Interfor Corporation

Vancouver, BC February 12, 2015

Interfor Reports Q4'14 and Fiscal 2014 Results

Significant Milestones Achieved in 2014

INTERFOR CORPORATION ("Interfor" or the "Company") (TSX: IFP) recorded sales of $389.0 million and Adjusted EBITDA[(1)] of $37.4 million in Q4'14. These figures compare with sales and Adjusted EBITDA of $373.1 million and $45.4 million in Q3'14, and $315.3 million and $36.2 million in Q4'13, respectively. Interfor achieved a number of significant milestones in 2014 with record sales of $1.4 billion and Adjusted EBITDA of $169.3 million.

Lumber production in the fourth quarter of 2014 was 578 million board feet, up 11 million board feet or 1.9% compared to Q3'14 and up 108 million board feet or 23.0% compared to Q4'13. The production growth from Q4'13 primarily reflects the addition of two sawmills with the Tolleson acquisition and higher operating rates. For fiscal 2014, lumber production exceeded 2.2 billion board feet, which was also a new Interfor record.

In the fourth quarter of 2014, Interfor recorded a net loss of $5.2 million, or $0.08 per share. The net loss was impacted by an increase in the accrual for long term incentive compensation expense of $13.9 million in the fourth quarter compared with an expense of $3.6 million in the third quarter. The long term incentive compensation programs are directly tied to Interfor's share price performance and are therefore marked-to-market at each quarter end. In the fourth quarter of 2014, Interfor's share price increased by 35.9%.

Interfor generated $25.0 million of cash from operations before working capital changes and $35.1 million after considering working capital changes. Capital spending amounted to $24.7 million during the quarter.

The Company reduced its net debt during the quarter to $202.6 million or 24.1% of invested capital, leaving $235.6 million of availability under its credit facilities.

On December 18, 2014, Interfor announced the acquisition of four sawmills from Simpson Lumber Company, LLC. Subsequent to the quarter end, Interfor announced the closing of a $66.3 million offering of subscription receipts, with the use of proceeds to partially finance the Simpson acquisition. The acquisition is expected to close on March 1, 2015. Refer to the Company's news release dated January 27, 2015, for further information.

Average commodity lumber prices were modestly down across the board in the fourth quarter of 2014 as demand adjusted to reflect seasonal factors. The benchmark prices for Western SPF 2x4, SYP East 2x4 and HF Stud 2x4 9' declined US$17, US$11 and US$18, respectively, as compared to the prior quarter. Demand for lumber in China softened in the fourth quarter due to the combination of credit tightening and slowing real estate activity.

The US dollar strengthened against the Canadian dollar during Q4'14, closing up 3.5% over September 30, 2014. The average rate of 1.1350 in Q4'14 was 8.2% higher than in the comparable quarter of 2013, which positively impacted Interfor's net earnings reported in Canadian dollars.

The near term outlook for commodity lumber prices will be impacted by North American and overseas demand as well as supply side shifts within North America. With respect to demand, Interfor anticipates a gradual upward trend in US housing starts for 2015 on positive gains in employment and consumer confidence while demand in China is expected to reflect a moderated real estate market. Log supply constraints in certain parts of British Columbia are anticipated to continue, which may lead to reductions in available lumber industry production from that region. By contrast, modest increases in industry capacity and utilization rates are anticipated in the US South region.

FORWARD-LOOKING STATEMENTS

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

ABOUT INTERFOR

Interfor is a growth-oriented lumber company with operations in Canada and the United States. The Company has annual production capacity of 2.4 billion board feet and offers one of the most diverse lines of lumber products to customers around the world. For more information about Interfor, visit our website at www.interfor.com.

There will be a conference call on Friday, February 13, 2015 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company's release of its fourth quarter and fiscal 2014 financial results.

The dial-in number is ***1-866-233-4585***. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until February 27, 2015. The number to call is ***1-866-245-6755, Passcode 788606.***

For further information:
John A. Horning, Executive Vice President and Chief Financial Officer
(604) 689-6829

Financial and Operating Highlights [1]

	Unit	For the 3 months ended December 31,		For the year ended December 31,		
		2014	2013	2014	2013	2012
Financial Highlights [2]						
Total sales	$mm	389.0	315.3	1,447.2	1,105.2	849.2
Lumber	$mm	318.6	249.2	1,177.3	872.3	631.2
Logs	$mm	37.4	41.3	144.8	136.6	113.9
Wood chips and other residual products	$mm	29.1	20.0	105.5	72.4	69.4
Ocean freight and other	$mm	3.9	4.9	19.6	23.9	34.7
Operating earnings (loss)	$mm	(1.1)	13.7	36.1	52.5	(3.1)
Net earnings (loss)	$mm	(5.2)	11.4	40.7	42.2	(9.5)
Net earnings (loss) per share, basic and diluted	$/share	(0.08)	0.18	0.62	0.73	(0.17)
EBITDA [3]	$mm	23.2	31.4	144.2	115.8	50.2
Adjusted EBITDA [3]	$mm	37.4	36.2	169.3	134.0	59.9
Adjusted EBITDA margin [3]	%	9.6%	11.5%	11.7%	12.1%	7.1%
Total assets	$mm	1,068.5	824.1	1,068.5	824.1	632.0
Total long-term debt	$mm	220.4	145.5	220.4	145.5	135.0
Pre-tax return on total assets [3]	%	-0.1%	6.8%	6.4%	7.3%	-0.4%
Net debt to invested capital [3]	%	24.1%	21.5%	24.1%	21.5%	24.2%
Operating Highlights						
Lumber production	million fbm	578	470	2,222	1,725	1,351
Lumber sales	million fbm	620	500	2,282	1,761	1,432
Lumber - average selling price [4]	$/thousand fbm	514	498	516	495	441
Log sales [5]	thousand cubic metres	358	397	1,440	1,339	1,352
Logs - average selling price [5]	$/cubic metre	84	92	85	88	72

Notes:

1. Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
2. Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS but is unaudited.
3. Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
4. Gross sales before export taxes.
5. For B.C. operations only.

