\$ -	\$ 16,074	\$ 7,855
Other investments and deposits	642	524	562
Deferred financing fees, net of accumulated amortization	2,194	2,112	602
	\$ 2,836	\$ 18,710	\$ 9,019

On January 3, 2011 SGP made a distribution to the partners, of which the Company's share was \$15,738,000. In accordance with equity accounting, the distributions were recorded as a reduction of the investment. On January 5, 2011, upon withdrawal of all other partners in SGP, Seaboard became a wholly-owned subsidiary of Interfor and its accounts are included in the consolidated financial statements of the Company from the date of change in control.

# International Forest Products Limited

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Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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

## 7. Property, plant and equipment:

Cost	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
Balance at January 1, 2010	\$ 31,738	\$ 63,081	\$ 416,891	\$ 13,458	\$ 15,859	\$ 30,836	\$ 5,902	\$ 219	\$ 577,984
Additions	-	96	519	523	469	1,021	201	7,916	10,745
Disposals	-	(579)	(10,410)	(225)	(58)	-	-	-	(11,272)
Transfers	-	324	3,434	-	-	607	59	(4,424)	-
Transfers from held for sale	3,424	-	-	-	-	-	-	-	3,424
Exchange rate movements	(140)	(1,162)	(8,787)	(141)	(399)	(462)	(50)	(27)	(11,168)
Balance at December 31, 2010	35,022	61,760	401,647	13,615	15,871	32,002	6,112	3,684	569,713
Additions	36	-	6	759	145	296	403	14,454	16,099
Disposals	-	-	(2,872)	(575)	-	-	-	(15)	(3,462)
Transfers	-	496	12,433	793	1,098	986	15	(15,821)	-
Exchange rate movements	56	463	3,530	61	177	190	20	(2)	4,495
Balance at December 31, 2011	\$ 35,114	\$ 62,719	\$ 414,744	\$ 14,653	\$ 17,291	\$ 33,474	\$ 6,550	\$ 2,300	\$ 586,845
<b>Accumulated Depreciation</b>									
		Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other		Total
Balance at January 1, 2010		\$ 20,211	\$ 150,461	\$ 10,454	\$ 9,078	\$ 12,879	\$ 3,907		\$ 206,990
Depreciation		3,083	18,969	842	2,104	1,947	530		27,475
Disposals		(579)	(9,329)	(157)	(58)	-	-		(10,123)
Impairment (reversal)		-	485	-	-	-	-		485
Exchange rate movements		(272)	(2,216)	(94)	(321)	(164)	(37)		(3,104)
Balance at December 31, 2010		22,443	158,370	11,045	10,803	14,662	4,400		221,723
Depreciation		2,965	19,621	762	1,457	2,072	414		27,291
Disposals		-	(2,802)	(571)	-	-	-		(3,373)
Impairment (reversal)		-	(423)	-	-	-	-		(423)
Exchange rate movements		146	1,152	36	147	95	17		1,593
Balance at December 31, 2011		\$ 25,554	\$ 175,918	\$ 11,272	\$ 12,407	\$ 16,829	\$ 4,831		\$ 246,811
<b>Net book value at</b>									
January 1, 2010	\$ 31,738	\$ 42,870	\$ 266,430	\$ 3,004	\$ 6,781	\$ 17,957	\$ 1,995	\$ 219	\$ 370,994
December 31, 2010	35,022	39,317	243,277	2,570	5,068	17,340	1,712	3,684	347,990
December 31, 2011	35,114	37,165	238,826	3,381	4,884	16,645	1,719	2,300	340,034

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## 8. Roads and bridges, timber tenures, other intangible assets and goodwill:

Cost	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at January 1, 2010	\$ 41,730	\$ 101,718	\$ 4,500	\$ 13,955
Additions	16,261	15,879	143	-
Disposals	(13,681)	-	-	-
Impairment	(310)	-	-	-
Exchange rate movements	(42)	-	(80)	-
Balance at December 31, 2010	43,958	117,597	4,563	13,955
Additions	19,987	-	126	-
Disposals	(15,669)	-	-	-
Exchange rate movements	-	-	32	-
Balance at December 31, 2011	\$ 48,276	\$ 117,597	\$ 4,721	\$ 13,955
Accumulated amortization	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at January 1, 2010	\$ 25,245	\$ 34,708	\$ 2,245	\$ 877
Amortization	15,143	2,735	643	-
Disposals	(13,480)	-	-	-
Impairment	14	-	-	-
Exchange rate movements	(27)	-	(48)	-
Balance at December 31, 2010	26,895	37,443	2,840	877
Amortization	20,297	3,362	604	-
Disposals	(15,669)	-	-	-
Exchange rate movements	-	-	27	-
Balance at December 31, 2011	\$ 31,523	\$ 40,805	\$ 3,471	\$ 877
Net book value at				
January 1, 2010	\$ 16,485	\$ 67,010	\$ 2,255	\$ 13,078
December 31, 2010	17,063	80,154	1,723	13,078
December 31, 2011	16,753	76,792	1,250	13,078

For the purpose of impairment testing, all goodwill is attributable to the Coastal Whitewood cash-generating unit ("CWW CGU"). The recoverable amount of the CWW CGU for impairment assessment was based on its value in use and was determined by discounting the future cash flows generated from the continuing use of the unit for a period of twenty years. The cash flows were projected based on past experience, actual operating results and the 5-year business plan in both 2010 and 2011. Due to the cyclical nature of the forest industry, cash flows for a further 15 years were extrapolated based on an average trend year.

The recoverable amount of the CGU as at December 31, 2011, December 31, 2010 and January 1, 2010 was determined to be higher than the related carrying amount and no impairment has been recognized.

Key assumptions used are based on industry sources, including Forest Economic Advisors, LLC and Resources Information Systems Inc., as well as management estimates. These assumptions include lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, the level of sales to the U.S. from Canada, the export tax rate and the future capital required to maintain the assets in their current operating condition.



**8. Roads and bridges, timber tenures, other intangible assets and goodwill (continued):**

A pre-tax discount rate of 14.5 percent (2010 – 14.3 percent) was applied in determining the recoverable amount of the unit. The discount rate was estimated with the assistance of investment bankers, past experience, and the industry average weighted average cost of capital. An inflation rate of 2.3 percent is applied to the model for years four through twenty.

The values assigned to key assumptions represent management’s assessment of future trends in the forest industry and are based on both external sources and internal historical data.

**9. Cash and borrowings:**

	Operating Line	Revolving Term Line	Non-Revolving Term Line	Total
<b>2011</b>				
Available line of credit	\$ 65,000	\$ 200,000	\$ -	\$ 265,000
Maximum borrowing available	65,000	200,000	-	265,000
Drawings	-	110,713	-	110,713
Outstanding letters of credit included in line utilization	5,062	-	-	5,062
Unused portion of line	59,938	89,287	-	149,225
<b>2010</b>				
Available line of credit	\$ 65,000	\$ 200,000	\$ -	\$ 265,000
Maximum borrowing available	65,000	200,000	-	265,000
Drawings	-	156,037	-	156,037
Outstanding letters of credit included in line utilization	4,756	-	-	4,756
Unused portion of line	60,244	43,963	-	104,207
<b>January 1, 2010</b>				
Available line of credit	\$ 65,000	\$ 150,000	\$ 36,785	\$ 251,785
Maximum borrowing available	61,926	150,000	36,785	248,711
Drawings	-	107,740	36,785	144,525
Outstanding letters of credit included in line utilization	4,997	-	-	4,997
Unused portion of line	56,929	42,260	-	99,189

(a) Operating Line:

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

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

<sup>1</sup>EBITDA represents earnings before interest, taxes, depletion and amortization.

**9. Cash and borrowings (continued):**

## (a) Operating Line (continued):

On July 11, 2011, the Company amended its Operating Line and the maturity date was extended to July 28, 2015. All other terms and conditions of the Operating Line remained substantially unchanged except for a reduction in pricing.

## (b) Revolving Term Line:

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

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

On July 11, 2011, the Company amended its Revolving Term Line and the maturity date was extended to July 28, 2015. All other terms and conditions of the Revolving Term Line remained substantially unchanged except for a reduction in pricing.

In 2011, the Company had net drawings of \$8,900,000 on its Revolving Term Line after using proceeds of \$54,900,000 received on the issuance of 8,222,500 Class A Subordinate Voting shares on April 8, 2011 to reduce debt levels.

As at December 31, 2011, the Revolving Term Line was drawn by US\$30,200,000 (December 31, 2010 - US\$30,200,000) revalued at the year-end exchange rate to \$30,713,000 (December 31, 2010 - \$30,037,000), and \$80,000,000 (December 31, 2010 - \$126,000,000) for total drawings of \$110,713,000 (December 31, 2010 - \$156,037,000), and leaving an unused available line of \$89,287,000.

The US\$30,200,000 drawing under the Revolving Term Line has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$676,000 (2010 - \$1,703,000 gain) arising on revaluation of the Non-Revolving Term Line were recognized in Foreign exchange translation differences in Other comprehensive income.

## (c) Non-Revolving Term Line

At January 1, 2010, the U.S. dollar Non-Revolving Term Line ("Non-Revolving Term Line") was fully drawn at US\$35,000,000 and was revalued to \$36,785,000. In conjunction with amendments to its credit facilities on January 10, 2010 the Company fully repaid and cancelled the Non-Revolving Term Line.

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

2012	\$	-
2013		-
2014		-
2015		110,713
2016		-
	\$	110,713

<sup>1</sup>EBITDA represents earnings before interest, taxes, depletion and amortization.

**9. Cash and borrowings (continued):**

(d) Other:

On January 5, 2011 the Company acquired full control of Seaboard (note 4). Seaboard had demand facilities with a Canadian bank which were secured by a general assignment of account receivable, inventory and insurance. The demand lines ("Seaboard lines") could be drawn in either CAD\$ or US\$ and bore interest at either the bank prime rate plus a margin for CAD\$ borrowings or the U.S. base rate plus a margin for \$US borrowings. Borrowing levels under the Seaboard lines were subject to a borrowing base calculation dependent upon certain accounts receivable.

On September 29, 2011 both Seaboard lines were cancelled and the related security was released.

At December 31, 2011 the Company's cash balances are restricted by the amount of Seaboard's outstanding letters of credit of \$134,000.

**10. Payable to associate company:**

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

On January 3, 2011, SGP declared an income distribution to its partners, of which the Company's share of \$15,738,000 was received by way of setoff against the promissory note payable to SGP.

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## 11. Provisions and other liabilities:

2011	<i>Note</i>	Current	Non-current	Total
Restructuring	<i>11(a), 18</i>	\$ 347	\$ 512	\$ 859
Road deactivation	<i>11(a)</i>	1,211	3,459	4,670
Environmental	<i>11(a)</i>	162	2,130	2,292
Cash-settled equity based compensation				
Share appreciation rights plan	<i>11(b)</i>	1,418	508	1,926
Total shareholder return plan	<i>11(c)</i>	2,385	1,549	3,934
Deferred share unit plan	<i>11(d)</i>	914	1,014	1,928
Deferred compensation payable	<i>11(e)</i>	-	1,307	1,307
Storm damage remediation funds	<i>11(f)</i>	676	476	1,152
Other		68	512	580
		\$ 7,181	\$ 11,467	\$ 18,648
2010	<i>Note</i>	Current	Non-current	Total
Restructuring	<i>11(a), 18</i>	\$ 1,103	\$ 610	\$ 1,713
Road deactivation	<i>11(a)</i>	816	3,839	4,655
Environmental	<i>11(a)</i>	161	1,856	2,017
Cash-settled equity based compensation				
Share appreciation rights plan	<i>11(b)</i>	2,312	790	3,102
Total shareholder return plan	<i>11(c)</i>	-	2,324	2,324
Deferred share unit plan	<i>11(d)</i>	873	1,262	2,135
Deferred compensation payable	<i>11(e)</i>	-	1,241	1,241
Storm damage remediation funds	<i>11(f)</i>	-	-	-
Other		14	236	250
		\$ 5,279	\$ 12,158	\$ 17,437
January 1, 2010	<i>Note</i>	Current	Non-current	Total
Restructuring	<i>11(a), 18</i>	\$ 1,475	\$ 1,578	\$ 3,053
Road deactivation	<i>11(a)</i>	725	3,838	4,563
Environmental	<i>11(a)</i>	252	1,927	2,179
Cash-settled equity based compensation				
Share appreciation rights plan	<i>11(b)</i>	1,928	667	2,595
Total shareholder return plan	<i>11(c)</i>	-	2,305	2,305
Deferred share unit plan	<i>11(d)</i>	592	1,189	1,781
Deferred compensation payable	<i>11(e)</i>	-	-	-
Storm damage remediation funds	<i>11(f)</i>	-	-	-
Other		88	352	440
		\$ 5,060	\$ 11,856	\$ 16,916

The current portion of provisions and other liabilities is included in Trade accounts payable and other accrued liabilities in the Statement of financial position.

**11. Provisions and other liabilities (continued)**

(a) Provisions:

Forestry legislation in British Columbia requires the Company to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of road deactivation 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.

Environmental provisions are made when rehabilitation efforts are likely to occur and the costs can be reasonably estimated. The environmental provision relates primarily to obligations assumed in 2008 upon acquisition of the Castlegar sawmill.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings (loss).

	<i>Note</i>	Restructuring	Road deactivation	Environmental
Balance at January 1, 2010		\$ 3,053	\$ 4,563	\$ 2,179
Provisions made during year	<i>18</i>	1,093	402	-
Expenditures made during year		(2,433)	(340)	(192)
Reversal of provision during year		-	-	(105)
Unwind of discount		-	129	54
Changes in estimated future expenditures		-	(99)	81
Balance at December 31, 2010		1,713	4,655	2,017
Provisions made during year	<i>18</i>	1,003	508	22
Expenditures made during year		(1,857)	(617)	-
Unwind of discount		-	113	49
Changes in estimated future expenditures		-	11	204
Balance at December 31, 2011		\$ 859	\$ 4,670	\$ 2,292

(b) 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. The vesting of the SARs occurs at a rate of 40% two years after granting and 20% per annum thereafter. SARs expire ten years after the date of the grant. The SAR Plan uses notional units that are valued based on the Company's common share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities. Under the SAR Plan, awards will be expensed over the vesting periods based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest. Fair value of the SARs is subsequently measured at each reporting date with any change in fair value resulting in a change in the measure of the compensation for the award and will be amortized over the remaining vesting periods.

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## 11. Provisions and other liabilities (continued):

### (b) Share Appreciation Rights Plan (continued):

Details of the Company's SAR Plan for the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,958,180	\$ 5.01	1,732,580	\$ 5.01
Granted	306,500	5.94	290,000	4.73
Exercised	(136,650)	3.39	-	-
Expired or cancelled	-	-	(64,400)	3.70
<b>Outstanding, end of year</b>	<b>2,128,030</b>	<b>\$ 5.25</b>	<b>1,958,180</b>	<b>\$ 5.01</b>
<b>Units exercisable, end of year</b>	<b>1,204,930</b>	<b>\$ 5.73</b>	<b>1,110,580</b>	<b>\$ 5.88</b>

Weighted average fair value assumptions for grants made in 2011 and 2010 are as follows:

	2011	2010
Risk-free interest rate	3.1%	3.0%
Expected life	8.2 years	8.2 years
Annualized volatility	44%	45%
Dividend rate	0%	0%
Termination rate	12%	12%
Grant date fair value	\$3.17	\$2.55

Details of units outstanding under the SAR Plan at December 31, 2011 are as follows:

Strike price	Units outstanding			Units exercisable	
	Number outstanding, December 31, 2011	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2011	Weighted average strike price
\$1.38	259,650	7.2	\$ 1.38	73,050	\$ 1.38
\$3.40-\$5.21	837,560	4.9	4.75	427,260	4.65
\$6.01-\$7.30	887,320	4.5	6.40	589,820	6.60
\$8.02	143,500	5.1	8.02	114,800	8.02
	<b>2,128,030</b>		<b>\$ 5.25</b>	<b>1,204,930</b>	<b>\$ 5.73</b>

The Company recorded a Long term incentive compensation recovery in respect of the SAR Plan of \$742,000 (2010 – expense of \$506,000) for the year ended December 31, 2011.

### (c) Total shareholder return plan:

In 2003, the Company introduced a Total Shareholder Return Plan ("TSR Plan") for certain key executives. Under the TSR Plan prior to 2011, 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.

**11. Provisions and other liabilities (continued):**

(c) Total shareholder return plan (continued):

Effective January 1, 2011, the Company modified the TSR Plan to allow for the issuance of Performance Share Units ("PSUs"). Under the terms of the plan a participant will receive a target number of PSUs based on a target award divided by the value of the Company's Class "A" Subordinate Voting shares at the effective date of the grant. The number of PSUs which will ultimately vest will be in a range from 50% to 150% of the original grant based on total shareholder return over the performance period.

The number of PSU's outstanding at December 31, 2011 are as follows:

	2011	2010
Outstanding, beginning of year	-	not applicable
Granted	366,397	not applicable
Outstanding, end of year	366,397	not applicable

Compensation expense is recorded for the TSR Plan over the performance period based on the estimated fair value of the TSR Plan payable at the date of the grant. The fair value of the TSR Plan payable is subsequently measured at each measurement date with any changes in fair value reflected in Long term incentive compensation expense in Net earnings (loss).

