

**REMARKS to  
AGM  
by  
DUNCAN K. DAVIES  
PRESIDENT & CEO  
INTERNATIONAL FOREST PRODUCTS LIMITED  
APRIL 22, 2010**

**Financial Results**

2009 was the most difficult year in the lumber business in more than 50 years.

The global financial crisis, which began in late 2008, led to a full-blown collapse in the U.S. housing market and in lumber markets in the first part of the year.

And, while conditions stabilized somewhat – the second half of the year, the level of activity was the worst we've seen in decades.

For the year, housing starts came in at 544,000 units, down 40% from 2008, and more than 70% below the previous peak in 2005.

Lumber prices dropped 18% year-over-year as falling demand outpaced contractions in supply.

In the face of these conditions, Interfor lost \$23.9 million or \$0.51 per share in 2009.

The book value of the Company's shares ended the year at \$7.60 per share compared to \$8.62 at the end of 2008.

In retrospect, the decision we made in mid-2008 to curtail production proved to be exactly the right approach as we were able to avoid the major cash losses that some companies incurred in 2009 as markets adjusted downwards.

In fact Interfor actually generated \$5 million in cash from operations in 2009 after changes in working capital were considered.

And, over the course of the year, net debt was reduced by \$27 million, leaving the Company with one of the strongest balance sheets in the industry and a ratio of net debt to invested capital of 28%.

**Strategic Positioning**

In spite of the challenges faced by the industry in 2009, we stayed true to our plan of positioning our Company for long-term success.

Key achievements included:

- the sale of our Queensboro property;
- the completion and start-up of the new Adams Lake sawmill; and
- the re-commissioning of our Grand Forks sawmill;
- we also made important in-roads into the Chinese lumber market in 2009;
- and, with the support of our banking syndicate we renewed and extended our credit agreements, first in April and, then again, in December last year. Once the December agreement was finalized in January 2010, it left Interfor with \$265 million in total credit lines and with unused credit available of more than \$115 million, which we feel is more than adequate to meet our near-term requirements.

We believe these achievements will make Interfor a much stronger company in the years ahead.

And, if I can say so, completing these tasks in the face of the most difficult business conditions seen since the Great Depression, was no small feat, and I need to thank the members of our Board of Directors, for their unwavering support and the members of our management group and other employees for their dedication in the face of adversity.

### **Adams Lake**

A few minutes ago I mentioned the Adams Lake project as one of our crowning achievements in 2009.

The new mill was the final stage of a Master Plan for Adams Lake which began in 2003. Prior stages included the construction of new kilns and a new planer in 2004, a wood waste energy system in 2006 and site improvements in 2007.

The new sawmill was formally approved by our Board in April 2007, with a capital budget of \$100 million and ground was broken in August of that year.

Construction took a total of 20 months, with the formal start-up of the full mill taking place on April 20 last year.

And, while start-ups of mills of this size can be very challenging, I'm pleased to report that the Adams Lake mill was able to achieve pro-forma production levels on a per-hour basis on its 17<sup>th</sup> shift, which we believe is the best start-up of a mill of this size anywhere, ever.

Since then, the mill has continued to ramp up. By the end of 2009, it was running on a full two shift basis and running consistently at 10% above pro-forma.

Tremendous credit is due to our Capital Projects Group and the team at Adams Lake – both under the direction of our COO, Sandy Fulton – for the successful construction and start-up of this project.

Everything we've seen so far tells us the mill is on track to generate very attractive returns on capital invested.

### **Q1 2010**

Turning to the 1<sup>st</sup> quarter of 2010, I can tell you that business conditions are very different than they were this time last year.

The housing market in the U.S. has stabilized, albeit at levels well below anything we could have imagined a few years back.

Most significantly, excess inventories throughout the distribution channel have been worked off and production has been rebalanced against market demand.

The result is that product pricing – at least on commodity items – has firmed dramatically.

SPF prices in the 1<sup>st</sup> quarter were up 30% vs. Q4, and up 74% vs. Q1 '09.

Offsetting the increase in lumber prices, in part, were higher log costs in the B.C. Interior and U.S. Pacific Northwest, weak markets for cedar products, and the rising value of the C\$.

All-in, Interfor lost \$3.4 million or \$0.07 per share in the 1<sup>st</sup> quarter.

Cash from operations after working capital changes was \$9.1 million, while net debt increased to \$152 million, or 30% of invested capital.

### **Outlook**

Lumber prices have continued to rise since the end of the 1<sup>st</sup> quarter.

SPF is now trading above US\$300 and the RL Composite is now above US\$355.

As a result, the duty rates charged on shipments to the U.S. under the terms of the SLA will drop on May 1<sup>st</sup> to 10%, the first time since the agreement came into effect in October 2006 that duty rates have been below the maximum level of 15%.

And, if prices continue at the current level, duties could drop to 5%, or possibly 0%, in the months ahead.

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

Housing starts remain at historically depressed levels. As well, the number of homes in the foreclosure process in the U.S. represents a significant overhang on the market.

And, with the U.S. government's housing assistance package scheduled to end and the spectre of higher interest rates, there is concern that construction activity could drop in the second half of the year.

Adding to the challenge is the expectation the C\$ will continue to rise in value relative to the US\$ and other major international currencies.

In the face of this uncertainty, Interfor will continue to balance operating rates against sales activity, with a clear focus on managing for cash and realizing on the benefits of recent strategic activities and investments.

In this regard, I am pleased to say that good progress has been made on the issues impacting the Castlegar sawmill, which was acquired from Pope & Talbot in 2008.

As a result, steps are now being taken for a potential July start-up of the mill, with the full expectation that it will make a positive contribution to the Company's results once it resumes operations.

### **Closing**

In closing I would like to once again thank the members of our Board for their support in 2009.

I would also like to thank our shareholders for their patience and support.

We, too, are shareholders.

You can be assured that we take our responsibilities to you seriously and that we work every day to build value for you.

2009 was a challenge, and is not a year I look to repeat, but we've emerged as a better and stronger company as a result ... one I believe will deliver real value to you as conditions improve.

On behalf of our directors and management, I would like to thank you for being here today.