Summary of Fourth Quarter 2014 Financial Performance

Sales

Interfor recorded $389.0 million of total sales, up 23.4% from $315.3 million in the fourth quarter of 2013, driven by the sale of 620 million board feet of lumber at an average price of $514 per mfbm. Lumber sales volume and average selling price increased 120 million board feet and 3.2%, respectively, over the same quarter of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 136 million board feet or 43.6% over the fourth quarter of 2013. This growth is mostly attributable to the acquisition of two sawmills in the first quarter of 2014, higher operating rates and the draw-down of lumber inventories.

The increase in the average selling price of lumber is primarily related to the U.S. dollar strengthening against the Canadian dollar by 8.2%, partially offset by lower benchmark prices and an increased proportion of Southern Yellow Pine sales.

Log sales of $37.4 million represents a decrease of $3.9 million or 9.4% compared to the same quarter of 2013. This reflects lower sales volume and an 8.7% decrease in the average selling price on B.C. log sales, which accounted for 80.3% of total log sales revenue in the quarter.

Sales of wood chips and other residual products increased to $29.1 million, up $9.1 million over the comparable quarter of 2013. This increase mainly reflects a 23.0% rise in lumber production from Q4'13.

Operations

Production costs increased by $71.5 million or 26.3% over the fourth quarter of 2013, explained primarily by the 24.0% increase in lumber sales volume and the stronger U.S. dollar as noted above.

Depreciation of plant and equipment was $14.7 million, up 33.2% from the fourth quarter of 2013. The majority of this increase is explained by the inclusion of depreciation on the two sawmills acquired in the first quarter of 2014 and higher operating rates.

Depletion and amortization of timber, roads and other was $8.7 million, up 39.1% from the comparable quarter of 2013. This increase is mostly related to amortization of a non-competition agreement associated with the acquisition of Tolleson.

Corporate and Other

Selling and administration expenses were $8.9 million, up $1.9 million from the fourth quarter of 2013. This increase reflects the growth of Interfor's operations in the U.S. Southeast and includes $0.2 million of non-recurring costs associated with the Simpson acquisition.

The $13.9 million of long term incentive compensation expense reflects the impact of a 35.9% increase in the market price for Interfor Common Shares during the quarter on the Company's share-based incentive compensation plans.

Income Taxes

The Company recorded income tax expense of $0.2 million, comprised primarily of current taxes in respect of its U.S. operations.

Net Earnings (Loss)

The Company recorded a net loss of $5.2 million or $0.08 per share, compared to net earnings of $11.4 million or $0.18 per share in the comparable period of 2013. The net loss was impacted by the $13.9 million increase in the accrual for long term incentive compensation expense as noted above, compared to an increase of $5.2 million in the comparable quarter of 2013.

Summary of 2014 Financial Performance

Sales

Interfor recorded $1,447.2 million of total sales, up 30.9% from $1,105.2 million in 2013, driven by the sale of 2.3 billion board feet of lumber at an average price of $516 per mfbm. Lumber sales volume and average selling price increased 521 million board feet and 4.2%, respectively, over 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 512 million board feet or 47.7% over 2013. This growth is mostly attributable to the six sawmills in Georgia acquired since March of 2013 as well as increased demand.

The increase in the average selling price of lumber is primarily related to the strengthening of the U.S. dollar against the Canadian dollar by 7.3%, partially offset by an increased proportion of Southern Yellow Pine sales.

Log sales of $144.8 million represents an increase of $8.2 million or 6.0% compared to 2013, with higher volume partially offset by a lower average realize price.

Sales of wood chips and other residual products increased to $105.5 million, up $33.1 million over 2013. This increase mainly reflects the 28.8% increase in lumber production over the prior year.

Operations

Production costs increased by $302.8 million or 32.2% compared to 2013, explained primarily by the acquisition of two sawmills in the first quarter of 2014, contributing to a 29.6% increase in lumber sales volume, and a 7.5% increases in B.C. log sales volumes. The stronger U.S. dollar as noted above also contributed to this increase.

Depreciation of plant and equipment was $55.2 million, up 40.7% from 2013. The majority of this increase is explained by the inclusion of depreciation on the six mills in the U.S. Southeast acquired since March 2013, and higher operating rates.

Depletion and amortization of timber, roads and other was $28.9 million, up 25.4% over 2013. Amortization of the non-competition agreement associated with the Tolleson acquisition contributed to this increase.

Corporate and Other

Selling and administration expenses were $35.5 million, up $6.7 million from 2013. This increase reflects the growth of our operations into the U.S. Southeast and includes $1.6 million of non-recurring expenses related to the Tolleson and Simpson acquisitions.

Long term incentive compensation expense was $23.9 million, up $5.1 million over 2013, as a result of a higher market price for Interfor Common Shares on the Company's share-based incentive compensation plans.

In conjunction with curtailment of the Beaver-Forks operation in the second quarter of 2014, the Company recorded asset impairment and restructuring charges of $14.2 million, net of an $8.5 million deferred tax recovery.

Income Taxes

The Company recorded an income tax recovery of $16.2 million, comprised of $1.3 million of current tax expense net of a $17.6 million deferred tax recovery. The deferred tax recovery includes two notable items: i) recognition of $19.3 million of previously unrecognized deferred tax assets related to its U.S. operations as a result of the acquisition of Tolleson; and ii) an $8.5 million recovery related to the Beaver-Forks restructuring and impairment charges.