Fair value of the TSR Plan, including the grants with PSUs, is measured using a combination of call options which are valued using a Black-Sholes pricing model with weighted average assumptions for grants as follows:

	2011	2010
Risk-free interest rate	2.30%	1.89%
Expected life	3 years	3 years
Annualized volatility	43% to 78%	49 to 53%
Dividend rate	0.00%	0.00%
Termination rate	0.00%	0.00%
Grant date fair value	\$1,623	\$910

The Company recorded Long term incentive compensation expense under the TSR Plan of \$1,610,000 (2010 – \$1,234,000) for the year ended December 31, 2011.

(d) Deferred Share Unit Plan:

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

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

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.

**11. Provisions and other liabilities (continued):**

(d) Deferred Share Unit Plan (continued):

The number of DSU's outstanding at December 31, 2011 are as follows:

	2011		2010	
	Units	Average grant value	Units	Average grant value
Outstanding, beginning of year	408,249		361,465	
Granted	50,572	\$ 4.93	46,784	\$ 4.94
Outstanding, end of year	458,821		408,249	

Changes to share values subsequent to issuance of awards will result in adjustments to the compensation accrual and Long term incentive compensation expense in Net earnings (loss). The Company recorded a Long term incentive compensation recovery of \$456,000 (2010 – expense of \$124,000) for the year ended December 31, 2011 in respect of the DSU Plan.

(e) Deferred compensation payable:

Under the TSR Plan, a minimum target award was guaranteed for the Chief Operating Officer irrespective of the actual compound growth rate for the three year period which concluded December 31, 2009. The guaranteed target award matured on December 31, 2009 and was converted in March 2010 into a long-term compensation payable. Valuation adjustments are made monthly to the plan based on a referenced investment fund and compensation expense of \$37,000 (2010 - \$102,000) was recorded as Long term incentive compensation expense for the year ended December 31, 2011.

(f) Storm damage remediation funds:

In the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered mudslides, road washouts and flooding and caused bridge and culvert damage. Certain losses relating to the 2010 storm damage were covered by insurance and in June, 2011 the Company settled with its insurers for recovery of qualifying expenditures, net of the insurance deductible for total proceeds of \$4,836,000.

The Company recorded business interruption insurance recoveries of \$2,714,000 as a reduction in Production costs in Net earnings (loss), applied \$525,000 against amounts previously set up as a receivable for costs already incurred and the remainder of \$1,576,000 was set up as a provision for future remediation on roads and bridges. Under the terms of the insurance settlement, the insurance proceeds must be used for remediation.

As at December 31, 2011 \$1,152,000 of these provisions remain unspent.

**12. Reforestation liability:**

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as logging 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.



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## 12. Reforestation liability (continued):

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

	2011	2010
Reforestation liability, beginning of year	\$ 27,110	\$ 23,360
Reforestation expense on current logging and market logging agreements	12,998	8,663
Reforestation liability on acquisition of timber tenure	-	804
Reforestation expenditures	(9,225)	(6,260)
Unwind of discount	545	604
Changes in estimated future reforestation expenditures	470	(61)
	\$ 31,898	\$ 27,110
Consisting of:		
Current reforestation liability	\$ 14,121	\$ 9,785
Long term reforestation liability	17,777	17,325
	\$ 31,898	\$ 27,110

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation at December 31, 2011 is \$33,282,000 (2010 - \$29,490,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at the long term risk-free interest rate of 2%. Reforestation expense resulting from obligations arising from current logging are included in Production costs for the year and expense related to the unwinding of the discount is included in Finance costs.

## 13. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2011 and 2010 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 2011 and 2010 were as follows:

	Number			Amount
	Class A	Class B	Total	
Balance, December 31, 2009	46,101,476	1,015,779	47,117,255	\$ 288,580
Shares issued on exercise of options	236,200	-	236,200	862
Balance, December 31, 2010	46,337,676	1,015,779	47,353,455	289,442
Share issuance, net of share issue expenses and tax	8,222,500	-	8,222,500	55,553
Shares issued on exercise of options	287,000	-	287,000	1,370
Balance, December 31, 2011	54,847,176	1,015,779	55,862,955	\$ 346,365

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.

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## 13. Share capital (continued):

### (a) Share transactions (continued):

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 April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for gross proceeds of \$57,557,000 less transaction costs of \$2,671,000 to net cash proceeds of \$54,886,000.

Changes in contributed surplus were as follows:

	<i>Note</i>	2011	2010
Contributed surplus, beginning of year		\$ 5,408	\$ 5,408
Addition to contributed surplus upon acquisition of subsidiary	4	2,068	-
		<b>\$ 7,476</b>	<b>\$ 5,408</b>

At December 31, 2011, Class A shares are reserved for possible future issuance as follows:

- (i) 1,015,779 Class A shares are reserved for the conversion of Class B shares; and
- (ii) 1,631,740 Class A shares are reserved for possible issuance pursuant to the share option plan.

### (b) Share option plan:

The Company had 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. There were no options outstanding at December 31, 2011. No share options have been granted after November 7, 2002.

Details of the Company's share option plan for the years ended December 31, 2011 and 2010 are as follows:

	2011		2010	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	287,000	\$ 4.77	751,340	\$ 4.44
Granted	-	-	-	-
Exercised	(287,000)	4.77	(236,200)	3.65
Expired or cancelled	-	-	(228,140)	4.85
<b>Outstanding, end of year</b>	<b>-</b>	<b>\$ -</b>	<b>287,000</b>	<b>\$ 4.77</b>
<b>Options exercisable, end of year</b>	<b>-</b>	<b>\$ -</b>	<b>287,000</b>	<b>\$ 4.77</b>

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## 14. Depreciation, depletion and amortization:

Depreciation, depletion and amortization allocated by function is as follows:

	2011	2010
Production	\$ 50,644	\$ 44,973
Selling and administration	910	1,023
	\$ 51,554	\$ 45,996

## 15. Personnel expenses:

	Note	2011	2010
Wages and salaries		\$ 86,871	\$ 78,817
Government administered pensions and unemployment insurance		5,141	4,372
Workers' compensation insurance		3,270	2,978
Contributions to defined contribution plans	22	4,557	4,230
Expenses related to defined benefit plans	22	338	354
Cash-settled share-based payment transactions and other long term compensation expense	11	449	1,873
Medical, dental, group insurance and other		8,630	7,007
		\$ 109,256	\$ 99,631

## 16. Finance income and costs:

Recognized in Net earnings (loss):

	2011	2010
Interest on borrowing	\$ (5,608)	\$ (8,525)
Unwind of discount on provisions	(707)	(787)
Amortization of prepaid finance costs	(779)	(1,129)
	\$ (7,094)	\$ (10,441)

Recognized in Other comprehensive income (loss):

	2011	2010
Foreign currency translation differences for foreign operations	\$ 2,632	\$ (7,433)
Effective portion of changes in fair value of interest rate swap	(503)	-
Income tax (expense)	85	(213)
	\$ 2,214	\$ (7,646)

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

## 17. Other income (expense):

	2011	2010
Gain (loss) on disposal of surplus equipment and licences	\$ 184	\$ (201)
Gain on settlement of timber takeback	-	376
Gain on lumber futures trading	187	-
Other	-	(200)
	\$ 371	\$ (25)

In 2011, the Company generated \$273,000 in proceeds from the minor disposals of surplus equipment and a timber licence and resulted in a gain of \$184,000. Trading in lumber futures derivative contracts generated a further gain of \$187,000.

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

## 18. 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:

	Note	2011	2010
Plant and equipment write-down (reversal)	7	\$ (423)	\$ 485
Contractor buyout	11	840	-
Severance costs	11	265	1,093
Other (recovery)	11	(102)	-
		\$ 580	\$ 1,578

Restructuring costs of \$580,000 resulted from the buyout of a logging contractor's Bill 13 entitlements during 2011, reversal of a write-down for an asset previously considered impaired, severance costs related to early retirement of hourly workers, and a revision of a previous estimate for an onerous contract.

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

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## 19. Income taxes:

Income tax expense is as follows:

	2011	2010
Current tax expense:		
Current year	\$ 655	\$ 36
Adjustments for prior periods	162	24
	<u>817</u>	<u>60</u>
Deferred tax expense:		
Origination and reversal of temporary differences	(6,370)	(5,119)
Changes in tax rates	(24)	422
Change in unrecognized deductible temporary differences	7,004	5,107
	<u>610</u>	<u>410</u>
	<u>\$ 1,427</u>	<u>\$ 470</u>

Income tax recoveries recognized in Other comprehensive loss is as follows:

	2011	2010
Loss (gain) on hedge of net investment in foreign operation	\$ 85	\$ (213)
Defined benefit plan actuarial losses	165	623
	<u>\$ 250</u>	<u>\$ 410</u>

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## 19. Income taxes (continued):

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

	2011	2010
Income tax recovery at the statutory rate of 26.5% (2010 – 28.5%)	\$ (3,187)	\$ (1,346)
Unrecognized deferred tax assets	7,004	5,107
Non-taxable income of investments accounted for by the equity method	-	(3,258)
Entities with different tax rates	(1,315)	(599)
Benefit of capital losses	(1,064)	-
Non-taxable portion of capital gains	-	(148)
Change in future tax rates and statutory and tax recovery rate difference	(24)	422
Other	13	292
	\$ 1,427	\$ 470

### *Unrecognized deferred taxes:*

The Company has unrecognized deferred tax assets in relation to certain deductible temporary differences and unused tax losses that are available to carry forward against future taxable income. The Company's Canadian non-capital loss carry-forwards and U.S. net operating losses carry-forwards totaling approximately \$241,000,000 (2010 - \$260,000,000) expire between 2014 and 2031, and are available to reduce future taxable income.

Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of its deferred tax assets in excess of its deferred tax liabilities. Deferred tax assets not recognized are shown as follows:

	2011	2010
Unrecognized deferred tax assets:		
Losses carried forward	\$ 35,284	\$ 27,635
Other deductible temporary differences	1,097	-
	\$ 36,381	\$ 27,635

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## 19. Income taxes (continued):

### *Recognized deferred taxes:*

December 31, 2011	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Recognized in Shareholders' Equity	Ending Balance
<b>Deferred tax assets</b>						
Losses	\$ 52,654	\$ (10,426)	\$ -	\$ -	\$ -	\$ 42,228
Reserves	12,215	910	-	(307)	-	12,818
Tax credits	2,520	(1,582)	-	-	-	938
Defined benefit plan actuarial losses	623	-	165	-	-	788
Share issuance costs	-	-	-	-	668	668
Other	1,791	528	-	-	-	2,319
<b>Deferred tax liabilities</b>						
Capital assets	(69,540)	9,959	-	-	-	(59,581)
Loss (gain) on hedge of net investment in foreign operation	(263)	-	85	-	-	(178)
<b>Total</b>	<b>\$ -</b>	<b>\$ (611)</b>	<b>\$ 250</b>	<b>\$ (307)</b>	<b>\$ 668</b>	<b>\$ -</b>

December 31, 2010	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Recognized in Shareholders' Equity	Ending Balance
<b>Deferred tax assets</b>						
Losses	\$ 45,288	\$ 7,366	\$ -	\$ -	\$ -	\$ 52,654
Reserves	10,070	2,145	-	-	-	12,215
Tax credits	2,779	(259)	-	-	-	2,520
Defined benefit plan actuarial losses	-	-	623	-	-	623
Other	2,110	(319)	-	-	-	1,791
<b>Deferred tax liabilities</b>						
Capital assets	(60,197)	(9,343)	-	-	-	(69,540)
Loss (gain) on hedge of net Investment in foreign operation	(50)	-	(213)	-	-	(263)
<b>Total</b>	<b>\$ -</b>	<b>\$ (410)</b>	<b>\$ 410</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

**20. 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:

2012	\$ 15,770
2013	7,490
2014	3,060
2015	1,840
2016	1,650

In October 2011 the Board of Directors approved a \$24 million capital plan to upgrade the Company's Grand Forks and Castlegar sawmills with construction commencing in late 2011. Contracts entered into as at December 31, 2011 totaling \$7,668,000 in respect of these projects are expected to be settled in 2012.

(b) Softwood Lumber Agreement:

On January 18, 2011 U.S. Trade Representative's office filed for arbitration under the provisions of the Softwood Lumber Agreement ("SLA") over its concern that the Province of British Columbia ("B.C.") is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The arbitration will be conducted by the London Court of International Arbitration ("LCIA"). The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the U.S. Trade Representative filed a detailed statement of claim with the LCIA and Canada delivered its initial response in November, 2011. A hearing before the arbitration panel is expected to take place in early 2012 with a final decision expected by the end of 2012.

As the U.S. arbitration request is still in preliminary stages the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at December 31, 2011.

(c) Storm damage:

In September 2011 heavy rains and strong winds on the B.C. mainland coastal and inlet areas resulted in mudslides and debris torrents with some logging areas impacted by road washouts and bridge and culvert damage. Due to the remoteness and magnitude of the areas impacted the Company has been unable to fully assess the extent of the damage and its related costs.

(d) Surety Performance Bonds

The Company has posted \$13,462,000 in surety performance bonds, with various expiry dates extending through 2016.

(e) 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.

**21. Net earnings per share:**

Net earnings per share is based on the earnings attributable to shareholders and a weighted average number of shares outstanding for the year. Diluted net earnings per share is based on profit attributable to shareholders and a weighted average number of shares outstanding for the year adjusted for the dilutive effects of share options.



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## 21. Net earnings per share (continued):

The reconciliation of the numerator and denominator is determined as follows:

	2011			2010		
	Net loss	Weighted average number of Shares	Per share	Net loss	Weighted average number of Shares	Per share
Basic loss per share	\$ (13,453)	53,611	\$ (0.25)	\$ (5,193)	47,134	(0.11)
Share options	-	-	-	-	7*	-
Diluted loss per share	\$ (13,453)	53,611	\$ (0.25)	\$ (5,193)	47,134	\$ (0.11)

\*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. There were no share options outstanding at December 31, 2011.

## 22. Employee future benefits and other post-retirement plans:

The Company maintains a number of savings and retirement plans that are available to employees that meet certain eligibility requirements.

### (a) Defined contribution plans:

In Canada, salaried employees of the Company are provided with the opportunity of making voluntary contributions based on a percentage of an employee's earnings to a Registered Retirement Savings Plan ("RRSP"). The Company matches employees' RRSP contributions with contributions to a Deferred Profit Sharing Plan ("DPSP") with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions.

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2011, the pension expense for this plan is equal to the Company's contribution of \$1,175,000 (2010 - \$1,107,000).

Certain eligible employees of the Canadian Merchant Services Guild ("CMSG") are required to make contributions based on a percentage of earnings into a defined contribution plan. For 2011, the pension expense is equal to the Company's contribution of \$27,000 (2010 - \$8,000).

Employees of Interfor Pacific Inc. and Cedarprime Inc., the Company's U.S. operating subsidiaries, contribute a percentage of their earnings to a 401(k) plan which the Company matches and which vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2011, the pension expense for this plan is equal to the Company's contribution of \$644,000 (2010 - \$589,000).

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

**22. Employee future benefits and other post-retirement plans (continued):**

(b) 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 2011, the pension expense for these plans is equal to the Company's contribution of \$2,119,000 (2010 - \$1,882,000). As there is insufficient information available to enable the Company to account for this plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. The Company's liability is limited to its contributions.

(c) 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 to the DPSP in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company (note 9), with a portion of the commitments being secured by irrevocable letters of credit.

During 2011 the Company recorded an expense of \$592,000 (2010 - \$644,000) in respect of these plans. The amounts accrued for defined contribution commitments is \$4,339,000 (2010 - \$3,945,000).

The accrued liabilities are included in the Company's Statement of Financial Position as follows:

	2011	2010
Trade accounts payable and other accruals	\$ 277	\$ 289
Employee future benefits obligation	4,062	3,656
	\$ 4,339	\$ 3,945

(d) Defined benefit plans:

The Company and the non-union hourly employees at the Adams Lake operations make contributions to a defined benefit pension plan that provides pension benefits upon retirement. The plan entitles a retired employee to receive monthly payments based on a schedule of defined benefit accruals for different periods of service.

The Company makes contributions to a defined benefit pension plan that provides pension benefits to certain eligible employees of the CMSG upon retirement. The plan provides a retired employee a monthly payment based on a percentage of their average earnings at retirement, and their years of service. In addition, the Company provides post retirement medical and life insurance benefits to certain eligible CMSG retirees.

The Company maintains a non-contributory defined benefit pension plan for a former senior executive.

The Company makes contributions to a defined benefit pension plan that provides pension benefits to the eligible employees of SSCL upon retirement. The plan provides a retired employee a monthly payment based on a percentage of their final average salary at retirement, and their years of service. In addition, the Company provides post retirement life insurance benefits to eligible SSCL retirees. Specified individuals at SSCL also receive a supplemental pension upon retirement based on a percentage of final average earnings at retirement, and years of service.

