

**REMARKS**  
to  
**2011 ANNUAL GENERAL MEETING**  
by  
**Duncan K. Davies**  
**President & CEO**  
**INTERNATIONAL FOREST PRODUCTS LIMITED**  
May 17, 2011

## **Financial Results**

While it would be difficult to describe business conditions in 2010 as “robust”, they were, without question, better than 2009.

Lumber consumption in North America increased by almost 6% last year to 42.5 billion board feet and the Chinese market continued to grow.

Lumber prices – measured by the Random Lengths Composite Index – were up 28% year-over-year.

We took advantage of the situation to ramp up production by almost 70% to 1.1 billion board feet.

All together, the combination of more production and higher prices contributed to significantly better financial results in 2010 compared with 2009.

For the year, Interfor recorded a net loss of \$3.9 million or \$0.08 per share. EBITDA improved by \$54.4 million year-over-year to \$48.0 million.

Cash flow from operations was \$32.0 million and \$21.0 million after working capital changes were taken into account.

Net debt closed the year at \$146.7 million, equal to 30% of invested capital

## **Strategic Positioning**

In 2010, we stayed true to our plans to position Interfor for long-term success.

Key achievements during the year included:

- Strong results at Adams Lake which operated at a rate almost 20% above its original proforma.
- In July the Castlegar sawmill was re-commissioned with very encouraging results.
- Sales to China almost quadrupled and by the 4<sup>th</sup> quarter represented a full 28% of our total shipments.
- In March, the Weyerhaeuser timber purchase was completed which will strengthen the long-term timber supply for our flagship mill at Adams Lake.
- And, with the support of our banking syndicate, we once again renewed and extended our credit agreements, first in January and then, again, in August.

All-in, we believe these achievements will make Interfor a much stronger company in the years ahead.

Not only will we be “stronger”, we’ll also “look” different.

For years, we have marketed our products under a variety of labels, including “Interfor”, “Interfor Pacific”, “Adams Lake”, Acorn” and “CedarPrime”.

While each of these labels had specific meaning and history, their use had a tendency to understate our size and position in the marketplace. In many cases, buyers were unaware of the connection beneath the brands.

To remedy this situation and to signal a new approach in our “go to market strategy” we will be adopting a new brand identity at the end of this month that will be used on all Interfor products going forward.

The new design is meant to be bold and bright and to reflect the Company’s size, strength and heritage.

It's taken considerable time to reach this point but we're excited about the new look and we're looking forward to rolling it out in the next few weeks.

## **Q1, 2011**

Turning to the 1<sup>st</sup> quarter of 2011 and to the Outlook for the balance of this year, it is apparent that significant challenges remain.

After a promising start, market conditions have been affected by difficult weather, ongoing issues in US housing and logistics issues which have affected shipping activity, particularly to offshore markets.

Higher log costs in the US Pacific Northwest, weak markets for cedar and the rising value of the C\$ have added to the challenge.

All-in, Interfor lost \$1.7 million or \$0.04 per share in the 1<sup>st</sup> quarter. Excluding the effect of unrecognized tax assets and other one-time items, the loss was \$0.5 million or \$0.01 per share.

EBITDA, adjusted to exclude one-time items, was \$12.7 million.

Net debt was flat at \$147 million.

Lumber prices in North America have fallen since the end of the 1<sup>st</sup> quarter. Benchmark prices are down US\$65 to \$70 from their peak in early March, with additional discounts being offered by some suppliers looking to move large blocks.

Clearly, the North American market is oversupplied. We expect prices will remain under pressure until demand improves or supply is reduced.

In the face of this uncertainty, Interfor will maintain strict controls on inventories and a clear focus on managing for cash. This approach has served us well in recent years and we believe it will again under the current circumstance.

On March 17<sup>th</sup>, we agreed to participate in a bought deal equity issue with a group of underwriters led by Scotia Capital and RBC Capital Markets.

The transaction, which closed after the end of the quarter, resulted in the issuance of more than 8.2 million shares at a price of \$7 per share. Gross proceeds from the issue were \$57.6 million.

On a proforma basis, the equity issue will reduce the Company's net debt to invested capital ratio to less than 20%. The issue provides the Company with the flexibility to proceed with a number of high return capital projects that might not otherwise have been possible in the current environment and to take advantage of other strategic opportunities that may arise.

### **Closing**

In closing, I would once again like to thank the members of our Board of Directors for their wise counsel and support. I would also like to thank our management team, staff and employees for their dedication to the Company.

And, last but not least, I would like to thank our shareholders for their support and patience.

I continue to believe we are on track to build a company which makes us all proud.

On behalf of our directors and management team, I'd like to thank you for being here today and for your interest in our Company.