Net Earnings

The Company recorded net earnings of $40.7 million or $0.62 per share, compared with $42.2 million or $0.73 per share of net earnings in 2013. As noted above, net earnings in 2014 were impacted by increased long term incentive compensation expense, restructuring and impairment charges associated with the curtailment of the Beaver-Forks operation and recognition of previously unrecognized deferred tax assets related to U.S. operations.

Summary of Quarterly Results [1]

		2014				2013			
	Unit	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Performance (Unaudited)									
Total sales	$mm	389.0	373.1	390.2	294.8	315.3	272.7	274.7	242.5
Lumber	$mm	318.6	303.0	325.2	230.4	249.2	212.2	219.5	191.4
Logs	$mm	37.4	34.4	35.4	37.6	41.3	36.6	32.6	26.1
Wood chips and other residual products	$mm	29.1	28.3	25.8	22.4	20.0	18.4	17.4	16.6
Ocean freight and other	$mm	3.9	7.4	3.8	4.4	4.9	5.4	5.2	8.4
Operating earnings (loss)	$mm	(1.1)	20.1	3.8	13.3	13.7	2.3	19.3	17.2
Net earnings (loss)	$mm	(5.2)	11.0	7.4	27.5	11.4	(0.1)	15.8	15.2
Net earnings (loss) per share, basic and diluted	$/share	(0.08)	0.16	0.11	0.43	0.18	(0.00)	0.28	0.27
EBITDA[2]	$mm	23.2	40.9	47.8	32.3	31.4	18.4	35.3	30.6
Adjusted EBITDA[2]	$mm	37.4	45.4	47.3	39.2	36.2	24.6	36.1	37.1
Shares outstanding - end of period	million	66.7	66.7	66.7	66.7	63.1	63.1	55.9	55.9
Shares outstanding - weighted average	million	66.7	66.7	66.7	63.8	63.1	55.9	55.9	55.9
Operating Performance									
Lumber production	million fbm	578	567	582	495	470	447	418	390
Lumber sales	million fbm	620	595	628	439	500	446	433	383
Lumber - average selling price[3]	$/thousand fbm	514	509	518	525	498	476	507	500
Log sales[4]	thousand cubic metres	358	380	305	398	397	353	301	289
Logs - average selling price[4]	$/cubic metre	84	75	103	82	92	93	90	76
Average USD/CAD exchange rate[5]	1 USD in CAD	1.1350	1.0890	1.0905	1.1033	1.0491	1.0385	1.0233	1.0080
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.1601	1.1208	1.0676	1.1053	1.0636	1.0303	1.0518	1.0160

Notes:

(1) Figures in this table may not add due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A.
(3) Gross sales before export taxes.
(4) For B.C. operations.
(5) Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by seasonality, levels of lumber production, log costs, market prices for lumber and the USD/CAD foreign currency exchange rate.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, the Company's B.C. Coast logging division experiences 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 break-up and increases in the third and fourth quarters. Sawmill operations are dependent on the availability of logs from our logging operations and our 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.

Three sawmills acquired on March 1, 2013, and one sawmill acquired on July 1, 2013, contributed to growth in production, sales and earnings. Production, sales and earnings have also benefited since the acquisition of two sawmills on March 14, 2014. The permanent closure of the Beaver sawmill impacted production and sales in subsequent to Q2'14.

The volatility of the Canadian dollar against the U.S. dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to the U.S. and export markets priced in U.S. dollars. A weaker Canadian dollar increases the lumber sales realizations in Canada, and increases net earnings of U.S. operations when translated to Canadian dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout the fourth quarter of 2014. Net debt at quarter-end of $202.6 million, or 24.1% of invested capital, was $61.8 million higher than at December 31, 2013, due primarily to borrowings for the Tolleson acquisition.

As at December 31, 2014, the Company had net working capital of $109.7 million and available capacity on operating and term facilities of $235.6 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

In 2014, the Company generated $143.0 million of cash flow from operations before changes in working capital, up $19.3 million over 2013. Incremental cash flow generated from increased sales was partially offset by a small reduction in margin on production costs and a $6.7 million increase in selling and administration costs. The increase in selling and administration costs includes $1.6 million of a non-recurring nature related to the Tolleson and Simpson acquisitions.

Total cash generated from operations after changes in working capital was $161.8 million, with $18.8 million of cash released from operating working capital. The reduction in working capital was led by a $17.3 million decrease in log inventory compared to December 31, 2013. In 2013, $26.2 million of cash was consumed by operating working capital, leading to $97.5 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled $200.9 million in 2014, including $124.4 million related to the Tolleson acquisition, $48.9 million for property, plant and equipment and $26.7 million for development of logging roads. Discretionary mill improvements of $25.0 million during the period included the installation of a new kiln and crane at the Thomaston sawmill, a Weinig moulder at the Gilchrist sawmill and preparatory work on the Castlegar sawmill rebuild.

In 2013, total investing activities of $186.7 million included $86.6 million related to the acquisition of Rayonier's Wood Products Business, $33.8 million for the acquisition of the Thomaston sawmill and $68.3 million of capital expenditures. Capital expenditures included the addition of two timber tenures in the Kootenay Region of B.C. from Springer Creek Management Ltd. with a combined Allowable Annual Cut of approximately 174,000 cubic metres.

Cash Flow from Financing Activities

Net drawings on the Company's long term debt facilities were $59.4 million 2014, leading to total cash from financing activities of $51.5 million. This includes US$112.5 million drawn from the Company's Revolving Term Line and Operating Line to fund the Tolleson acquisition.