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

## 22. Employee future benefits and other post-retirement plans (continued):

### (d) Defined benefit plans (continued):

The Company measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. The Company has determined, that in accordance with statutory requirements of the plans (such as minimum funding requirements), that, with the exception of the SSCL pension plan, the present value of refunds or reductions in future contributions is not lower than the balance of the total fair value of the plan assets less the total present value of obligations.

The decrease in the defined benefit asset as a result of the asset ceiling limit at December 31, 2011 is \$162,000 (2010 : \$nil).

	<i>Note</i>	Pension Benefits		Other Post-retirement Benefits	
		2011	2010	2011	2010
<b>Defined benefit obligation:</b>					
Beginning of year	\$	34,065	\$ 30,593	\$ 1,169	\$ 1,025
Acquisitions	4	12,223	-	326	-
Service cost		580	368	29	21
Employee contributions		283	219	-	-
Interest cost		2,495	2,046	80	64
Benefit payments		(2,505)	(2,113)	(95)	(54)
Settlements		(290)	-	-	-
Actuarial loss		2,794	2,952	118	113
<b>End of year</b>	<b>\$</b>	<b>49,645</b>	<b>\$ 34,065</b>	<b>\$ 1,627</b>	<b>\$ 1,169</b>
<b>Plan assets:</b>					
Beginning of year	\$	33,536	\$ 30,457	\$ -	\$ -
Acquisitions	4	13,882	-	-	-
Expected return on plan assets		2,899	2,145	-	-
Employer contributions		2,231	2,253	95	54
Employee contributions		283	219	-	-
Benefit payments		(2,505)	(2,113)	(95)	(54)
Settlements		(343)	-	-	-
Actuarial gain (loss)		(1,467)	575	-	-
<b>End of year</b>	<b>\$</b>	<b>48,516</b>	<b>\$ 33,536</b>	<b>\$ -</b>	<b>\$ -</b>

The following summarizes the balances recognized on the Statement of Financial Position:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Fair value of plan assets	\$ 48,516	\$ 33,536	\$ -	\$ -
Present value of unfunded obligations	471	480	1,627	1,169
Present value of funded obligations	49,174	33,585	-	-
Deficit	(1,129)	(529)	(1,627)	(1,169)
Effect of asset ceiling limit	(162)	-	-	-
<b>Accrued obligation</b>	<b>\$ (1,291)</b>	<b>\$ (529)</b>	<b>\$ (1,627)</b>	<b>\$ (1,169)</b>

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## 22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The actuarial losses recognized in Retained earnings through Other comprehensive income are as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Cumulative amount, beginning of year	\$ 2,377	\$ -	\$ 113	\$ -
Acquisitions	147	-	12	-
Actuarial losses	4,261	2,377	118	113
Effect of asset ceiling limit	162	-	-	-
Cumulative amount, end of year	\$ 6,947	\$ 2,377	\$ 243	\$ 113

The Company's accrued benefit assets (liabilities) are included in the Company's Statement of Financial Position as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Employee future benefits asset \$	1,256	\$ 515	\$ -	\$ -
Trade accounts payable and other accrued liabilities	-	-	(50)	(50)
Employee future benefits obligation	(2,547)	(1,044)	(1,577)	(1,119)
	\$ (1,291)	\$ (529)	\$ (1,627)	\$ (1,169)

Plan assets consist of:

Asset category	2011	2010
	Percentage of plan assets	
Equity securities	48%	63%
Debt securities	48%	37%
Other	4%	0%
Total	100%	100%

The Company's net expense for the defined benefit plans has been recognized in Production expense in Net earnings (loss) as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Current service cost	\$ 580	\$ 368	\$ 29	\$ 21
Interest cost	2,495	2,046	80	64
Expected return on plan assets	(2,899)	(2,145)	-	-
Settlement loss	53	-	-	-
	\$ 229	\$ 269	\$ 109	\$ 85

**22. Employee future benefits and other post-retirement plans (continued):**

(d) Defined benefit plans (continued):

Actuarial assumptions used in accounting for the Company maintained benefit plans (expressed as weighted averages) are:

	Pension Benefits		Other Post-retirement Benefits	
	2011	2010	2011	2010
Defined benefit obligation as of December 31				
Discount rate	4.87%	5.50%	4.94%	5.50%
Compensation increases <sup>1</sup>	3.39%	3.25%	-	-
Pension expense				
Discount rate	5.37%	6.25%	5.42%	6.25%
Expected return on plan assets	6.31%	7.00%	-	-
Compensation increases <sup>1</sup>	3.39%	3.25%	-	-

<sup>1</sup>Compensation increases only relate to the CMSG plan and the Seaboard plans.

For measurement purposes at December 31, 2011, the Company has assumed a 6.79% health care cost trend in 2012 grading down to 4.27% in 2015 (2010 – 7.35% health care cost trend in 2011 grading down to 4.27% in 2015).

A one percentage point increase in assumed healthcare cost trend rates would have the following effects:

Health Care Trend Rate	Plus 1%	Minus 1%
Effect on aggregate service and interest cost	\$ 11	\$ 10
Effect on defined benefit obligation	149	137

The overall expected long-term rate of return on assets is 6.31%. The expected long term rate of return is based on market conditions at the calculation date and each plan's asset mix. The actual return on plan assets in 2011 was \$1,432,000 (2010 - \$2,720,000).

Experience adjustments arising on plan liabilities in 2011 were \$58,000 (2010 - \$161,000) and experience adjustments arising on plan assets in 2011 were \$262,000 (2010 - \$757,000).

The Company expects to pay contributions of \$1,699,000 to its defined benefit plans in 2012.

**23. Related party transactions:**

(a) Key management personnel compensation:

Key management personnel are comprised of the Company's directors and executive officers. The remuneration of key management personnel, including directors, was as follows:

	2011	2010
Salary and short-term employee benefits	\$ 3,305	\$ 3,032
Post-employment benefits	344	344
Other long-term benefits	1,230	1,336
Share-based compensation expense (recovery)	(46)	303
	\$ 4,833	\$ 5,015

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## 23. Related party transactions (continued):

(a) Key management personnel compensation (continued):

Obligations in relation to key management personnel, including directors, is as follows:

	2011	2010	January 1, 2010
Trade accounts payable and accrued liabilities	\$ 3,640	\$ 1,490	\$ 1,282
Employee benefits obligation	2,457	2,145	1,879
Provisions and other liabilities	3,964	4,933	3,587
	\$ 10,061	\$ 8,568	\$ 6,748

(b) In 2011 the Company had lumber sales to a significant shareholder in the amount of \$748,000 (2010 - \$751,000).

In 2010 shipping services provided by Seaboard totaled \$7,005,000. Management and other support services to Seaboard totaled \$500,000 in 2010 and lumber sales totaled \$148,000. In January 2011 Seaboard became a wholly owned subsidiary of the Company and its accounts were included in the consolidated financial statements of the Company from the date of change in control and all intercompany transactions have been eliminated.

All transactions were conducted on a normal commercial basis, including terms and prices.

## 24. 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:

	2011	2010
Canada	\$ 214,876	\$ 171,113
United States	263,166	244,625
China/Taiwan	137,421	79,625
Japan	98,088	80,856
Other export	44,465	49,399
	\$ 758,016	\$ 625,618

Sales by product line are as follows:

	2011	2010
Lumber	\$ 538,138	\$ 481,983
Logs	108,413	79,763
Wood chips and other by products	68,355	56,217
Ocean freight and other	43,110	7,655
	\$ 758,016	\$ 625,618

**24. Segmented information (continued):**

Non-current assets by geographic location are as follows:

	2011	2010
Canada	\$ 315,343	\$ 336,790
United States	136,656	142,443
	\$ 451,999	\$ 479,233

**25. 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 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 2010 and 2011, as the economy recovered from the sharp downturn of 2009 and export markets offered growth opportunities the Company reassessed its capital spending programs and approved some capital spending on discretionary projects in addition to expenditures related to maintenance of operating capacity and increased expenditures on road construction.

In 2010, the Company also acquired a timber tenure in the B.C. Interior from Weyerhaeuser Company Limited, securing approximately 275,000 cubic metres of allowable annual cut to its interior fibre supply.

The Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net cash proceeds of \$54,886,000 in early April, 2011. Proceeds were initially used to reduce the Company's debt levels, and subsequently for investments in capital.

In October 2011 the Board of Directors approved a \$24 million capital plan to upgrade the Company's Grand Forks and Castlegar sawmills.

The plan involves the installation of a new small log line at Grand Forks to replace the existing two-line facility, along with funds to complete the installation of an automated lumber grading system. Construction commenced in late 2011 and is expected to be complete by mid 2013.

The investment at Castlegar, which totals \$5 million, consists of a series of high return projects including the installation of an automated lumber grading system focused on increasing productivity and value extraction at that mill.

There were no changes in the Company's approach to capital management during 2011. Under its debt financing agreement, the Company cannot exceed a total debt to total capitalization ratio of 45%, with total debt defined as the total of bank indebtedness, including letters of credit, and long-term debt, net of cash and cash equivalents and total capitalization defined as total debt plus Shareholders' Equity. The financial covenants under the debt financing agreement also carry a minimum working capital and a minimum net worth requirement.

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

**26. Financial instruments:**

## (a) Fair value of financial instruments:

At December 31, 2011, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of \$110,713,000 (2010 - \$156,037,000). 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, 2011, the Company has outstanding obligations to sell a maximum of US\$16,300,000 at an average rate of CAD\$1.0334 to the US\$1.00, sell Japanese ¥90,000,000 at an average rate of ¥75.65 to the US\$1.00 and buy US\$2,000,000 at an average rate of CAD\$1.01775 to the US\$1.00 during 2012. All foreign currency gains or losses to December 31, 2011 have been recognized in the Net earnings (loss) and the fair value of these foreign currency contracts has been measured based on Level 2 of the fair value hierarchy and recorded as an asset of \$283,000 in Trade accounts receivable and other (2010 - \$492,000 asset fair value recorded in Trade accounts receivable and other and \$18,000 liability recorded in Trade accounts payable and accrued liabilities and measured based on Level 2). Foreign exchange losses on forward contracts for the year ended December 31, 2011 total \$229,000 (2010 - \$1,799,000 gain) and have been classified to Sales in Net earnings (loss).

On August 25, 2011, the Company entered into two interest rate swaps, each with a notional value of \$25,000,000 and maturing July 28, 2015. Under the terms of the swaps the Company pays an amount based on a fixed annual interest rate of 1.56% and receives a 90 day BA CDOR which is recalculated at set interval dates. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. As these interest rate swaps have been designated as cash flow hedges the fair value of these interest rate swaps at December 31, 2011 being a liability of \$503,000 (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts payable and accrued liabilities and a charge of \$503,000 has been recognized in Other comprehensive income.

During 2011 the Company also traded lumber futures to manage price risk and which were designated as held for trading with changes in fair value recorded in Other income (expense) in Net earnings (loss). At December 31, 2011 there were no outstanding lumber futures contracts and a gain of \$187,000 was recognized in Other income (expense) on completed contracts for the year ended December 31, 2011.

Lumber futures are traded through a well established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time the risk of credit loss on these instruments is considered low.

## (c) Hedge of investment in foreign operations:

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 foreign U.S. operations. Unrealized foreign exchange losses of \$676,000 in 2011 (2010 - \$1,703,000 gain) have been recorded in Other comprehensive income.



**26. Financial instruments (continued):**

## (d) Financial risk management:

Financial instrument assets include cash and cash equivalents, deposits and accounts receivable. Cash and cash equivalents and deposits and accounts receivable are designated as loans and receivables and measured at amortized cost.

Financial instrument liabilities include bank indebtedness, accounts payable and other accrued liabilities, long-term debt, and certain other long-term liabilities. All financial liabilities are designated as other liabilities and are initially measured at fair value plus any direct transaction costs and subsequently at amortized cost using the effective interest method.

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

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

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

## (i) Credit risk:

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

*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 as to 90% of receivable amounts by the Export Development Corporation or are secured by irrevocable letters of credit.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has managed its credit tightly and experienced minimal bad debts, despite the impacts of the global economic downturn and the growth in export markets. Based on this past experience and its detailed review of trade accounts receivable past due which were considered uncollectible, a reserve in respect of doubtful accounts of \$146,000 was recorded (2010 - \$4,000) for specific trade receivables.

*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.

**26. Financial instruments (continued):**

(d) Financial risk management (continued):

(i) Credit risk (continued):

*Guarantees*

The Company did not provide any guarantees in 2011.

*Exposure to credit risk*

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

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

	2011	2010
Canada	\$ 15,204	\$ 15,418
United States	14,823	13,259
Japan	8,091	6,057
China/Taiwan	3,375	7,268
Other	2,507	3,959
	<b>\$ 44,000</b>	<b>\$ 45,961</b>

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations. Given the global economic downturn experienced through most of 2009, Company executives focused on cash management to ensure maintenance of adequate liquidity and continued this discipline through 2011.

The Company also maintains a revolving Operating Line and a Revolving Term Line that can be drawn on to meet financing needs.

The estimated cash payments due in respect of contractual and legal obligations including projected major capital improvements are summarized as follows:

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
Accounts payable and accrued liabilities	\$ 52,665	\$ 52,665	\$ -	\$ -	\$ -
Income taxes payable	1,058	1,058	-	-	-
Long-term debt	110,713	-	-	110,713	-
Reforestation liability	31,958	14,121	7,452	5,085	5,300
Provisions and other liabilities	25,459	7,440	6,782	1,699	9,538
Pension solvency payments	2,670	761	1,522	77	310
Operating leases and expected capital commitments	47,859	27,072	14,277	3,490	3,020
<b>Total obligations</b>	<b>\$272,382</b>	<b>\$103,117</b>	<b>\$ 30,033</b>	<b>\$121,064</b>	<b>\$ 18,168</b>

**26. Financial instruments (continued):**

## (d) Financial risk management (continued):

## (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 cash equivalents, accounts receivable, accounts payable and accrued liabilities and long-term debt 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 to manage its currency risk from time to time, as described in Note 26(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, 2011, the Company has US\$ drawings under its Revolving Term Line of US\$30,200,000 (2010 – US\$30,200,000). The US\$ drawings under this Line have been designated as a hedge against the investment in the Company's net investment in its U.S. operations.

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

2011	CAD	USD	Japanese ¥
Accounts receivable	16,256	14,072	100,688
Accounts receivable held by foreign subsidiaries with \$US functional currency	-	11,898	-
	16,256	25,970	100,688
2010	CAD	USD	Japanese ¥
Accounts receivable	17,351	17,938	44,335
Accounts receivable held by foreign subsidiaries with \$US functional currency	-	10,480	-
	17,351	28,418	44,335

As at December 31, 2011, the domestic operations of the Company held cash and cash equivalents of US\$3,008,000 (2010 – US\$6,171,000) and no bank indebtedness (2010 – \$nil). Cash and cash equivalents held by foreign subsidiaries totaled US\$6,125,000 (2010 – US\$564,000).

Based on the Company's net exposure to foreign currencies as at December 31, 2011, including USD denominated cash held in deposits and cash equivalents and USD denominated long-term debt and other USD denominated financial instruments, the sensitivity of the USD balances to the Company's net annual earnings is as follows:

U.S. Dollar	\$0.01 increase vs CAD\$	\$negligible decrease in net income
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**26. Financial instruments (continued):**

## (d) Financial risk management (continued):

## (iii) Market risk: (continued):

Based on the Company's net exposure to foreign currencies as at December 31, 2011, in respect of its net investment in U.S. subsidiaries, the sensitivity of the USD balances to the Company's Other comprehensive income (loss) is as follows:

U.S. Dollar	\$0.01 increase vs CAD\$	\$2,016,000 decrease in OCI
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*Interest rate risk*

The Company reduced its exposure to changes in interest rates on borrowings by entering into two interest rate swaps, as described in Note 26(b) Derivative financial instruments. These agreements mature on July 28, 2015. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense.

Based on the Company's average debt level during 2011, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$424,000 (2010 - \$1,135,000) 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.

**27. Subsequent events:**

## (a) Softwood Lumber Agreement extension

On January 23, 2012, the federal governments of Canada and the United States announced a two year extension of the 2006 Softwood Lumber Agreement to October 2015.

## (b) Significant customer enters into creditor protection

On January 31, 2012, Catalyst Paper Corporation ("Catalyst") announced that the company and certain of its subsidiaries had obtained an Initial Order from the Supreme Court of British Columbia under the Companies' Creditors Arrangement Act. Catalyst is the primary buyer of Interfor's chips on the B.C. Coast, under long-term purchase contracts. Catalyst is also a purchaser of Interfor's pulp logs and other residuals.

Catalyst has indicated that the operations of the Catalyst and its subsidiaries are intended to continue as usual, and obligations to employees and suppliers during the restructuring process are expected to be met in the ordinary course.

All trade accounts receivable outstanding as at December 31, 2011 have been collected in 2012 and therefore no allowance was provided.

As at February 17, 2012 the trade accounts receivable at risk for non-payment total \$439,000.