In 2013, net drawings on the Company's long term debt facilities were $4.2 million with total cash from financing activities of $78.0 million. This includes $82.4 million of net cash proceeds raised from the issuance of 7,187,500 Common Shares.

Summary of Contractual Obligations

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

		Payments due by Period			
Thousands of Canadian dollars	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and accrued liabilities	$105,150	$105,150	$ -	$ -	$ -
Income taxes payable	365	365	-	-	-
Reforestation liability	34,628	9,797	9,040	8,456	7,335
Long term debt	220,419	-	104,709	-	115,710
Provisions and other liabilities	68,317	31,908	12,270	3,314	20,825
Operating leases and expected capital commitments	83,864	64,294	10,040	4,510	5,020
Total obligations (1)	$512,743	$211,514	$136,059	$ 16,280	$148,890

Note: (1) Figures in this table may not add due to rounding

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2014:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit and maximum borrowing available	$ 65,000	$250,000	$116,010	$ 34,803	$465,813
Less:					
Drawings	-	104,409	116,010	-	220,419
Outstanding letters of credit included in line utilization	8,637	-	-	1,183	9,820
Unused portion of facility	$ 56,363	$145,591	-	$ 33,620	$235,574

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand. Based on current pricing, cash flow projections and existing credit lines, the Company believes it has sufficient liquidity to meet all of its financial obligations.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the twelve months ended December 31, 2014.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber sales. At December 31, 2014, such instruments aggregated $30.9 million (December 31, 2013 - $26.7 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.

Financial Instruments 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's policy is not to use derivatives for trading or speculative purposes. 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 are the Company's Canadian bankers who are highly-rated and, hence, the risk of credit loss on such instruments is mitigated.

Interest Rate Swaps

As at December 31, 2014, Interfor had drawn $104.4 million of floating rate debt, excluding letters of credit, from its operating and term credit facilities, and $116.0 million of fixed rate debt through the Senior Secured Notes. 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 Canadian dollar loans or at LIBOR for U.S. dollar loans, in all cases dependent upon a financial ratio. The Senior Secured Notes bear interest at 4.33% and 4.02% for Series A and Series B, respectively.

On April 14, 2014, the Company entered into two additional interest rate swaps, each with a notional value of US$25.0 million maturing on April 14, 2016. Under the terms of these swaps, the Company pays an amount based a fixed annual interest rate of 0.58% and receives payment based on 90 day LIBOR which recalculated at set interval dates.

On March 25, 2013, the Company entered into two interest rate swaps, each with a notional value of US$25.0 million and maturing on February 17, 2017. Under the terms of these swaps, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives payment based on 90 day LIBOR which is recalculated at set interval dates.

These interest rate swaps convert the Company's floating-rate interest expense to fixed-rate interest expense and have been designated as cash flow hedges. The fair value of these interest rate swaps at December 31, 2014, being an asset of $0.1 million (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (2013 - $0.2 million) and a negligible loss (2013 - $0.2 million gain) has been recognized in Other comprehensive income.

Based on the Company's average debt level during 2014, there is no net earnings exposure to changes in interest rates as all debt is covered by fixed rate instruments.

Foreign Currency Contracts

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, accounts payable and provisions 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 and U.S. dollars, but also the Euro, Sterling and Yen. The Company uses foreign currency exchange forward, collar and option contracts to manage its currency risk from time to time. The Company routinely assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

As at December 31, 2014, the Company had outstanding forward currency exchange contract obligations to sell during 2015 a maximum of US$11.0 million at an average rate of $1.1527 per U.S. dollar and ¥53.6 million at an average rate of ¥107.1 per U.S. dollar. Under outstanding call/put option collar agreements, the Company also had the right to sell US$4 million per month at an average rate of $1.1000 per U.S. dollar and the obligation to sell US$4 million per month at an average rate of $1.1638 per U.S. dollars in each of January, February and March 2015.

All foreign currency gains or losses in 2014 have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of the foreign currency contracts has been recorded as a liability of $0.2 million in Trade accounts payable and provisions (2013 - $0.1 million asset recorded in Trade accounts receivable and other).

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 Consolidated 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 Consolidated Statement of Earnings.

As at December 31, 2014, the Company had designated the US$90.0 million drawn under its Revolving Term Line and US$100.0 million drawn under its Senior Secured Notes as hedges against the net investment in its U.S. operations. The Company recorded a $20.4 million unrealized foreign exchange net gain on translation of its U.S. operations with a U.S. dollar functional currency to Other comprehensive income (loss) in 2014 (2013 - $8.2 million net gain).

Outstanding Shares

As of February 12, 2015, Interfor had 66,730,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2014.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2014.

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 year ended December 31, 2014, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: EBITDA, Adjusted EBITDA, Pre-tax return on total assets and Net debt to invested capital, which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim and audited annual condensed consolidated financial statements prepared in accordance with IFRS:

	For the 3 months ended December 31,		For the year ended December 31,		
Thousands of Canadian dollars	2014	2013	2014	2013	2012
Adjusted EBITDA					
Net earnings (loss)	(5,187)	11,431	40,690	42,239	(9,474)
Add:					
Depreciation of plant and equipment	14,707	11,040	55,167	39,206	28,745
Depletion and amortization of timber, roads and other	8,699	6,253	28,912	23,061	23,648
Restructuring costs, capital asset and timber write-downs	857	49	24,129	371	529
Finance costs	2,268	2,097	8,915	9,069	6,441
Other foreign exchange loss (gain)	1,646	211	2,651	1,250	(189)
Income tax expense (recovery)	160	324	(16,230)	555	458
EBITDA	23,150	31,405	144,234	115,751	50,158
Add:					
Long term incentive compensation	13,864	5,205	23,933	18,841	10,065
Other expense (income)	(3)	(375)	37	(602)	(334)
Beaver sawmill post-closure wind-down costs	363	-	1,075	-	-
Adjusted EBITDA	37,374	36,235	169,279	133,990	59,889
Pre-tax return on total assets					
Operating earnings (loss) before restructuring and capital asset write-downs	(259)	13,737	60,192	52,882	(2,569)
Total assets(1)	1,058,346	812,305	946,325	728,083	623,438
Pre-tax return on total assets(2)	-0.1%	6.8%	6.4%	7.3%	-0.4%
Net debt to invested capital					
Net debt					
Long term debt	220,419	145,479	220,419	145,479	135,046
Cash and cash equivalents	(17,866)	(4,717)	(17,866)	(4,717)	(14,994)
Total net debt	202,553	140,762	202,553	140,762	120,052
Invested capital					
Net debt	202,553	140,762	202,553	140,762	120,052
Shareholders' equity	636,480	515,137	636,480	515,137	376,030
Total invested capital	839,033	655,899	839,033	655,899	496,082
Net debt to invested capital (3)	24.1%	21.5%	24.1%	21.5%	24.2%

Notes:
(1) Opening total assets for three month periods; average of opening and closing total assets for annual periods.
(2) Annualized rate.
(3) Net Debt to Invested Capital balances are as of the period end.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three months and years ended December 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Sales	$ 388,974	$ 315,318	$ 1,447,157	$ 1,105,222
Costs and expenses:				
Production	343,073	271,535	1,243,464	940,667
Selling and administration	8,890	6,958	35,489	28,829
Long term incentive compensation expense	13,864	5,205	23,933	18,841
Export taxes	-	590	-	1,736
Depreciation of plant and equipment (note 9)	14,707	11,040	55,167	39,206
Depletion and amortization of timber, roads and other (note 9)	8,699	6,253	28,912	23,061
	389,233	301,581	1,386,965	1,052,340
Operating earnings (loss) before restructuring costs	(259)	13,737	60,192	52,882
Restructuring costs (note 10)	(857)	(49)	(24,129)	(371)
Operating earnings (loss)	(1,116)	13,688	36,063	52,511
Finance costs (note 11)	(2,268)	(2,097)	(8,915)	(9,069)
Other foreign exchange loss	(1,646)	(211)	(2,651)	(1,250)
Other income (loss)	3	375	(37)	602
	(3,911)	(1,933)	(11,603)	(9,717)
Earnings before income taxes	(5,027)	11,755	24,460	42,794
Income tax expense (recovery):				
Current	134	367	1,342	463
Deferred (note 4)	26	(43)	(17,572)	92
	160	324	(16,230)	555
Net earnings (loss)	$ (5,187)	$ 11,431	$ 40,690	$ 42,239
Net earnings (loss) per share, basic and diluted (note 12)	$ (0.08)	$ 0.18	$ 0.62	$ 0.73

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months and years ended December 31, 2014 and 2013 (unaudited)

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Net earnings (loss)	$ (5,187)	$ 11,431	$ 40,690	$ 42,239
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss)	1,190	942	(1,342)	5,832
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences – foreign operations	10,748	3,759	20,389	8,167
Gain (loss) in fair value of interest rate swaps (note 14)	(145)	23	(34)	241
Reclassification of loss in fair value of interest rate swaps to net earnings	-	-	-	58
Deferred income tax recovery on other comprehensive income	-	-	-	212
Total items that are or may be recycled to Net earnings (loss)	10,603	3,782	20,355	8,678
Total other comprehensive income, net of tax	11,793	4,724	19,013	14,510
Total comprehensive income	$ 6,606	$ 16,155	$ 59,703	$ 56,749

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months and years ended December 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (5,187)	$ 11,431	$ 40,690	$ 42,239
Items not involving cash:				
Depreciation of plant and equipment (note 9)	14,707	11,040	55,167	39,206
Depletion and amortization of timber, roads and other (note 9)	8,699	6,253	28,912	23,061
Income tax expense (recovery)	160	324	(16,230)	555
Finance costs (note 11)	2,268	2,097	8,915	9,069
Other assets	409	840	986	884
Reforestation liability	1,890	560	1,910	2,599
Provisions and other liabilities	181	3,199	(63)	6,612
Write-down of plant and equipment (note 10)	-	-	20,468	-
Unrealized foreign exchange loss (gain)	1,860	(140)	2,191	(14)
Other	(4)	(363)	46	(484)
	24,983	35,241	142,992	123,727
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(7,827)	(4,883)	(8,628)	(9,667)
Inventories	3,838	(5,173)	15,083	(40,866)
Prepayments	4,539	3,547	1,236	493
Trade accounts payable and provisions	9,676	4,870	14,185	24,495
Income taxes paid	(132)	(140)	(3,077)	(652)
	35,077	33,462	161,791	97,530
Investing activities:				
Additions to property, plant and equipment	(17,452)	(8,760)	(48,922)	(33,038)
Additions to logging roads	(6,875)	(6,389)	(26,656)	(18,676)
Additions to timber and other intangible assets	(378)	(3,307)	(2,818)	(16,531)
Proceeds on disposal of property, plant and equipment	286	1,718	1,926	2,089
Acquisitions (note 4)	-	-	(124,421)	(120,407)
Investments and other assets	(111)	(35)	(13)	(108)
	(24,530)	(16,773)	(200,904)	(186,671)
Financing activities:				
Issuance of capital stock, net of share issue expenses	-	8	-	82,358
Interest payments	(1,988)	(2,190)	(7,122)	(7,142)
Financing transaction costs	(21)	(15)	(757)	(1,460)
Additions to long-term debt (notes 4 and 7)	118,480	36,968	480,487	326,738
Repayments of long-term debt (note 7)	(135,425)	(59,651)	(421,059)	(322,517)
	(18,954)	(24,880)	51,549	77,977
Foreign exchange gain on cash and cash equivalents held in a foreign currency	79	172	713	887
Increase (decrease) in cash	(8,328)	(8,019)	13,149	(10,277)
Cash and cash equivalents, beginning of period	26,194	12,736	4,717	14,994
Cash and cash equivalents, end of period	$ 17,866	$ 4,717	$ 17,866	$ 4,717