The outcome of Catalyst's restructuring and any potential impact to the Company cannot be determined at this point. The Court has granted Interfor a security interest as a critical supplier on all current and future products purchased from Interfor.

**28. Explanation of transition to IFRSs:**

As stated in note 2 (a), these are the Company's first annual consolidated financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended December 31, 2011, the comparative information presented in these financial statements for the year ended December 31, 2010 and in the preparation of an opening IFRS Statement of Financial Position at January 1, 2010 (the Company's date of transition).

In preparing its opening IFRS Statement of Financial Position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

*Index to the notes to the reconciliations**Presentation reclassifications:*

- (a) Deferred taxes
- (b) Investment in associate company
- (c) Employee future benefits
- (d) Other intangible assets
- (e) Reforestation liability, current
- (f) Finance costs
- (g) Interest paid

*First-time adoption elections and changes due to IFRS:*

- (h) Currency translation differences
- (i) Employee future benefits
- (j) Investment in associate company
- (k) Property, plant and equipment
- (l) Borrowing costs
- (m) Decommissioning provisions
- (n) Share-based payments
- (o) Business combinations
- (p) Income taxes
- (q) Retained earnings

# International Forest Products Limited

Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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

## 28. Explanation of transition to IFRSs (continued):

### *Reconciliation of equity:*

(thousands of Canadian dollars)	<i>Note</i>	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
		January 1, 2010				December 31, 2010			
<b>Assets</b>									
<b>Current assets:</b>									
Cash and cash equivalents		\$ 3,802	\$ -	-	\$ 3,802	\$ 9,301	\$ -	-	\$ 9,301
Trade accounts receivable and other		32,951	-	-	32,951	45,961	-	-	45,961
Income taxes recoverable		230	-	-	230	-	-	-	-
Inventories		60,159	-	-	60,159	71,762	-	-	71,762
Prepayments		7,777	-	-	7,777	8,334	-	-	8,334
Deferred tax assets	<i>a</i>	2,974	(2,974)	-	-	3,627	(3,627)	-	-
		107,893	(2,974)	-	104,919	138,985	(3,627)	-	135,358
Employee future benefits	<i>c, i</i>	-	6,998	(6,026)	972	-	8,054	(7,539)	515
Investment in associate company	<i>b, j</i>	-	8,775	(920)	7,855	-	17,124	(1,050)	16,074
Other investments and assets	<i>b, c</i>	17,060	(15,896)	-	1,164	28,618	(25,982)	-	2,636
Property, plant and equipment	<i>d, k</i>	357,501	(2,255)	15,748	370,994	333,989	(1,723)	15,724	347,990
Logging roads and bridges		16,485	-	-	16,485	17,063	-	-	17,063
Timber licences		67,010	-	-	67,010	80,154	-	-	80,154
Other intangible assets	<i>d</i>	-	2,255	-	2,255	-	1,723	-	1,723
Goodwill		13,078	-	-	13,078	13,078	-	-	13,078
Asset classified as held for sale		3,424	-	-	3,424	-	-	-	-
		\$ 582,451	\$ (3,097)	\$ 8,802	\$ 588,156	\$ 611,887	\$ (4,431)	\$ 7,135	\$ 614,591

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

### 28. Explanation of transition to IFRSs (continued):

*Reconciliation of equity:*

(thousands of Canadian dollars)	<i>Note</i>	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
		January 1, 2010				December 31, 2010			
<b>Liabilities and Equity</b>									
Current liabilities:									
Trade accounts payable and accrued liabilities	<i>e, n</i>	\$ 43,510	\$ (6,772)	\$ 1,744	\$ 38,482	\$ 58,267	\$ (9,785)	\$ 1,571	\$ 50,053
Reforestation liability	<i>e</i>	-	6,772	-	6,772	-	9,785	-	9,785
Income taxes payable		-	-	-	-	230	-	-	230
Payable to associate company		3,096	-	-	3,096	15,738	-	-	15,738
		46,606	-	1,744	48,350	74,235	-	1,571	75,806
Reforestation liability	<i>m</i>	14,724	-	1,864	16,588	15,017	-	2,308	17,325
Long-term debt		144,525	-	-	144,525	156,037	-	-	156,037
Employee future benefits	<i>c, i</i>	-	4,583	845	5,428	-	4,348	1,467	5,815
Provisions and other liabilities	<i>c, m, n</i>	15,316	(4,706)	1,246	11,856	15,695	(5,152)	1,615	12,158
Deferred income taxes	<i>a, p</i>	3,286	(2,974)	(312)	-	3,627	(3,627)	-	-
Equity:									
Share capital									
Class A subordinate voting shares		284,500	-	-	284,500	285,362	-	-	285,362
Class B common shares		4,080	-	-	4,080	4,080	-	-	4,080
Contributed surplus		5,408	-	-	5,408	5,408	-	-	5,408
Reserves	<i>h</i>	(24,855)	24,855	-	-	(32,501)	24,855	-	(7,646)
Retained earnings	<i>h, q</i>	88,861	(24,855)	3,415	67,421	84,927	(24,855)	174	60,246
		357,994	-	3,415	361,409	347,276	-	174	347,450
		\$ 582,451	\$ (3,097)	\$ 8,802	\$ 588,156	\$ 611,887	\$ (4,431)	\$ 7,135	\$ 614,591

# International Forest Products Limited

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Notes to Consolidated Financial Statements

Years ended December 31, 2011 and 2010

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

## 28. Explanation of transition to IFRSs (continued):

### *Reconciliation of comprehensive income (loss):*

Year ended December 31, 2010	<i>Note</i>	Previous GAAP	IFRSs Reclassify	IFRSs Adjustment	IFRSs
Sales		\$ 625,618	\$ -	\$ -	\$ 625,618
Costs and Expenses:					
Production	<i>f, i, k, m</i>	557,122	(787)	216	556,551
Selling and administration		17,508	-	-	17,508
Long term incentive compensation expense	<i>n</i>	1,873	-	93	1,966
Export taxes		7,427	-	-	7,427
Depreciation of plant and equipment		28,117	(642)	-	27,475
Depletion and amortization of timber, roads and other	<i>f</i>	19,008	(487)	-	18,521
		631,055	(1,916)	309	629,448
Operating earnings (loss) before restructuring costs		(5,437)	1,916	(309)	(3,830)
Restructuring costs		1,578	-	-	1,578
Operating earnings (loss)		(7,015)	1,916	(309)	(5,408)
Finance costs	<i>f</i>	-	(10,441)	-	(10,441)
Interest expense on long-term debt	<i>f</i>	(7,944)	7,944	-	-
Other interest expense	<i>f</i>	(581)	581	-	-
Other foreign exchange loss		(280)	-	-	(280)
Other expense		(25)	-	-	(25)
Equity in earnings of associate company	<i>j</i>	11,446	-	(15)	11,431
		2,616	(1,916)	(15)	685
Loss before income taxes		(4,399)	-	(324)	(4,723)
Income taxes (recovery):					
Current		60	-	-	60
Deferred	<i>p</i>	(525)	-	935	410
		(465)	-	935	470
Net loss		(3,934)	-	(1,259)	(5,193)
Other comprehensive loss:					
Foreign currency translation differences		(7,433)	-	-	(7,433)
Defined benefit plan actuarial losses	<i>i</i>	-	-	(2,490)	(2,490)
Equity share of associate's defined benefit plan actuarial losses	<i>j</i>	-	-	(115)	(115)
Income tax recovery (expense) on other comprehensive losses	<i>p</i>	(213)	-	623	410
		(7,646)	-	(1,982)	(9,628)
Total comprehensive loss for the period		\$ (11,580)	\$ -	\$ (3,241)	\$ (14,821)
Net loss per share, basic and diluted		\$ (0.08)	\$ -	\$ (0.03)	\$ (0.11)



**28. Explanation of transition to IFRSs (continued):***Presentation reclassifications:*

## (a) Deferred taxes:

Under Canadian GAAP deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability.

Under IFRS deferred tax assets and liabilities are classified as non-current.

Consequently, current deferred tax assets under Canadian GAAP have been reclassified against non-current deferred tax liabilities to conform to IFRS requirements.

## (b) Investment in associate company:

Under Canadian GAAP separate disclosure of investments accounted for on the equity basis is required but may be disclosed in either the financial statements or the notes to the financial statements.

Under IAS 1, *Presentation of Financial Statements*, investments accounted for using the equity method must be disclosed separately in the Statement of Financial Position.

The Company's investment in an associate company has been reclassified from Other investments and assets as a separate line item on the Statement of Financial Position to conform to IFRS requirements.

## (c) Employee future benefits:

Employee benefit plan assets and obligations have been reclassified from Other investments and assets and Provisions and other liabilities to highlight items where there has been a significant transitional IFRS adjustment in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards*.

## (d) Other intangible assets, net of accumulated amortization:

Under IAS 38, *Intangible Assets*, computer software acquired or developed for use meets the definition of an intangible asset and is therefore reclassified from Property, plant and equipment on the Statement of Financial Position.

## (e) Reforestation liability, current:

IAS 1, *Presentation of Financial Statements*, requires the separate disclosure of provisions, where significant. Consequently, the current portion of reforestation liability has been reclassified from Trade accounts payable and other accrued liabilities.

## (f) Finance costs:

Under IFRS 7, *Financial Instruments: Disclosures*, interest expense on borrowings, the unwinding of the discount on provisions (accretion expense), the amortization of prepaid financing costs and other related transaction costs are disclosed as finance costs.

Under Canadian GAAP, interest expense on borrowings was disclosed separately, accretion expense was included in Production costs and the amortization of prepaid financing costs were included in Depletion and amortization of timber, roads and other.

To comply with IFRS, these items have been reclassified to Finance costs on the Statement of Comprehensive Income.

**28. Explanation of transition to IFRSs (continued):**

*Presentation reclassifications:*

(g) Interest paid:

Cash flows relating to interest paid have been classified as financing activities in the Statement of Cash Flows. Under Canadian GAAP these were classified under operating activities.

*First-time adoption elections and changes due to IFRS:*

(h) Currency translation differences:

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a foreign subsidiary was formed or acquired. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, permits cumulative translation gains and losses to be reset to zero at the transition date. The Company elected to reset all cumulative translation gains and losses to zero in the opening retained earnings at January 1, 2010.

The impact on the Statement of Financial Position is summarized as follows:

	Jan. 1, 2010	Dec. 31, 2010
Reserve increase	\$ 24,855	\$ 24,855
Reduction in retained earnings	\$ (24,855)	\$ (24,855)

(i) Employee future benefits:

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings as at the transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its transition date of January 1, 2010 in opening retained earnings for all of its employee benefit plans.

Under Canadian GAAP actuarial gains and losses that arise in calculating the present value of the defined benefit obligations and the fair value of plan assets are recognized on a systematic and consistent basis subject to a minimum required amortization based on a "corridor" approach. The corridor was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The unamortized net actuarial gains and losses in excess of the corridor is amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

Under IFRS the Company elected to recognize all actuarial gains and losses immediately in Other comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the income statement but rather are recorded directly to other comprehensive income at the end of each period. Consequently, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses.

Under Canadian GAAP when a defined benefit plan gives rise to an accrued benefit asset, a provision is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the Statement of Financial Position net of the provision. A change in the provision is recognized in earnings for the period in which the change occurs.

**28. Explanation of transition to IFRSs (continued):**

(i) Employee future benefits (continued):

IFRS also limits the recognition of the net benefit asset under certain circumstances to the amount that is recoverable. Since the Company has elected to recognize all actuarial gains and losses in Other comprehensive income, changes in the provision are recognized in other comprehensive income in the period in which the change occurs. The Company did not have a provision in respect of its benefit assets for any of the periods presented.

The impact on the Statement of Financial Position was:

	Jan. 1, 2010	Dec. 31, 2010
Employee future benefit assets decrease	\$ (6,026)	\$ (7,539)
Employee future benefit obligations increase	(845)	(1,467)
Related tax effect	1,718	2,251
Reduction in retained earnings	\$ (5,153)	\$ (6,755)

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Production expense decrease	\$ (355)
Other comprehensive loss:	
Defined benefit plan actuarial losses	2,490
Reduction to comprehensive income before income taxes	\$ 2,135

(j) Investment in associate company:

In applying the equity method of accounting for an investment in an associate company both Canadian GAAP and IFRS require the accounting policies of the associate entity to be consistent with those of the parent company. As such, the employee defined benefit asset of the associate company has been adjusted to reflect the same policies as described in Note 28 (i) for employee future benefits and the Company has reflected its proportionate share of the associate's after-tax adjustments to earnings and comprehensive income.

The impact on the Statement of Financial Position was:

	Jan. 1, 2010	Dec. 31, 2010
Investment in associate decrease	\$ (920)	\$ (1,050)
Reduction in retained earnings	\$ (920)	\$ (1,050)

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Equity in losses	\$ 15
Other comprehensive loss:	
Equity share of associate's defined benefit plan actuarial losses	115
Reduction to comprehensive income before income taxes	\$ 130

**28. Explanation of transition to IFRSs (continued):**

*First-time adoption elections and changes due to IFRS (continued):*

(k) Property, plant and equipment:

IFRS 1 allows a company to elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. The Company identified a property at its Hammond sawmill site which it elected to use fair value as its deemed cost. As at January 1, 2010 the fair value of the property was estimated to be \$16,320,000 with a historical cost of \$572,000.

In addition, the Company reversed certain costs related to the transfer of equipment from one sawmill site to another which, under previous GAAP, qualified for capital treatment, but under IFRS do not.

The impact on the Statement of Financial Position was:

	Jan. 1, 2010	Dec. 31, 2010
Property, plant and equipment increase	\$ 15,748	\$ 15,724
Related tax effect	(1,969)	(1,963)
Increase in retained earnings	\$ 13,779	\$ 13,761

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Production expense increase	\$ 24
Reduction to comprehensive income before income taxes	\$ 24

(l) Borrowing costs:

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs for qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 contains an exemption allowing companies to apply this standard to assets for which the commencement date is the later of January 1, 2009 and the date of transition. The Company elected to take this IFRS 1 exemption and, therefore, borrowing costs prior to January 1, 2010 are expensed.

(m) Decommissioning provisions:

The Company's logging activities give rise to obligations for reforestation and deactivation of logging roads. In addition, the Company has also recognized some environmental provisions.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Canadian GAAP requires the provision to be measured at fair value based on the amount a third party would charge for performing the remediation work. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on "best estimate". The best estimate calculation can be based on internal or external costs, depending upon which is most likely.

**28. Explanation of transition to IFRSs (continued):**

*First-time adoption elections and changes due to IFRS (continued):*

(m) Decommissioning provisions:

Discount rates used under Canadian GAAP for decommissioning provisions (known as asset retirement obligations under Canadian GAAP) are based on the Company's credit-adjusted risk-free rate. Adjustments are made to decommissioning provisions for changes in the timing or amount of the cashflows and the unwinding of the discount. Changes in estimates that decrease provisions are discounted using the discount rate applied upon initial recognition of the liability; changes in estimates that increase the provision are discounted using the current discount rate.

Discount rates used under IFRS reflect the risks specific to the decommissioning provision. Adjustments are made to decommissioning provisions each period for changes in the timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

The impact on the Statement of Financial Position was:

	Jan. 1, 2010	Dec. 31, 2010
Reforestation liability, non-current increase	\$ (1,864)	\$ (2,308)
Provisions and other liabilities increase	(915)	(1,018)
Related tax effect	695	832
Reduction in retained earnings	\$ (2,084)	\$ (2,494)

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Production expense increase	\$ 547
Reduction to comprehensive income before income taxes	\$ 547

(n) Share-based payments:

The Company has granted certain cash-settled share-based payments to certain employees. The Company accounted for these share-based payment arrangements by reference to their intrinsic value under Canadian GAAP.

Under IFRSs the related liability has been adjusted to reflect the fair value of the outstanding cash-settled share-based payments. The fair value is estimated by applying an option pricing model and until the liability is settled the fair value of the liability is remeasured at each reporting date, with changes in fair value recognized as the awards vest. Additionally, IFRS requires an estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Company adjusted expenses associated with cash-settled share-based payments to reflect the changes of the fair values of these awards.

The impact on the Statement of Financial Position was:

	Jan. 1, 2010	Dec. 31, 2010
Trade accounts payable and accrued liabilities increase	\$ (1,744)	\$ (1,571)
Provisions and other liabilities increase	(331)	(597)
Related tax effect	519	542
Reduction in retained earnings	\$ (1,556)	\$ (1,626)

**28. Explanation of transition to IFRSs (continued):**

*First-time adoption elections and changes due to IFRS (continued):*

(n) Share-based payments (continued):

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Long term incentive compensation expense	\$ 93
Reduction to comprehensive income before income taxes	\$ 93

(o) Business combinations:

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the date of transition of January 1, 2010. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. Any goodwill arising on such business combinations prior to the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

(p) Income taxes:

Due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefit of deferred tax assets in excess of deferred tax liabilities under Canadian GAAP or IFRS.

The above changes had the following impact on deferred income tax liabilities based on a tax rate of 25 percent:

	Jan. 1, 2010	Dec. 31, 2010
Employee future benefits	\$ 1,718	\$ 2,251
Property, plant and equipment	(1,969)	(1,963)
Decommissioning provisions	695	832
Share-based payments	519	542
Reduction of deferred income tax assets for loss carry-forwards not recognized	(651)	(1,662)
Reduction to deferred income tax liability and increase in retained earnings	\$ 312	\$ -

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Deferred income tax expense increase	\$ 935
Income tax recovery on other comprehensive losses	(623)
Reduction to comprehensive income	\$ 312

**28. Explanation of transition to IFRSs (continued):**

*First-time adoption elections and changes due to IFRS (continued):*

(q) Retained earnings:

The above changes had the following impact on retained earnings:

	Jan. 1, 2010	Dec. 31, 2010
Employee future benefits	\$ (5,153)	\$ (6,755)
Investment in associate company	(920)	(1,050)
Property, plant and equipment	13,779	13,761
Decommissioning provisions	(2,084)	(2,494)
Share-based payments	(1,556)	(1,626)
Tax reduction of deferred income tax assets for loss carry-forwards not recognized	(651)	(1,662)
Reduction in retained earnings due to IFRS adjustments	3,415	174
Reclassifications due to IFRS		
Currency translation adjustments	(24,855)	(24,855)
Reduction in retained earnings	\$ (21,440)	\$ (24,681)

The impact on the Statement of Comprehensive Income was:

	Year ended Dec. 31, 2010
Production expense	
Employee future benefits	\$ (355)
Decommissioning provisions	547
Property, plant and equipment	24
	216
Long term incentive compensation expense	93
Equity in earnings of associate company reduction	15
Deferred income tax expense	935
Increase to net loss	1,259
Other comprehensive loss increase:	
Defined benefit plan actuarial losses	2,490
Equity share of associate's defined benefit plan actuarial losses	115
Income tax recovery on other comprehensive losses	(623)
Increase in other comprehensive loss	1,982
Increase in comprehensive loss	\$ 3,241



## International Forest Products Limited

### ANNUAL INFORMATION FORM

Dated as of February 17, 2012

#### **FORWARD LOOKING INFORMATION**

This report contains forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included in the description of areas which are likely to be impacted by the description of future cash flows and liquidity under the headings. These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumptions as to general business and economic conditions in the U.S. and Canada, as well as other factors management believes are appropriate in the circumstances. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described in the 2011 annual Management's Discussion and Analysis under "Risks and Uncertainties" and in Interfor's current Annual Information Form. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstance, except as required by law.

#### **DESCRIPTION OF THE BUSINESS**

We are one of the Pacific Northwest's largest producers of quality wood products for sale to markets around the world. We have operations in British Columbia ("B.C."), Washington and Oregon, including two sawmills in the Coastal region of B.C., three in the B.C. Interior, two in Washington and two in Oregon. We also operate a value-added remanufacturing facility in Washington.

Our Company was incorporated under the *Company Act (British Columbia)* on May 6, 1963. On December 1, 1979 we amalgamated with our subsidiary, Whonnock Forest Products Limited. On January 1, 1988 we changed our name from Whonnock Industries Limited to International Forest Products Limited. On February 10, 2006 we transitioned under the *Business Corporations Act (British Columbia)*. Our head office as well as our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

In this document, a reference to the "Company", "Interfor", "we" or "our" means International Forest Products Limited and its predecessors and all our subsidiaries. Our major subsidiary, Interfor Pacific Inc., owns and operates our U.S. sawmills. It is wholly owned and is incorporated in the State of Washington. Other wholly owned subsidiaries whose operations are described below are CEDARPRIME Inc. (incorporated in the State of Washington), Interfor Sales & Marketing Ltd. (incorporated in British Columbia) and Interfor Japan Ltd. (incorporated in British Columbia). Effective January 5, 2011, Seaboard Shipping Company Limited ("Seaboard") became a wholly owned subsidiary of Interfor.

#### **HISTORY AND RECENT DEVELOPMENT OF THE BUSINESS**

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometres east of Vancouver B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources from other companies.



## 2008

2008 was one of the most difficult periods experienced in the lumber industry in recent history. The unprecedented turmoil in financial markets along with the lowest level of U.S. housing starts in over 50 years had a significant impact on the Company's results.

In July 2008, following a prolonged curtailment, the Company permanently closed its Queensboro sawmill division, located in New Westminster, B.C. The property was sold in the third quarter of 2009 for gross proceeds of \$30.1 million.

During the course of 2008, we acquired the Castlegar, B.C. and Grand Forks, B.C. sawmills, related timber harvesting rights and other related assets from Pope and Talbot, Inc., and acquired the Beaver and Forks sawmill, planer mill and inventories on the Olympic Peninsula, WA from Portac, Inc.

## 2009

2009 saw extremely weak North American markets continue to challenge the lumber industry. The turbulence in financial markets, particularly in the first half of 2009, combined with the historically low levels of U.S. housing starts and strengthening Canadian dollar had a significant impact on the Company's results.

Important 2009 accomplishments included the completion and impressive ramp-up of the new Adams Lake sawmill, a return to positive EBITDA for the final two quarters of 2009, and a continued strong financial position.

## 2010

2010 provided many opportunities and successes for Interfor, despite the challenges faced with continued stagnant U.S. housing starts. A refocus on export markets, particularly China, provided alternate markets for slower U.S. demand, added upward pressure on North American pricing resulting in higher sales values, and supported increased operating rates.

Important accomplishments in 2010 included the acquisition of a timber tenure in the Kamloops region from Weyerhaeuser Company Limited to support the increased fibre requirements of the Adams Lake sawmill; increase in lumber and log exports to take advantage of demand from China; operating structure improvements at the Castlegar sawmill which allowed the mill to restart and contribute to 2010 earnings; and a return to positive operating earnings in the fourth quarter, 2010 for the first time since 2006.

## 2011

Overseas markets, particularly China, continued their growth in 2011 helping to offset weak North American demand and providing some stability for pricing. The Company's sales focus has been on developing and maintaining strong relationships in export markets to continue diversification of lumber markets.

Important accomplishments in 2011 included:

- Closing a public offering of 8,222,500 Class "A" Subordinate Voting shares at a price of \$7.00 per share for gross proceeds of \$57.6 million in April, 2011. The net proceeds of \$54.9 million were initially used to reduce debt levels;
- The extension of the Company's credit facilities to 2015;
- The acquisition of the balance of Seaboard;
- The highest level of sales revenues since 2006; and
- Launched a new brand initiative to build the Company's presence in the marketplace and support future growth.

*Continued Strong Financial Position*

The Company has continued to maintain a strong financial position in 2011. Interfor ended 2011 with net debt of \$100.3 million (20.4% of invested capital), down \$46.5 million from 2010, primarily as a result of the share issuance in April, 2011, which generated net proceeds of \$54.9 million.

On July 11, 2011, the Company amended its Operating Line and its Revolving Term Line, extending the maturity dates to July 28, 2015. All other terms and conditions of the Operating Line and Revolving Term Line remained substantially unchanged except for a reduction in pricing.

In late 2011, Interfor announced a \$24 million capital plan to upgrade the Company's Grand Forks and Castlegar sawmills.

*Outlook*

Business conditions have improved in recent weeks with a more positive tone in the US and higher activity levels in China. That said, the global economic environment remains uncertain. Interfor expects to maintain operating rates at current levels or above for the next few quarters but will remain alert to activity level in order to keep inventory levels in balance.

Considerable attention is being devoted to the Grand Forks and Castlegar capital projects with a goal of completing construction by the end of the first quarter of 2013 rather than the budgeted completion at the end of the third quarter of 2013.

The Canadian dollar is expected to trade close to par against the U.S. dollar.

With the prospect of continuing challenges in the North American markets, the Company continues its disciplined approach to production, inventory management and capital spending and looks to continuing to build its relationships with the emerging export markets.

See our Management Discussion and Analysis for the year ended December 31, 2011, a copy of which is available from SEDAR at [www.sedar.com](http://www.sedar.com).

## **MANUFACTURING**

We operate nine sawmills and one remanufacturing plant in B.C., Washington and Oregon. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

### **Interfor Sawmills - Capacity (based on two-shift operation)**

#### **B.C. Interior: 700 MMbf**

Adams Lake: 325 MMbf DFir & SPF Dimension

Castlegar: 225 MMbf DFir, Cedar & SPF Dimension

Grand Forks: 150 MMbf SPF & DFir

#### **B.C. Coast: 315 MMbf**

Hammond: 165 MMbf Cedar Specialty

Acorn: 150 MMbf Hem & DFir Japan/Specialty

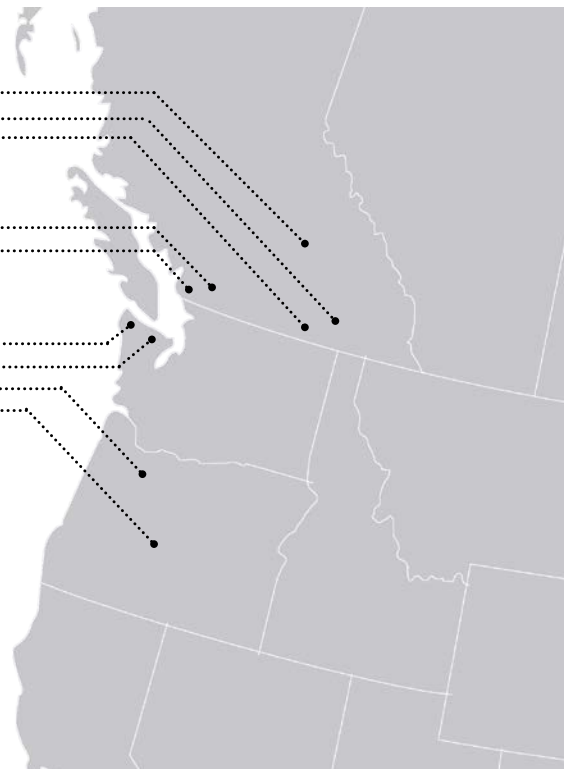
#### **U.S. Pac. NW: 635 MMbf**

Beaver: 170 MMbf Hem & DFir, Dimension/Timbers

Port Angeles: 165 MMbf Hem & DFir Studs

Molalla: 180 MMbf DFir & Hem Studs

Gilchrist: 120 MMbf Pines, DFir, White Fir Dimension/Specialty



The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In addition to improving our manufacturing capability through upgrades, we have increased our efficiency and geographic diversity and expanded our capacity through recent additions of sawmills in Washington and B.C. These acquisitions also enabled us to expand our business while closing sawmills for which upgrades would not have represented a viable investment.

Rated capacity and production of lumber, by mill, for each of the periods specified, is set out in the following table:

Sawmills	Number of Shifts (per day)	Present Rated Capacity <sup>(1)</sup>	Years ended December 31				
			2011	2010	2009	2008	2007
			(millions of board feet)				
<b>B.C. Coast</b>							
Hammond (2)	2	165	80	89	80	106	96
Acorn (2)	2	150	102	118	104	108	108
<b>B.C. Interior</b>							
Adams Lake (3)	2	325	353	339	134	48	206
Castlegar (4)	2	225	136	60	—	—	—
Grand Forks (4)	2	150	124	113	28	28	—
<b>U.S. Pacific Northwest</b>							
Gilchrist (5)	2	120	104	90	43	56	127
Molalla (6)	2	180	185	125	110	66	151
Port Angeles (5)	2	165	128	103	79	72	129
Beaver (7)	2	170	52	73	83	14	—
<b>Sawmills Closed or Sold</b>							
Queensboro (8)			—	—	—	—	38
<b>Total</b>		1,650	1,264	1,110	661	498	855

(1) Based on two shifts per day and 250 operating days per year.

(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond management amounting to 8.0 million board feet for Hammond in 2011.

(3) The old Adams Lake sawmill was closed during 2008. The new Adams Lake sawmill began production in April 2009.

(4) Castlegar and Grand Forks were acquired on April 30, 2008. Volumes reported are Interfor only. Castlegar was curtailed until July, 2010. Grand Forks was curtailed from February to September 2009, inclusive.

(5) Gilchrist and Port Angeles were acquired on September 1, 2004.

(6) Molalla was acquired on May 31, 2005.

(7) Beaver was acquired September 30, 2008.

(8) Queensboro (formerly Western Whitewood) was curtailed indefinitely in December 2007 and permanently closed in July, 2008 and the site was sold in August, 2009.

## B.C. Coast Operations

### *Hammond*

The Hammond operation is located on the Fraser River in Maple Ridge, B.C. The facility is focused on western red cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. The facility consists of a three-line sawmill, a planer mill and dry kilns. In late 2010 and early 2011, the Company spent \$2.6 million on a quad upgrade and in 2011, the Company started a \$2.0 million capital upgrade.

### *Acorn*

The Acorn operation is located on leased land in Delta, B.C. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

## **B.C. Interior Operations**

### *Adams Lake*

Adams Lake is located near Kamloops, B.C. The mill manufactures kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets. Adams Lake has the capability to cut Douglas-fir as well as spruce-pine-fir ("SPF"), western red cedar, and hemlock. In 2006 and 2007 we spent \$32.1 million on an energy system, new hog and barker and infrastructure improvements to facilitate further growth and cost savings.

In 2007, to complete the overall plan for the site, the Company commenced the construction of a new sawmill at Adams Lake. Construction was completed on time at a cost of \$100.3 million. The first line was commissioned in December 2008, had an extremely successful start-up and commenced full operation on April 20, 2009 on a one-shift basis, and has steadily increased operating hours and productivity since. This mill has a two-shift capacity of 325 MMbf.

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

In 2010, Interfor acquired a timber tenure in the Kamloops region from Weyerhaeuser Company Limited to support the increased fibre requirements of the Adams Lake sawmill, adding approximately 275,000 m<sup>3</sup> of allowable annual cut.

In 2011, Interfor completed installation of a \$3.1 million automated lumber grading system at the site.

### *Grand Forks*

Our Grand Forks mill was acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. The mill is located in the southern interior of B.C. on a 75 acre site. We also acquired timber tenures with an allowable annual cut of 502,000 m<sup>3</sup>. The two line mill manufactures kiln dried lumber for the U.S. and Canadian construction markets as well as the housing market in Japan. Grand Forks cuts 60% SPF and 40% fir-larch. In 2006, the previous owner completed a modernization and upgrade of the sawmill with a new planer mill and two new thermal oil kilns.

In late 2011, Interfor approved the installation of a new small log line to replace the existing two-line facility and the installation of an automated lumber grading system, budgeted at \$19 million. Construction started in late 2011 and is expected to be complete in early 2013.

### *Castlegar*

Our Castlegar facilities were acquired April 30, 2008 as part of our purchase of Pope and Talbot's southern B.C. assets. In addition to timber tenures with an allowable annual cut of 491,000 m<sup>3</sup>, the facility includes a sawmill, dry kilns and planer and manufactures fir-larch, SPF, cedar and hemlock dimension lumber. The operation includes a complete transportation system for moving logs on Arrow Lake. The operation of the mill was curtailed from February, 2008 through June, 2010 due to poor market conditions and an unfavourable cost structure. Marked improvements to the cost structure through changes in the operating configuration achieved with the support of the mill's employees and other local stakeholders allowed the mill to restart in July, 2010.

In late 2011, Interfor approved a series of high return projects budgeted at \$5 million including the installation of an automated lumber grading system focused on increasing productivity and value extraction. Construction started in late 2011 and will be completed in 2012.

## **U.S. Operations**

### *Gilchrist*

The Gilchrist mill is located in Gilchrist, Oregon on approximately 140 acres. In 2001 the previous owner completed modernization of the facility to efficiently convert small diameter logs. The mill primarily processes lodgepole pine, ponderosa pine and white fir to produce a wide range of specialty and dimension lumber products. The mill has an on-site cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips and to deliver logs to the mill. In 2005 and 2006 we installed six new dry kilns at a cost of US\$5.7 million to replace obsolete kilns and increase drying capacity.

### *Port Angeles*

The Port Angeles mill is situated in Port Angeles, Washington on a 64 acre site near a major highway and waterways which are convenient for shipping lumber and chips as well as for receiving logs at the mill. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market but is also capable of producing metric sizes for export. In 2005, we modified the dry kilns at a cost of US\$1.1 million to increase drying capacity. We also installed a new planer grade optimizer, trimmer and sorter at a cost of US\$5.0 million to increase planer capacity and significantly reduce planing costs. In 2006 and 2007, we constructed a new primary saw line at a cost of US\$18.3 million to increase recovery and lumber production. In October 2007, we installed a new log merchandiser, planer and planer infeed at a total cost of US\$5.8 million.

### *Beaver*

The Beaver sawmill consists of a single line 20' dimension sawmill on a 45 acre owned site originally constructed in 1991 by Portac Inc. We acquired the assets on September 30, 2008. The boiler, dry kilns, and planer mill are situated approximately 15 kilometres south of the sawmill on a 29 acre site leased from the City of Forks. The operation is 75 kilometres west of our Port Angeles facility and is a strong strategic fit with that operation. The mill has traditionally produced hemlock, Douglas-fir and spruce products for domestic markets. Recently we have added some export products to complement the domestic programs.