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
December 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	Dec. 31, 2014	Dec. 31, 2013
Assets		
Current assets:		
Cash and cash equivalents (note 7(e))	$ 17,866	$ 4,717
Trade accounts receivable and other	80,283	62,735
Inventories (note 6)	148,668	149,509
Prepayments	12,175	11,374
	258,992	228,335
Employee future benefits	2,520	3,980
Other investments and assets	2,972	3,960
Property, plant and equipment (notes 4 and 10)	541,378	460,930
Logging roads and bridges	22,244	16,224
Timber licences	79,024	84,344
Other intangible assets (note 4)	24,397	2,420
Goodwill (note 4)	136,996	23,715
Deferred income taxes	-	218
	$1,068,523	$ 824,126
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 139,153	$ 98,017
Reforestation liability	9,797	11,754
Income taxes payable	365	395
	149,315	110,166
Reforestation liability	23,099	20,662
Long term debt (note 7)	220,419	145,479
Employee future benefits	7,361	7,006
Provisions and other liabilities	25,190	25,676
Deferred income taxes (notes 4 and 10)	6,659	-
Equity:		
Share capital (note 8)	490,363	428,723
Contributed surplus	7,476	7,476
Translation reserve	20,950	561
Hedge reserve	133	167
Retained earnings	117,558	78,210
	636,480	515,137
	$1,068,523	$ 824,126

Commitment (note 15)
Subsequent events (note 16)

See accompanying notes to consolidated financial statements
Approved on behalf of the Board:

L. Sauder
Director

D. W.G. Whitehead
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the years ended December 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	Common Shares	Class B Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2012	$ 342,285	$ 4,080	$ 7,476	$ (7,818)	$ (132)	$ 30,139	$ 376,030
Net earnings:	-	-	-	-	-	42,239	42,239
Other comprehensive earnings:							
Foreign currency translation differences, net of tax	-	-	-	8,379	-	-	8,379
Defined benefit plan actuarial gain	-	-	-	-	-	5,832	5,832
Gain in fair value of interest rate swaps (note 14)	-	-	-	-	241	-	241
Reclassification of loss in fair value of interest rate swaps to net earnings	-	-	-	-	58	-	58
Contributions:							
Share issuance, net of share issue expenses	82,358	-	-	-	-	-	82,358
Share exchange	4,080	(4,080)	-	-	-	-	-
Balance at December 31, 2013	428,723	-	7,476	561	167	78,210	515,137
Net earnings:	-	-	-	-	-	40,690	40,690
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	20,389	-	-	20,389
Defined benefit plan actuarial loss	-	-	-	-	-	(1,342)	(1,342)
Loss in fair value of interest rate swaps (note 14)	-	-	-	-	(34)	-	(34)
Contributions:							
Shares issued in business combination (notes 4 and 8)	61,640	-	-	-	-	-	61,640
Balance at December 31, 2014	$ 490,363	$ -	$ 7,476	$ 20,950	$ 133	$ 117,558	$ 636,480

See accompanying notes to consolidated financial statements

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

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia, the U.S. Northwest and the U.S. Southeast for sale to markets around the world.

Interfor Corporation is 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.

These unaudited condensed consolidated interim financial statements as at and for the three months and years ended December 31, 2014 and 2013 comprise the Company and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These unaudited condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These unaudited condensed consolidated interim financial statements were approved by the Board of Directors on February 12, 2015.

(b) Basis of measurement:

These unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following items in the Statement of Financial Position:

(i) Derivative financial instruments are measured at fair value;

(ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(iii) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

The functional and presentation currency of the parent company is the Canadian Dollar.

3. Significant accounting policies:

These unaudited condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2013, annual consolidated financial statements, which are available on www.sedar.com. The adoption of new accounting standards or interpretations under IFRS had no effect on these financial statements.

4. Acquisitions:

On March 14, 2014, a wholly-owned subsidiary of Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A. ("Ilim"), pursuant to a Share Purchase Agreement for total consideration of $188,545,000. Tolleson, through its wholly-owned subsidiary, owns and operates two sawmills in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. This acquisition is consistent with Interfor's strategy of adding capacity in attractive regional markets.

The acquisition has been accounted for as a business combination and the value of consideration transferred is allocated as follows:

Assets acquired:	
Cash and cash equivalents	$ 2,484
Other current assets	16,790
Property, plant and equipment	86,561
Other intangible assets	22,190
Goodwill	107,419
	235,444
Liabilities assumed:	
Current liabilities	(15,929)
Long term provisions and other liabilities	(6,697)
Deferred income taxes	(24,273)
	$ 188,545

Consideration funded by:	
Current liabilities	$ 2,086
Operating Line	24,964
Revolving Term Line	99,855
Share capital (3,680,000 Common Shares)	61,640
	$ 188,545

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

4. Acquisitions (continued):

As part of the acquisition, the Company entered into a non-competition agreement with Ilim under which Ilim and its associates are prohibited from carrying on various activities within Canada and the U.S. that would be in competition with the Company's operating activities for a period of five years from the acquisition date. An intangible asset of $22,190,000 was recognized in respect of this non-competition agreement, which will be amortized to expense over its five year term.