### *Molalla*

The Molalla mill was acquired in May 2005. It is located in Molalla, Oregon approximately 50 kilometres southeast of Portland. The mill primarily processes hemlock and Douglas-fir logs to produce stud dimension lumber for the U.S. market. The mill's machine centres were fully optimized by the previous owners. A number of infrastructure improvements were undertaken in 2005 and 2006 at a cost of US\$5.8 million. In 2006, we also completed the construction of two dry kilns for US\$2.4 million and a new planer mill complex with grade optimization for US\$10.3 million.

### *Cedarprime*

CEDARPRIME Inc. is located on leased premises in Sumas, Washington approximately one kilometre south of the Canada/U.S. border. The plant has a siding line, chop line, planing and finger-jointing equipment as well as access to on-site dry kilns enabling it to produce 20 million board feet of finger-jointed and cut-stock products for both offshore and North American markets.

## **SALES, MARKETING AND COMPETITIVE POSITION**

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold in markets where Interfor competes against many producers of approximately the same or larger capacity. Some of Interfor's competitors have greater financial resources than the Company and a number may be, in certain product lines, lower cost producers than Interfor.

The following table shows our lumber sales by geographic area and total sales by product line for the past five years:

	<b>Years ended December 31</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(thousands of dollars)				
Lumber					
— Canada	\$64,412	\$ 70,247	\$ 40,886	\$ 45,996	\$ 76,909
— U.S.A	222,295	214,965	135,576	139,394	241,398
— Japan	78,423	65,314	48,726	35,766	46,237
— China	102,453	61,384	16,305	3,251	282
— Other export	30,995	40,437	34,369	61,554	57,873
Offshore transportation and handling	39,560	29,636	12,765	11,473	11,769
	<u>538,138</u>	<u>481,983</u>	<u>288,627</u>	<u>297,434</u>	<u>434,468</u>
Logs	108,413	79,763	60,443	103,620	118,571
Wood chips and other residuals	68,355	56,217	34,349	30,610	50,260
Ocean freight, contract services and other	43,110	7,655	6,356	5,557	7,709
<b>Total sales</b>	<u>\$758,016</u>	<u>\$625,618</u>	<u>\$389,775</u>	<u>\$437,221</u>	<u>\$611,008</u>

### **Lumber Sales**

Lumber is similar to many other commodities in that demand is cyclical. Factors such as interest rates, exchange rates, freight rates, government tariff and import policies, and demand for housing affect the demand for lumber. In recent years, the residential repair and remodeling market in North America has become a significant consumer of lumber and has lessened the impact of fluctuations in new housing starts. In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and maintain product diversification. The Company has a particular customer and product base in various countries, providing us with a diversified sales profile, including targeting the rapidly growing Wood Frame Construction market in China. Product and market diversification is particularly important for B.C. Coast producers where the variability inherent in the log resource produces a much wider spectrum of product sizes and quality than is the case in the B.C. Interior or U.S. Pacific Northwest (the "PNW"). A continuing priority for us is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into two sales groups to leverage global expertise: i) Export and ii) North American Sales Groups. Interfor Japan Ltd., with an office in Tokyo, has developed niche markets and has increased sales directly to end users. We also have an office in France to serve Continental Europe and Middle East markets and will be opening an office in China in early 2012. The major market for our cedar lumber continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, China, Japan, and Australia. North American dimension and stud lumber produced in Canada and the U.S. is sold out of our office in Bellingham, Washington to leverage our market expertise and to provide a more diverse customer base for the Canadian mills in terms of geographic and market sectors.

## **Log Sales**

We purchase and sell logs in order to obtain the appropriate size, grade, and species of log to suit market conditions and each mill's cutting preferences. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

## **Wood Chips and Other Residuals Sales**

As a by-product of lumber production, our sawmills produce wood chips and other residuals. Essentially all of our wood chips produced in B.C. are sold under short and long-term contracts to pulp producers. In general, wood chips produced on the B.C. Coast are sold at prices related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the wood chips produced in the B.C. Interior are sold at current market prices for chips. Chips from our Washington and Oregon operations are sold to pulp producers or fibre board manufacturers under short-term arrangements.

## **DISTRIBUTION**

We use various modes of surface transportation to deliver our lumber products. Shipments to export markets are made in container and breakbulk vessels while shipments of lumber within North America are made by truck and rail. The majority of breakbulk shipments are carried by Seaboard International Shipping Company Limited (Barbados) which is a wholly-owned subsidiary of Seaboard. In January, 2011 Seaboard became a wholly-owned subsidiary of Interfor. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C., we own short line railroads that connect to Class 1 railroads for shipping lumber and chips.

## **TIMBER SUPPLY**

### **British Columbia**

The Province of British Columbia (the "Crown") owns about 95% of the timberlands from which the majority of timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest landowners.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for management obligations and stumpage fees payable to the Crown.

Our timber supply needs are met by a combination of internal logs harvested from our own timber tenures, long-term trade and supply agreements, and by purchases on the open market. When operating at normal capacity, our mills in B.C. would require approximately one-third of their log supply from external sources.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an allowable annual cut ("AAC") of approximately of 3.8 million cubic metres ("m<sup>3</sup>"). The majority of Interfor's tenures are long-term (15 and 25 year) renewable agreements that are generally replaced every five years.

On the Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the Interior, the species mix consists of SPF, Douglas-fir, fir-larch and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-third of the harvest currently comes from second growth stands on the coast, this amount is expected to increase significantly over the next several decades.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FLs and TFLs and other cutting rights in each region for the periods specified. They also show the volume of purchases and sales during that period.



<b><u>B.C. Operations</u></b>	<b>Years ended December 31</b>					
	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(thousands of cubic metres)					
<b>Allowable Annual Cut <sup>(1)</sup></b>						
— Forest Licences	2,684	2,701	2,426	2,418	2,084	2,105
— Non Replaceable Forest Licences	286	220	313	313	375	155
— Tree Farm Licences	801	801	854	867	196	262
— Discretionary Annual Harvest Levels <sup>(2)</sup>	40	40	40	40	40	40
	<u>3,811</u>	<u>3,762</u>	<u>3,633</u>	<u>3,638</u>	<u>2,695</u>	<u>2,562</u>
<b>Log Production</b>						
— Coast		1,757	1,522	1,081	1,754	1,655
— Interior		1,651	1,139	214	127	112
Total Log Production		<u>3,408</u>	<u>2,661</u>	<u>1,295</u>	<u>1,881</u>	<u>1,767</u>
<b>Log Purchases</b>		<u>1,131</u>	<u>1,343</u>	<u>794</u>	<u>447</u>	<u>1,316</u>
<b>Log Sales</b>		<u>1,356</u>	<u>1,081</u>	<u>919</u>	<u>1,319</u>	<u>1,223</u>

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).

(2) Volumes not included in AAC.

## **U.S. Pacific Northwest**

Timber supply in the PNW is sourced from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. About 70% of the log supply in the PNW comes from land that is owned by industrial and small private landowners, while the remainder is sourced from State, Federal and tribal lands.

Our timber supply requirements in Washington are heavily weighted to western hemlock with smaller volumes of Douglas-fir and sitka spruce. In Molalla, the specie mix is weighted to Douglas-fir with smaller volumes of western hemlock and white fir. Both the Washington mills and Molalla depend on private industrial landowners and small private landowners for the majority of their supply. This timber is supplemented with State, Federal, and tribal volumes in the case of the Washington mills.

In Gilchrist, log purchases consist primarily of lodgepole pine, ponderosa pine and white fir that have come from second growth harvesting and the thinning of young stands from surrounding National Forests.

The total 2012 log supply requirement for the mills in the U.S. is projected to be supplied from various sources, estimated to be as follows:

<b>U.S. Pacific Northwest Operations</b>	<b>Expected Sources of Timber 2012</b>
State and Federal Lands	45%
Industrial Lands	42
Private Lands	<u>13</u>
	<u>100%</u>

## **Forestry and Logging in B.C.**

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*.

The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

Our Company is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We pay stumpage to the Province for timber harvested on Crown land according to market pricing systems in place on the Coast and in the Interior. In addition the Crown charges an annual rent based on the AAC for each licence to cover general administration and fire preparedness.

Our Coastal logging operations are widely dispersed in primarily remote locations between Vancouver and Prince Rupert. Our woodlands harvesting activities are performed entirely by independent logging contractors.

Our Interior woodlands operations are located at Adams Lake, northeast of Kamloops, and in the Kootenay region at Nakusp and Grand Forks.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. These and other factors are described in the Selected Quarterly Financial Information section of our Management Discussion and Analysis for the year ended December 31, 2011, a copy of which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

### **CAPITAL EXPENDITURES**

Our acquisitions and capital expenditures on sawmill and logging operations and timber holdings are as shown in the following table:

	<b>Years ended December 31</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(thousands of dollars)				
<b>Acquisitions</b>					
Land, buildings, equipment and other intangibles					
— Manufacturing	—	—	—	\$52,885	—
— Forestry and logging	—	—	—	—	—
Logging roads and timber	—	—	—	40,148	—
	—	—	—	\$93,033	—
<b>Other capital expenditures</b>					
Land, buildings, equipment and other intangibles					
— Manufacturing and other	\$15,487	\$10,720	\$20,752	\$72,911	\$47,948
— Forestry and logging	738	169	29	1,365	130
Logging roads and timber	19,987	31,398	6,811	17,512	28,340
	36,212	42,287	27,592	91,788	76,418
<b>Total</b>	<b>\$36,212</b>	<b>\$42,287</b>	<b>\$27,592</b>	<b>\$184,821</b>	<b>\$76,418</b>

Our capital expenditures over the five years ended December 31, 2011 were financed through internally generated funds, through our bank lines and through proceeds generated from share issuances and the sale of surplus land, logging and manufacturing assets.

## **HUMAN RESOURCES**

In B.C., we directly employ approximately 940 people in our logging and manufacturing operations and corporate offices. The United Steel Workers ("USW") is the certified bargaining agent for approximately 470 of these people. The agreement with the USW for the B.C. Coast has an expiry date of June 15, 2014, while the Southern Interior USW agreement expires on June 30, 2013. The Canadian Marine Service Guild represents 21 employees, and their collective agreement expires September 30, 2014.

In the U.S., we employ approximately 490 employees in our sawmill and remanufacturing operations in Washington and Oregon and in our office located in Bellingham, Washington.

Our employees are governed by a Policy Manual, including a Code of Conduct, Environment Policy, Health and Safety Policy, Disclosure Policy, Whistleblower Policy, Financial Reporting Policy, Internet, Email and Computer Use Policy, Compensation Policy, and Insider Trading Policy. The Code of Conduct may be found on SEDAR at [www.sedar.com](http://www.sedar.com). The Environment and Safety Policies are described below. Employees are also protected by a Privacy Policy. Our employees, management and directors have adopted the following Core Values:

### **Core Values**

We will conduct ourselves with honesty, integrity and professionalism.

- **People:** People are the foundation of our business.
- **Safety:** Safety is a prerequisite for work.
- **Environment:** Environmental integrity must be maintained in everything we do.
- **Customers:** Customers pay our way.
- **Shareholders:** Returns to our shareholders facilitate investment, employment, and public benefits.

**We Are Responsible For Our Own Success**

## **HEALTH AND SAFETY**

Our Health and Safety Policy embodies our commitment to the health, safety and well-being of all employees.

Our Board approved the policy and established a committee of the Board to monitor these safety commitments. The Environment and Safety Committee of the Board ("E&S Committee") is mandated to monitor the implementation and maintenance of our policy of ongoing commitment to health and safety values and principles with continuous operational improvement. The E&S Committee ensures that our management develops, implements and maintains a comprehensive safety program.

Safety is a core value for us. We maintain an active and comprehensive safety program at each of our operations.

We continued to make good progress at each of our operations and our injury metrics in 2011 were comparable to 2010. Our Medical Incident Rate remained at 3.3 and our Lost Time Accident frequency decreased to 1.0 from 1.1 when compared to 2010.

### **Health and Safety Policy**

Health and Safety is the uncompromised right and responsibility of all employees.

- We will integrate Health and Safety into our business with the knowledge that all accidents are preventable.
- We will hold all levels of management accountable for providing a safe work environment and enforcing safe work practices, including timely follow-up of safety incidents.
- We will train all employees to identify hazards and to protect themselves and fellow workers.
- We will hold all employees and contractors working for Interfor accountable for following safe work practices and reporting unsafe acts and conditions.
- We will use audits to measure and improve our Health and Safety performance.
- We will actively involve our employees in effective Safety programs.
- We will operate in compliance with Health and Safety Regulations.
- We will monitor and report regularly on our Health and Safety performance.

International Forest Products Limited is committed to the health, safety, and well being of all employees.

## **THE ENVIRONMENT**

Our Environment Policy embodies our commitment to responsible stewardship of the environment. Our Board approved the policy and established a committee of the Board to monitor our commitment to principles, values and policies on environmental matters.

### **Environment Policy**

We are committed to responsible stewardship of the environment.

- We will minimize environmental impact, prevent pollution and strive for continuous improvement of our environmental performance.
- We will operate in compliance with all applicable laws pertaining to the environment.
- We will regularly review our practices and procedures to monitor and report on environmental performance.
- We will provide training for employees and contractors in environmentally responsible work practices.
- We will manage our forest resources in a sustainable manner that is environmentally appropriate, socially beneficial and economically viable.
- We will promote the use of our wood products as a good choice for the environment.

### **Corporate Environment Oversight**

Management has implemented an environmental compliance program. We maintain an Environmental Management System (“EMS”) for all of our woodlands and manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

We are a global leader in environmental management through the application of science-based principles, collaborative approaches, sustainable forest practices and independent certifications. We were a recipient of the 2000 Millennium Business Award from the United Nations Environmental Programme and the International Chamber of Commerce, a co-recipient of World Wildlife Fund’s Gift to the Earth award in 2007 and a recipient of an SFI Conservation Leadership award in 2009 for a partnership with Aboriginal people along British Columbia’s Pacific Coast.

Additional information about our environmental work, audit summaries and Responsibility Report is available on our website at [www.interfor.com](http://www.interfor.com).

### **Woodlands**

#### *Environmental Management Systems*

Environmental Management Systems are in place for both Coastal Woodlands and Interior Woodland Operations. These systems are modeled after ISO 14001 Standards and provide a framework for continual improvement in our environmental management and for forest management.

#### *Sustainable Forest Management*

Sustainable forestry meets present day needs without compromising the ability to meet the needs of future generations. Sustainable forestry integrates the reforestation, stand tending and harvesting of trees with conservation of soil, air and water quality, biological diversity, wildlife and aquatic habitat, recreation and visual aesthetics.

The Company employs professional foresters to prepare detailed harvest and reforestation plans that integrate information from a variety of resource assessments. Interfor achieves its reforestation

obligations by preparing site specific plans for each area harvested. Using a combination of planting with ecologically appropriate species and natural regeneration, each hectare harvested is restocked within a set time frame. In 2011 Interfor planted 7.8 million trees - more than 2 trees for every tree harvested.

#### *Forest Management Certification*

To provide our customers and stakeholders with added assurance of Interfor's superior performance in sustainable forest management, Interfor has achieved independent third party certification on 100 per cent of our woodlands operations.

The Company maintains two Sustainable Forestry Initiative ("SFI") forest management certifications: B.C. Coastal Woodlands Operations, and B.C. Interior Operations namely Adams Lake, Grand Forks and Castlegar.

In preparation for the external audits, five internal audits were conducted by Company personnel. The audit protocol included both an office document review and a field review of selected harvesting, planning and silviculture activities. Action plans were developed to address a handful of minor issues. The internal audit reports and action plans were made available to the external auditor.

Annual external audits were conducted by KPMG Performance Registrar Inc. ("KPMG"). The interior audit included recently acquired tenures in the Grand Forks and Castlegar operations. A number of 'Good Practices' pertaining to planning and operational activities were noted in both the coastal and interior audits. In addition, three minor non-conformances ("NCs") were recorded in the two external audits. Two of the minor NCs related to fuel handling procedures and the third minor NC related to training for species at risk management. Action plans to address the NCs were prepared and submitted to KPMG for approval and have been implemented. Public summary reports of the external audits have been prepared by KPMG and are posted on our Company website.

Interfor also has Forest Stewardship Council ("FSC") forest management certification on its tenures in the mid-coast Timber Supply Area as part of group certification held by Coast Forest Conservation Initiative ("CFCI"). As of December 31, 2011 ten Corrective Action Requests remained open on the certificate.

#### *Regulatory Compliance*

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

There were no new incidents reported from Ministry of Forests and Natural Resource Operations Compliance and Enforcement Program in 2011. In addition, four open case files from previously reported incidents were closed in 2011. Two had no further action taken - one resulted in a warning ticket being issued and one related to Wildlife Tree Patch reserves on old 2007 planning that resulted in a \$2,500 fine.

#### *Coast Forest Conservation Initiative*

Interfor continues to be a member of the CFCI – a collaborative effort of five B.C. forest product businesses committed to finding new approaches to forest conservation and management in B.C.'s Central and North Coast.

CFCI collaborates with the Rainforest Solution Project (a group of environmental organizations namely Forest Ethics, Greenpeace and the Sierra Club, B.C. Chapter) in a forum known as the Joint Solutions Project ("JSP"). JSP works with the B.C. Government and First Nations on strategic items related to the implementation of ecosystem based management ("EBM").

In 2011 JSP focused considerable energy on a project exploring how the EBM rules could be applied to achieve low risk to ecological integrity while allowing for a sustainable wood-flow to support human well being.

#### *First Nations*

First Nations ("FN") groups have claimed aboriginal title and rights over substantial portions of British Columbia. Interfor tenures overlap with the traditional territories of 57 different FN groups. The Company notifies each FN group prior to development activities as part of the Forest Stewardship Plan

preparation process. It is our desire to establish a working relationship with each of the FN groups where we operate.

Examples of formalized agreements with FN signed in 2011 include a formal Information Sharing Protocol with five FN from the Nanwakolas Council Society detailing the review of operational plans and a Memorandum of Understanding with the Wuikinuxv Nation covering a wide range of forestry issues.

Interfor supports the efforts to establish a New Relationship initiative between the Province and FN groups prior to treaty settlement. In late 2011 the Province and five FN from the Nanwakolas Council Society on the B.C. coast signed a Reconciliation Protocol that provides a shared decision making process for resource and land use, as well as new forest sector opportunities. This agreement overlaps a portion of Interfor's Central Coast and northern Vancouver Island tenures. The agreement will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

#### *Mountain Pine Beetle*

The Mountain Pine Beetle ("MPB") infestation has resulted in the mortality of a significant portion of the mature pine trees in the interior of B.C.. The greatest impact has been in the central interior where there is a high percentage (over 60%) of pine in the forest. These areas will also see the greatest reductions in timber supply once the shelf life of the dead pine trees is exceeded in the next 5 to 10 years.

Interfor operations in the southern interior have a much lower percentage of pine (less than 30%) and are less affected by the MPB, both in terms of mortality and the impact on future timber supply. Harvesting the dead pine trees is a priority for the operations as part of a salvaging and recovery process. The longer term timber supply impacts of the MPB are not expected to have a significant impact on the Company's operating areas.

#### *Climate Change*

The affects of climate change on forest ecosystems is not well understood. The Company monitors the current research being done by the Province and will modify practices as appropriate as part of our sustainable forest management plans.

The ability to manage carbon stocks through sequestration and carbon storage on long lived wood products may provide new opportunities to the forest sector. In 2011 the Company actively supported the B.C. Forest Sector Climate Action Steering Committee, and the establishment of a Forest Carbon Offset Initiative for the Kamloops TSA.

#### *Continual Improvement*

Interfor's approach to managing the environment involves the process of continual improvement. Each year a formal Management Review of the Company's program and performance is done by senior Company representatives. In 2011 a MR was completed for both the coast and interior operations.

## **Manufacturing**

#### *Environmental Management System*

We maintain an EMS for all of our manufacturing facilities. Each manufacturing business unit is responsible for compliance and ensuring the EMS is functioning as intended.

#### *Audits*

Internal audits are carried out annually at each mill. Action plans are developed and implemented by the management team at each mill. In 2011 audits were completed at all Company operations.

#### *Regulatory Compliance*

Interfor monitors its compliance with all applicable permits and environmental legislation. As at December 31, 2011 Interfor was in compliance with all regulatory permits.

#### *Chain of Custody (CoC) and Responsible Purchasing*

Interfor maintains Chain-of-Custody ("CoC") certification at certain mills that tracks certified logs coming from sustainably managed forests through the manufacturing process. Interfor's Canadian mills are

certified to both SFI and PEFC CoC Standards. The coastal B.C. mills are also certified to FSC CoC Standards. The CoC certificates are subject to annual third party audits.

#### *Green House Gas Emissions*

Reporting regulations for Green House Gas (“GHG”) emissions are currently being implemented in both Canada and the U.S. In B.C. none of our mills exceeded the 10,000 tonnes per year reporting threshold. In the U.S. we have two mills in Oregon that exceeded the 10,000 tonnes per year reporting threshold. All of the Company’s mills are in compliance with GHG emission regulations.

#### *Carbon Reductions*

At the Adams Lake sawmill a biomass-fired energy system had been installed to provide heat for lumber-drying and space-heating. The system replaced the reliance on liquefied natural gas and equates to an annual reduction 16,000 tonnes of carbon emissions. In 2011 the Company successfully completed a verification of the carbon savings and received an offset credit from the Pacific Carbon Trust.

#### *Best Practices*

All mills have programs in place to recycle used oil, oil filters, steel wire, strapping, old equipment, batteries, cardboard, paper and fluid containers. Each year thousands of liters of used oil and several tonnes of used steel are recovered and recycled.

A capital foreshore project at Hammond was completed in 2011. Work involved piling and riprap to secure the riverbank, petroleum handling equipment and camera inspections of yard drainage structures.

A program to recover bundling wire and sunken logs from the foreshore at the Acorn Mill was implemented in 2011. Implementing this program facilitated the approval of dredging permits from Environment Canada.

### **Environmental Liabilities**

#### *Site Rehabilitation*

As part of the Pope and Talbot purchase agreement in 2008 a \$1.1 million accrual was set up to address a potential future liability for the environmental cleanup of the Castlegar Mill foreshore and landfill site. There were no planned activities or expenses charged to the accrual in 2011.

### **RESEARCH AND DEVELOPMENT**

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques, and anti-sapstain applications. We also are committed to applied research and development in the areas of environment, health and safety, forest management and product and market development. We also conduct product and market research on our own in Canada and the U.S.



## **CAPITAL STRUCTURE**

The authorized share structure of the Company consists of:

- 100,000,000 Class "A" Subordinate Voting shares without par value ("Subordinate Voting Shares");
- 1,700,000 Class "B" Common shares without par value ("Multiple Voting Shares"); and
- 5,000,000 Preference shares without par value issuable in series with such special rights and restrictions as the Directors of the Company may determine before issue thereof ("Preference Shares").

The Subordinate Voting Shares and Multiple Voting Shares are referred to as "Equity Shares".

### **Subordinate Voting Shares**

The holders of Subordinate Voting Shares are entitled to non-cumulative preferential dividends of 13 1/3 cents per annum for each share in priority to any dividends paid on the Multiple Voting Shares and to further participate, share for share with the Multiple Voting Shares, in any dividends paid on the Equity Shares for any fiscal year after 13 1/3 cents per share has been paid or set aside for payment on the Subordinate Voting Shares. The holders of Subordinate Voting Shares are entitled to one vote for each share and the holders of the Subordinate Voting Shares are entitled, as a class, to elect one member of the Board and if there are no Multiple Voting Shares outstanding, are entitled to elect the entire Board except in certain circumstances where the holders of Preference Shares are entitled to elect two Directors.

The provisions relating to the Subordinate Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of liquidation, dissolution or winding-up of the Company or any other distribution of its assets, holders of Subordinate Voting Shares are entitled to declared and unpaid dividends prior to the holders of the Multiple Voting Shares and thereafter to participate, share for share, with the Multiple Voting Shares, subject to all rights of the holders of Preference Shares.

### **Multiple Voting Shares**

The holders of Multiple Voting Shares are entitled to participate, share for share, with the Subordinate Voting Shares, in any dividends paid for any fiscal year after 13 1/3 cents has been provided for payment on the Subordinate Voting Shares. The holders of Multiple Voting Shares are entitled to ten votes on a poll for each share held and the holders of Multiple Voting Shares are entitled, as a class, to elect all members of the Board except one member to be elected by the holders of the Subordinate Voting Shares, as a class, and, in certain circumstances, two Directors to be elected by the holders of Preference Shares.

In the event of liquidation, dissolution, or winding-up of the Company or any distribution of its assets, holders of Multiple Voting Shares are entitled after payment of any declared and unpaid dividends on the Subordinate Voting Shares to participate, share for share, with the Subordinate Voting Shares, subject to all rights of the holders of Preference Shares.

Any holder of Multiple Voting Shares is entitled at any time to exchange his Multiple Voting Shares for Subordinate Voting Shares on a share for share basis without adjustment for any unpaid dividends.

The provisions relating to the Multiple Voting Shares may not be varied unless sanctioned by a special resolution of the holders of the Subordinate Voting Shares and the Multiple Voting Shares voting together and by separate resolutions of the respective holders of the Subordinate Voting Shares and the Multiple Voting Shares, the special resolution and separate resolutions in each case requiring a majority of three-fourths of the votes cast.

In the event of any subdivision, consolidation, or conversion of either Subordinate Voting Shares or Multiple Voting Shares, an appropriate adjustment is to be made in the rights and conditions attaching to the Subordinate Voting Shares and the Multiple Voting Shares to preserve the benefits conferred on the holders of each class.

### **Rights on Take-Over Bids and Conversion of Multiple Voting Shares**

Any transfer of a Multiple Voting Share:

- a. by any of W.L. Sauder's executors, administrators, or other trustee or legal representative with respect to his personal estate, members of his immediate family, their descendants and controlled companies (collectively the "Controlling Shareholder Group") to any person other than another member of the Controlling Shareholder Group or a person (the "Qualified Purchaser") who is acquiring a majority of the outstanding Multiple Voting Shares and who makes an offer to purchase all outstanding Subordinate Voting Shares, Preference Shares, and Multiple Voting Shares at an equivalent price; or
- b. by a Qualified Purchaser to any person other than another Qualified Purchaser,

will result in the automatic conversion of the Multiple Voting Shares into Subordinate Voting Shares.

The Multiple Voting Shares will be automatically converted into Subordinate Voting Shares if:

- a. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own more than 50% of the issued and outstanding Multiple Voting Shares; or
- b. the Controlling Shareholder Group or a Qualified Purchaser ceases to beneficially own equity shares carrying at least 9.2 million votes, subject to adjustments upon: (i) the subdivision, consolidation, or reclassification of any outstanding equity shares, or (ii) the issue of equity shares by way of a stock dividend other than an ordinary course stock dividend.

### **Preference Shares**

The Preference Shares of each series rank on a parity with the Preference Shares of every other series, and are entitled to preference over the Equity Shares and over any other shares ranking junior to the Preference Shares with respect to payment of dividends and the distribution of assets of the Company in the event of liquidation, dissolution, or winding-up of the Company.

**MARKET FOR SECURITIES OF THE COMPANY**

The Subordinate Voting Shares are listed on the Toronto Stock Exchange under the symbol IFP.A. The following table sets out the market price ranges and trading volumes for the Subordinate Voting Shares on the Toronto Stock Exchange for each month during 2011 (January 1, 2011 through December 31, 2011).

<b>Toronto Stock Exchange (TSX) 2011 Trading Volumes Ticker: IFP.A</b>			
<b>Month</b>	<b>\$ High</b>	<b>\$ Low</b>	<b>Volume</b>
January	6.24	5.18	2,912,378
February	6.08	5.57	1,057,884
March	7.49	5.00	5,579,055
April	7.22	5.66	3,304,994
May	5.88	5.07	2,614,025
June	5.46	4.38	1,401,129
July	5.48	4.80	1,062,535
August	4.93	3.86	946,436
September	4.45	3.65	1,733,332
October	4.34	3.50	2,051,520
November	4.16	3.80	1,275,737
December	4.35	3.75	1,415,333

**TRANSFER AGENTS**

The transfer agent for our Subordinate Voting Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

## **DIRECTORS AND OFFICERS**

### **Directors as of February 17, 2012**

The following table sets out the Company's directors as of February 17, 2012, their respective municipalities of residence, principal occupations within the past five years and the period during which each director has served as a director.

<b>Name and Municipality of Residence</b>	<b>Director Since</b>	<b>Principal Occupations</b>	<b>From</b>	<b>To</b>
<b>LAWRENCE I. BELL</b> (Lead Director) Vernon, BC, Canada	April 1998	Corporate Director	2007	Present
		Non-executive Chairman British Columbia Hydro and Power Authority	2003	2007
<b>DUNCAN K. DAVIES</b> Vancouver, BC, Canada	November 1998	President and Chief Executive Officer International Forest Products Limited	2000	Present
<b>HAROLD C. KALKE</b> West Vancouver, BC, Canada	July 2000	President and Founder Kalico Developments Ltd., a real estate development and management company	1971	Present
<b>PETER M. LYNCH</b> Toronto, ON, Canada	October 2006	Corporate Director	2010	Present
		Executive Vice President and Director Grant Forest Products Inc. (and its predecessor), a producer of OSB and engineered wood products	1993	2010
<b>GORDON. H. MacDOUGALL</b> West Vancouver, BC, Canada	February 2007	Vice Chairman and Director Connor, Clark & Lunn Investment Management Ltd., an asset management firm	2007	Present
		Partner Connor, Clark & Lunn Investment Management Partnership	1996	2006
<b>J. EDDIE McMILLAN</b> Pensacola, Florida, USA	October 2006	Independent Business Consultant	2002	Present
		Executive Vice President – Wood Products Group Willamette Industries, Inc., a forest products company	1998	2002
<b>E. LAWRENCE SAUDER</b> Vancouver, BC, Canada	April 1984	Non-Executive Chairman International Forest Products Limited	2008	Present
		Chief Executive Officer Sauder Industries Limited, a manufacturer and distributor of building products	2010	Present
		Chairman Sauder Industries Limited	2007	Present
		Non-executive Chairman Hardwoods Distribution Inc.	2008	Present
		Non-executive Vice Chairman International Forest Products Limited	2004	2008
<b>JOHN P. SULLIVAN</b> Vancouver, BC, Canada	May 2001	Corporate Director	2003	Present
		Vice President International Forest Products Limited	2001	2003
<b>DOUGLAS W.G. WHITEHEAD</b> North Vancouver, BC, Canada	April 2007	Non-Executive Chairman Finning International Inc., a distributor of Caterpillar products and support services	2008	Present
		President and Chief Executive Officer Finning International Inc.	2000	2008

To our knowledge, only one of the Company's directors has in the last 10 years been an officer or director of a company that, while the person was acting in that capacity, was subject to bankruptcy or similar proceedings or securities regulatory sanctions described in National Instrument 51-102 *Continuous Disclosure Obligations*. From 1993 to 2010, Mr. Lynch was an executive director of Grant Forest Products Inc. ("Grant Forest"). On June 25, 2009, Grant Forest filed and obtained protection under the Companies' Creditors Arrangement Act in order to restructure its business affairs.

The term of office for all current directors will end on the day of the next Annual General Meeting of the Company's shareholders. The next Annual General Meeting is scheduled for May 3, 2012.

### Committees of the Board

The Company currently has 4 Committees of the Board of Directors: Audit Committee, the Corporate Governance & Nominating Committee, the Management Resources & Compensation Committee and the Environment & Safety Committee. The members of each Committee are indicated below.

	Audit Committee	Management Resources & Compensation Committee	Corporate Governance & Nominating Committee	Environment & Safety Committee
Lawrence I. Bell	x		x	
Duncan K. Davies				
Harold C. Kalke			x	x
Peter M. Lynch	x			Chair
Gordon H. MacDougall	Chair	x		
James E. McMillan		x	Chair	
E. Lawrence Sauder				x
John P. Sullivan		x	x	
Douglas W.G. Whitehead	x	Chair		

### Officers as of February 17, 2012

The following table sets out the Company's officers as of February 17, 2012, their respective municipalities of residence and their principal occupations for at least the last five years:

<b>Name and Municipality of Residence</b>	<b>Positions Held</b>	<b>From</b>	<b>To</b>
<b>DUNCAN K. DAVIES</b> Vancouver, BC, Canada	President and Chief Executive Officer International Forest Products Limited	2000	Present
<b>JOHN A. HORNING</b> West Vancouver, BC, Canada	Senior Vice President, Chief Financial Officer and Corporate Secretary International Forest Products Limited	2007	Present
	Senior Vice President and Chief Financial Officer International Forest Products Limited	2002	2007
<b>OTTO F. SCHULTE</b> Black Creek, BC, Canada	Vice President, Coastal Operations International Forest Products Limited	2011	Present
	Vice President, Coastal Woodlands International Forest Products Limited	2000	2011
<b>RICHARD J. SLACO</b> Delta, BC, Canada	Vice President and Chief Forester International Forest Products Limited	2002	Present
<b>STEPHEN D.A. WILLIAMS</b> North Vancouver, BC, Canada	Vice President, Finance and Administration International Forest Products Limited	2010	Present
	Vice President and Corporate Treasurer International Forest Products Limited	2006	2010
<b>J. STEVEN HOFER</b> Bellingham, Washington, USA	Vice President, Sales & Marketing International Forest Products Limited	2011	Present
	General Manager, Sales & Marketing Interfor Pacific Inc.	2004	2011

### **SHAREHOLDINGS OF DIRECTORS AND OFFICERS**

As at December 31, 2011, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 2,808,157 Subordinate Voting Shares representing approximately 5.12% of the outstanding Subordinate Voting Shares and 1,011,735 Multiple Voting Shares representing approximately 99.6% of the outstanding Multiple Voting Shares. In respect of the foregoing, the outstanding Multiple Voting Shares are owned by Sauder Industries Limited. Sauder Industries Limited is indirectly owned in part by Mr. Sauder, the non-executive Chairman of the Company. Mr. Sauder controls or directs the exercise of the voting rights attached to the voting securities of the Company held by Sauder Industries Limited with respect to routine matters such as the election of directors and appointment of auditors.