The goodwill of $107,419,000 recognized in the transaction is calculated as the excess of the purchase consideration transferred over the fair values of the identifiable assets acquired and liabilities assumed. The factors that contribute to the recognition of goodwill include Tolleson's historical cash flows and income levels, reputation in its markets, management team strength, efficiency of operations, synergies with other Interfor-owned sawmills in close proximity, and future cash flows and income growth projections. None of the goodwill is expected to be tax deductible.

In conjunction with recognizing a $24,273,000 deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized $19,253,000 of previously unrecognized deferred tax assets related to its U.S. operations. The recognition of these deferred income tax assets is included within the $17,572,000 deferred income tax recovery in the Company's Consolidated Statements of Earnings.

The Company incurred acquisition related costs of $1,368,000 for the year ended December 31, 2014, which are included in Selling and administration expenses in the Company's Consolidated Statements of Earnings.

Since acquisition, Tolleson contributed sales of $126,067,000 and earnings of $12,016,000 to the Company's results. If the acquisitions had occurred on January 1, 2014, management estimates that Sales would have been $1,477,716,000 and Net earnings for the period would have been $39,672,000. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition date would have been the same if the acquisition had occurred on January 1, 2014.

In 2013, the Company acquired Rayonier Inc.'s Wood Products Business in Georgia, U.S. for $86,641,000 and the sawmill operations of Keadle Lumber Enterprises, Inc. in Thomaston, Georgia for $41,129,000. The Thomaston sawmill acquisition resulted in the recognition of $10,518,000 in goodwill.

5. Seasonality of operating results:

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 woods closures. Generally, the Company's B.C. Coastal logging division experiences 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 break-up 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.

6. Inventories:

	Dec. 31, 2014	Dec. 31, 2013
Logs	$ 71,841	$ 89,170
Lumber	66,798	51,449
Other	10,029	8,890
	$ 148,668	$ 149,509

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 in order to record inventory at the lower of cost and net realizable value at December 31, 2014 was $9,774,000 (2013 - $7,926,000).

7. Cash and borrowings:

December 31, 2014	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 250,000	$ 116,010	$ 34,803	$ 465,813
Drawings	-	104,409	116,010	-	220,419
Outstanding letters of credit included in line utilization	8,637	-	-	1,183	9,820
Unused portion of line	$ 56,363	$ 145,591	$ -	$ 33,620	$ 235,574
December 31, 2013					
Available line of credit	$ 65,000	$ 200,000	$ 53,180	$ 21,272	$ 339,452
Drawings	936	90,619	53,180	744	145,479
Outstanding letters of credit included in line utilization	7,529	-	-	-	7,529
Unused portion of line	$ 56,535	$ 109,381	$ -	$ 20,528	$ 186,444

7. Cash and borrowings (continued):

(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[1]. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories. The Operating Line matures on February 27, 2017.

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.

As at December 31, 2014, the Operating Line was drawn by $8,637,000 (2013 - $8,465,000), including outstanding letters of credit.

During the first quarter, 2014, the Company drew US$22,500,000 under its Operating Line to fund its acquisition in the U.S. (see note 4), which it designated as a hedge against the Company's investment in its U.S. operations and recognized unrealized foreign exchange gains of $72,000 in Other comprehensive income for the first quarter, 2014 (2013 - $nil), after which this borrowing was transferred to the Revolving Term Line facility.

(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[1]. The Revolving Term Line matures on February 27, 2017.

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 Revolving 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 March 31, 2014, the Company increased the credit available under its Revolving Term Line from $200,000,000 to $250,000,000. All other terms and conditions of this line remained unchanged.

In March, 2014, the Company drew US$90,000,000 under its Revolving Term Line to fund its acquisitions in the U.S., which it designated as a hedge against the Company's investment in its U.S. operations. During the year, the Company repaid US$142,700,000 of drawings under the Revolving Term Line previously designated as a hedge. Related cumulative unrealized foreign exchange losses remain in Foreign currency translation differences in Other comprehensive income.

As at December 31, 2014, the Revolving Term Line was drawn by US$90,000,000 (2013 – US$85,200,000) revalued at the year-end exchange rate to $104,409,000 (2013 - $90,619,000), being the total drawings under the facility and leaving an unused available line of $145,591,000 (2013 - $109,381,000).

All outstanding U.S. dollar drawings under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and cumulative unrealized foreign exchange losses of $10,770,000 (2013 – $5,538,000) arising on revaluation of the Revolving Term Line, and from translation of U.S. dollar borrowings designated as hedges and since repaid, were recognized in Foreign currency translation differences in Other comprehensive income. For the fourth quarter, 2014, an unrealized foreign exchange loss of $5,755,000 (Quarter 4, 2013 - $3,348,000) was recognized in Other comprehensive income.

(c) Senior Secured Notes:

On June 26, 2013, the Company issued US$50,000,000 of Series A Senior Secured Notes, bearing interest at 4.33%. On December 17, 2014, the Company issued US$50,000,000 of Series B Senior Secured Notes (together with the Series A Senior Secured Notes, the "Senior Secured Notes"), bearing interest at 4.02%. The notes 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 calculation. Payments of US$33,334,000 are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023.

As at December 31, 2014, Senior Secured Notes of US$100,000,000 were outstanding (2013 – US$50,000,000) and revalued at the year-end exchange rate to $116,010,000 (2013 - $53,180,000).