### **INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS**

Since the commencement of our most recently completed financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

### **LEGAL PROCEEDINGS**

We are not a party to, and our property is not the subject of, any material legal proceedings which are currently in place or which we know to be contemplated.

## **INTEREST OF EXPERTS**

KPMG LLP are the external auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Accountants of British Columbia and the applicable rules and regulations thereunder.

## **AUDIT COMMITTEE INFORMATION**

### **The Audit Committee Terms of Reference**

The Audit Committee (the "Committee") is appointed by the Board to assist the Board in fulfilling its oversight responsibility relating to:

- a. the integrity of the Company's financial statements,
- b. the financial reporting process,
- c. the systems of internal accounting and financial controls,
- d. the professional qualifications and independence of the external auditors,
- e. the performance of the external auditors, risk management processes,
- f. financial plans,
- g. pension plans, and
- h. compliance by the Company with ethics and legal and regulatory requirements.

The Committee's Terms of Reference, attached as Appendix "A" to this Annual Information Form, sets out its responsibilities and duties.

The Committee met 4 times in 2011 in conjunction with regularly scheduled Board meetings.

### **Composition of the Audit Committee**

The Committee consists of 4 directors: Gordon H. MacDougall (Chair), Lawrence I. Bell, Peter M. Lynch and Douglas W.G. Whitehead. Each Committee member is independent and financially literate in compliance with *Multilateral Instrument 52-110 – Audit Committees*.

### **Relevant Education and Experience**

The following is a brief summary of the education and experience of each member of the Committee that is relevant to the performance of his responsibilities as a member of the Committee, including any education or experience that has provided the member with an understanding of the accounting principles used by the Company to prepare its annual and interim financial statements.

#### *Mr. Gordon H. MacDougall*

Mr. MacDougall is the Chairman of the Committee. Mr. MacDougall is Vice Chairman and Partner of Connor, Clark & Lunn Investment Management Ltd., an asset management firm. From 1996 to 2006, he was a Partner at Connor, Clark & Lunn Investment Management Partnership and Director, Head of Portfolio Strategy Team and Head of Client Solutions Team of Connor, Clark & Lunn Investment Management Ltd. He previously served as lead director for Intrawest Corporation. Mr. MacDougall is currently the Chairman and director of the Vancouver Foundation.

He holds a CFA from the University of Virginia, a MBA from the University of Pittsburgh and a B.Comm. in Finance from Sir George Williams University (now Concordia University).

Mr. MacDougall has served on the Committee since April 2007 and chaired the Committee since April 2009.

*Mr. Lawrence I. Bell*

Mr. Bell is a Corporate Director. In addition to being a director of the Company, he is a director of Goldcorp Inc., Capstone Mining, Silver Wheaton Corp. and Matrix Asset Management Inc. Mr. Bell is a fellow of the Institute of Corporate Directors. From 2003 until his retirement in 2007, Mr. Bell served as the non-executive Chairman of British Columbia Hydro and Power Authority. From 2001 to 2003, he was Chairman and Chief Executive Officer of British Columbia Hydro and Power Authority. He has also served as the Chairman of the Canada Line (Rapid Transit Project), Chairman of the Board of Governors of the University of British Columbia, Chairman and President of the Westar Group and Chief Executive Officer of Vancouver City Savings Credit Union. In addition, he has served on the boards of a number of private and public companies, including Kimber Resources Inc., B.C. Gas, Canadian Hunter and Miramar Mining Corporation, and as a trustee of Hardwoods Distribution Income Fund. In the British Columbia public sector, Mr. Bell has served as Deputy Minister of Finance and Secretary to the Treasury Board.

Mr. Bell holds a M.A. in Economics and has received numerous awards for his public service.

Mr. Bell has served on the Committee since April 2009.

*Mr. Peter M. Lynch*

Mr. Lynch is a Corporate Director. From 1993 to 2010, he was the Executive Vice President and a director of Grant Forest Products Inc. (and its predecessor), a producer of OSB and engineered wood products. Prior thereto, he practiced law.

Mr. Lynch holds a LL.B from Osgoode Law School and is a member of the Law Society of Upper Canada, the Canadian Bar Association and the Ontario Bar Association.

Mr. Lynch has served on the Committee since April 2009.

*Mr. Douglas W.G. Whitehead*

Mr. Whitehead is currently the Chairman of Finning International Inc. ("Finning"), a distributor of Caterpillar products and support services. From 2000 to 2008, he was the President and Chief Executive Officer of Finning. Prior to joining Finning, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. Mr. Whitehead is also currently a director of Ballard Power Systems Inc., Belcorp Industries, Inmet Mining Corporation and Kal Tire. Over the years, he has served as director of Terasen Inc., Fletcher Challenge Canada, Finlay Forest Industries and Timberwest Forest Limited.

Mr. Whitehead holds a MBA from the University of Western Ontario and a B.Sc. in Engineering from the University of British Columbia.

Mr. Whitehead has served on the Committee since April 2009.



## **AUDIT FEES**

The Committee annually recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation is approved by the Committee before the services commence.

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2011 and December 31, 2010 were as follows:

	<b>2011 Fees</b>	<b>2010 Fees</b>
Total audit fees	588,987	451,000
Audit-related fees <sup>(1)</sup>	43,000	9,300
Tax fees <sup>(2)</sup>	154,015	266,678
All other fees	<u>64,400</u>	<u>50,500</u>
<b>TOTAL</b>	<b><u>850,402</u></b>	<b><u>777,478</u></b>

(1) Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan, subsidiary companies, and advice and assistance related to accounting issues.

(2) Tax fees consist of fees for tax compliance services, professional services related to U.S. cross border transfer pricing and sales tax.

## **CODE OF ETHICS**

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct", can be found on our website at [www.interfor.com](http://www.interfor.com).

## **ADDITIONAL INFORMATION**

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular.

Additional financial information about the Company is provided in the Company's financial statements and Management's Discussion and Analysis for the year ended December 31, 2011.

Copies of the documents referred to above are available on the SEDAR website at [www.sedar.com](http://www.sedar.com) and may also be obtained upon request from:

International Forest Products Limited  
 Corporate Secretary  
 3500-1055 Dunsmuir Street  
 Vancouver, British Columbia,  
 Canada, V7X 1H7  
 Telephone: 604 689 6800  
 Facsimile: 604 689 6825  
 E-mail: [info@interfor.com](mailto:info@interfor.com)

Additional information relating to the Company may be found on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## Appendix "A"

**AUDIT COMMITTEE  
Terms of Reference****PURPOSE**

The Audit Committee has been established by the Board and under powers delegated to it by the Board is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board's objectives.

**COMPOSITION AND TERM OF OFFICE**

1. The Audit Committee shall consist of four or more Directors.
2. All members of the Audit Committee shall be independent within the meaning of *Multilateral Instrument 52-110-Audit Committees*.
3. All members must be financially literate or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.
4. The Chairman of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless the member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.
5. A quorum shall consist of a simple majority.

**DUTIES AND RESPONSIBILITIES**

The Audit Committee shall perform the following functions, as well as any other functions specifically authorized by the Board:

**General**

1. Schedule regular meetings and meet, at a minimum, four times per year. Extraordinary meetings may be called by any member of the Audit Committee or at the request of the Chairman of the Board.
2. Appoint a Secretary who shall record the proceedings of the Audit Committee's meetings.
3. Report to the Board activities and recommendations, if any, requiring Board approval.

**Financial Disclosure, Risk Management and Internal Controls**

4. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company's:
  - (a) annual and quarterly financial statements;
  - (b) Management's Discussion and Analysis; and
  - (c) annual and interim earnings press releases.

The review will involve direct discussions with Management and the Company's external auditor (the "Auditor"), including an opportunity for an in-camera meeting with the Auditor independent of Management.

Review and approve the disclosures required by applicable securities laws to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.

5. Review the process for certification of the interim and annual financial statements by the CEO and Chief Financial Officer ("CFO") and the certification made by the CEO and CFO.
6. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.
7. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.
8. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor's reports.
9. Review the principal risks of the Company and ensure that an effective risk management strategy is in place.
10. Review the Company's derivatives policies and activities, including details of exposures to banks and other counterparties.

#### **External Auditor**

11. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor's report and performing other audit, review or attest services for the Company.
12. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.
13. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.
14. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.
15. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor's firm and peer reviews.
16. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.
17. Resolve disagreements between Management and the Auditor regarding financial reporting.
18. Review material written communications between the Auditor and Management.

**Non-Audit Services**

19. Pre-approve non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval.

**Company Policies**

20. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.
21. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.
22. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

**Insurance**

23. Review the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and make recommendations for their renewal or replacement.

**AUTHORITY**

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.
2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.

## **GLOSSARY**

**“Adjusted EBITDA”** EBITDA less other income and other income of associate company.

**“Allowable Annual Cut (AAC)”** The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

**“Bone Dry Unit (BDU)”** A unit of measurement for wood chips and other sawmill by-products, being equal to 2,400 pounds.

**“Cash flow from operations”** Cash generated from operations before considering changes in operating working capital.

**“Custom cutting”** An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

**“EBITDA”** Earnings before finance costs, income taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of plant and equipment and other non-financial assets.

**“Forest Licence”** Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

**“Invested Capital”** The total of bank indebtedness, short term advances from the Seaboard partnership, long-term debt and shareholders' equity.

**“Invested Capital, adjusted”** Invested Capital less cash, deposits and short term advances from the Seaboard partnership.

**“m<sup>3</sup>”** A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the Forest Act, equal to 35.3 cubic feet of solid wood.

**“Mfbm”** or **“Mbf”** One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

**“Net debt”** Total Debt less cash, deposits and short term advances from the Seaboard partnership.

**“Pre-tax return on total assets”** Earnings (loss) before taxes, restructuring costs, other foreign exchange gains and losses, and write-downs of plant and equipment and other non-financial assets, and Other income divided by closing total assets.

**“Return on average Invested Capital, adjusted”** Net earnings (loss) plus after tax finance cost divided by the average of opening and closing Invested Capital, adjusted.

**“Return on average shareholders' equity”** Net earnings (loss) divided by the average of opening and closing shareholders' equity.

**“Silviculture”** The art and science of controlling the establishment, growth, composition, health and quality of forests.

**“Stumpage”** A charge assessed by the provincial government on all Crown timber harvested.

**“Sustained yield (sustainable log supply)”** The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

**“Timber Licence”** Non-replaceable, area based, Crown timber cutting rights.

**“Total Debt”** The total of bank indebtedness, short-term advances from the Seaboard partnership, long-term debt.

**“Tree Farm Licence”** A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

**“Value-added product”** A commodity or other product that has been further processed to increase financial value.

**“Volumetric unit”** A unit of measurement for wood chips and other sawmill by-products, being equal to 200 cubic feet. A volumetric unit represents between 60% and 85% of the chips in a Bone Dry Unit, depending on the species.

**“Whitewood”** Includes the Coastal species hemlock, Balsam Fir, Douglas-fir and spruce; the term whitewood is used on British Columbia Coast to differentiate the above species from Red Cedar and Yellow Cedar.

**DIRECTORS****L.I. Bell (Lead Director)**

Vernon, BC

**D.K. Davies**

Vancouver, BC

**H.C. Kalke**

West Vancouver, BC

**P.M. Lynch**

Toronto, ON

**G.H. MacDougall**

West Vancouver, BC

**J.E. McMillan**

Pensacola, Florida

**E.L. Sauder (Chairman of the Board)**

Vancouver, BC

**J.P. Sullivan**

Vancouver, BC

**D.W.G. Whitehead**

North Vancouver, BC

**OFFICERS****E.L. Sauder**

Chairman

**D.K. Davies**

President and Chief Executive Officer

**J.A. Horning**Senior Vice President, Chief Financial Officer and  
Corporate Secretary**S.D.A. Williams**

Vice President, Finance and Administration

**O.F. Schulte**

Vice President, Coastal Operations

**R.J. Slaco**

Vice President and Chief Forester

**J.S. Hofer**

Vice President, Sales &amp; Marketing

## **CORPORATE INFORMATION**

### **STOCK EXCHANGE**

Class "A" shares listed on  
The Toronto Stock Exchange  
Symbol: IFP.A

### **AUDITORS**

KPMG LLP, Vancouver, BC

### **TRANSFER AGENT**

Computershare Investor Services Inc.  
Vancouver, BC and  
Toronto, ON

### **MEDIA CONTACT**

(604) 689-6800

### **CORPORATE OFFICE**

Tel: (604) 689-6800  
Fax: (604) 688-0313  
P.O. Box 49114  
3500-1055 Dunsmuir Street  
Vancouver, BC, Canada V7X 1H7

### **BELLINGHAM OFFICE**

Tel: (360) 788-2299  
Fax: (360) 788-2290  
2211 Rimland Drive, Suite 220  
Bellingham, Washington 98226

### **SALES & MARKETING**

#### **NORTH AMERICA – CEDAR**

Tel: (604) 422-3470  
Fax: (604) 422-3244  
600-2700 Production Way  
Burnaby, BC, Canada V5A 4X1

#### **NORTH AMERICA – WHITEWOOD**

Tel: (360) 788-2200  
Fax: (360) 788-2210  
2211 Rimland Drive, Suite 220  
Bellingham, WA 98226

#### **INTERNATIONAL WHITEWOOD & CEDAR**

Tel: (604) 422-3468  
Fax: (604) 422-3250  
600-2700 Production Way  
Burnaby, BC, Canada V5A 4X1

#### **JAPAN**

Tel: 03 5641 2351  
Fax: 03 5641 2383  
Kasahara Bldg. 6F, 1-7-7  
Nihonbashi, Ningyocho, Chuo-ku  
Tokyo, Japan 103-0013

#### **EUROPE**

Tel: +33 2 40 32 05 25  
Fax: +33 2 40 32 02 25  
ZI Cheviré  
7 rue de l'Houmaille  
44340 BOUGUENNAIS France

### **OPERATIONS & LOCATIONS – CANADA**

#### **ACORN DIVISION (Sawmill)**

Tel: (604) 581-0494  
Fax: (604) 581-5757  
9355 Alaska Way  
Delta, BC, Canada V4C 4R7

#### **ADAMS LAKE DIVISION (Sawmill and Woodlands)**

Tel: (250) 679-3234  
Fax: (250) 679-3545  
9200 Holding Road  
Chase, BC, Canada V0E 1M2

#### **CASTLEGAR DIVISION (Sawmill)**

Tel: (250) 365-4400  
Fax: (604) 422-3252  
P.O. Box 3728  
2705 Arrow Lakes Drive  
Castlegar, BC, Canada V1N 3W4

#### **CASTLEGAR DIVISION (Woodlands)**

Tel: (250) 265-3741  
Fax: (250) 265-6111  
P.O. Box 2000  
442 Highway 6 West  
Nakusp, BC, Canada V0G 1R0

#### **COASTAL FIBRE SUPPLY**

Tel: (604) 422-3400  
Fax: (604) 422-3452  
600-2700 Production Way  
Burnaby, BC, Canada V5A 4X1

#### **COASTAL WOODLANDS DIVISION**

Tel: (250) 286-1881  
Fax: (250) 286-3412  
1250A Ironwood Street  
Campbell River, BC, Canada V9W 6H5

#### **GRAND FORKS DIVISION (Sawmill and Woodlands)**

Tel: (250) 443-2400  
Fax: (604) 422-3253  
P.O. Box 39  
570 68<sup>th</sup> Ave.  
Grand Forks, BC, Canada V0H 1H0

#### **HAMMOND CEDAR DIVISION (Sawmill)**

Tel: (604) 465-5401  
Fax: (604) 422-3221  
20580 Maple Crescent  
Maple Ridge, BC, Canada V2X 1B1

### **OPERATIONS & LOCATIONS – US**

#### **BEAVER DIVISION (Sawmill)**

Tel: (360) 327-3377  
Fax: (360) 327-3563  
P.O. Box 38  
200673 Highway 101 West  
Beaver, WA 98305

#### **BEAVER DIVISION (Planermill)**

Tel: (360) 374-4374  
Fax: (360) 374-4331  
P.O. Box 2299  
143 Sitkum-Solduc Road  
Forks, WA 98331

#### **GILCHRIST DIVISION (Sawmill)**

Tel: (541) 433-2222  
Fax: (541) 433-9581  
P.O. Box 638  
#1 Sawmill Road  
Gilchrist, OR 97737

#### **MOLALLA DIVISION (Sawmill)**

Tel: (503) 829-9131  
Fax: (503) 829-5481  
15555 S. Hwy. 211  
Molalla, OR 97038

#### **PORT ANGELES DIVISION (Sawmill)**

Tel: (360) 457-6266  
Fax: (360) 457-1486  
243701 Highway 101 West  
Port Angeles, WA 98363

#### **CEDARPRIME INC. A Subsidiary of International Forest Products Limited (Remanufacturing)**

Tel: (360) 988-2120  
Fax: (360) 988-2126  
601C West Front Street  
Sumas, WA 98295