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $4,705,000 (2013 - $635,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2014. For the fourth quarter, 2014, an unrealized exchange loss of $1,845,000 (Quarter 4, 2013 - $1,665,000) was recognized in Other comprehensive income.

(d) U.S. Operating Line:

The U.S. Operating Line is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc., and matures on April 28, 2015. The U.S. Operating Line is subject to a minimum net worth calculation, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories.

On March 21, 2014, the Company increased the credit available under this agreement from US$20,000,000 to US$30,000,000.

[1]EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization.

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

7. Cash and borrowings (continued):

(d) U.S. Operating Line (continued):

As at December 31, 2014, the U.S. Operating Line was drawn by US$1,020,000 in outstanding letters of credit, revalued at the year-end exchange rate to $1,183,000 (2013 – US$700,000 revalued at the year-end exchange rate to $744,000), with cumulative unrealized foreign exchange losses of $115,000 (2013 –$67,000) recognized in Foreign currency translation differences in Other comprehensive income. There was no exchange adjustment on the U.S. Operating Line recognized in Other comprehensive income in the fourth quarter, 2014 (Quarter 4, 2013 - $155,000 loss).

Minimum principal amounts due on long-term debt are as follows:

Twelve months ending	
December 31, 2015	$ -
December 31, 2016	-
December 31, 2017	104,409
December 31, 2018	-
December 31, 2019	-
Thereafter	116,010
	$ 220,419

(e) Cash and cash equivalents:

At December 31, 2014, the Company's cash balances are restricted by contractor holdback payments of $15,000 (2013 - $168,000).

8. Share capital:

The transactions in share capital are described below:

	Number			
	Common	Class B	Total	Amount
Balance, December 31, 2012	54,847,176	1,015,779	55,862,955	$ 346,365
Share exchange	1,015,779	(1,015,779)	-	-
Shares issued for cash, net of share issue costs	7,187,500	-	7,187,500	82,358
Balance, December 31, 2013	63,050,455	-	63,050,455	428,723
Shares issued in business combination (see note 4)	3,680,000	-	3,680,000	61,640
Balance, December 31, 2014	66,730,455	-	66,730,455	$ 490,363

On August 23, 2013, the Company's controlling shareholder, Sauder Industries Limited ("SIL") exercised its right under the Company's Articles to exchange its Class B Shares for Common Shares on a share for share basis without any cash or non-cash consideration. As a result of the exchange by SIL, all remaining Class B Shares were automatically converted to Common Shares.

On September 30, 2013, the Company closed a public offering of 7,187,500 Common Shares at a price of $12.00 per share for net cash proceeds of $82,358,000. Proceeds were used to fund completion of capital projects expected to increase the operational efficiency of, and support higher operating rates from, the Company's assets with the expectation of increased profitability. Initially, a portion of the proceeds was used to reduce the Company's debt levels.

On March 14, 2014, the Company issued 3,680,000 Common Shares as a result of the acquisition of Tolleson Ilim Lumber Company (see note 4) at a closing price of $16.75 per share as at March 14, 2014.

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization can be allocated by function as follows:

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Production	$ 21,780	$ 17,077	$ 79,359	$ 61,300
Selling and administration	1,626	216	4,720	967
	$ 23,406	$ 17,293	$ 84,079	$ 62,267

10. Restructuring costs:

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Write-down of plant and equipment	$ -	$ -	$ 20,468	$ -
Severance	444	49	1,575	371
Onerous contract	-	-	1,673	-
Other	413	-	413	-
	$ 857	$ 49	$ 24,129	$ 371

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

10. Restructuring costs (continued):

During the second quarter, 2014, the Company curtailed its Beaver-Forks operation, located on the Olympic Peninsula in Washington, indefinitely. As a result, the Company recorded provisions for severance, remediation, and an onerous contract totaling $2,242,000, an impairment charge of $20,468,000 on the plant and equipment to reduce the carrying value of these assets to estimated fair values, partially offset by a deferred tax recovery of $8,487,000. The Company announced the permanent closure of the Beaver-Forks operation on July 31, 2014, and recognized additional severance costs of $120,000 in the fourth quarter, 2014.

During the twelve months ended December 31, 2014, the Company also recorded other severance costs of $886,000 (December 31, 2013 - $371,000), and $324,000 for the fourth quarter, 2014 (Quarter 4, 2013 - $49,000).

11. Finance costs:

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Interest on borrowing	$ 1,964	$ 1,784	$ 7,568	$ 7,460
Interest (income) on defined benefit obligations	(35)	66	(79)	210
Reclassification of loss (gain) in fair value of interest rate swap from Other comprehensive income	-	(66)	-	58
Accretion expense	137	151	627	522
Amortization of deferred finance costs	202	162	799	819
	$ 2,268	$ 2,097	$ 8,915	$ 9,069

12. Net earnings (loss) per share:

	3 Months Dec. 31, 2014			3 Months Dec. 31, 2013		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at September 30		66,730			63,050	
No shares issued during quarter		-			-	
Basic and diluted earnings (loss) per share	$ (5,187)	66,730	$ (0.08)	$ 11,431	63,050	$ 0.18

	Year ended Dec. 31, 2014			Year ended Dec. 31, 2013		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at January 1		63,050			55,863	
Effect of shares issued on:						
September 30, 2013		-			1,831	
March 14, 2014		2,955			-	
Basic and diluted earnings per share	$ 40,690	66,005	$ 0.62	$ 42,239	57,694	$ 0.73

The Company has no dilutive securities.

13. Segmented information:

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

Sales to both foreign and domestic markets are as follows:

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
United States	$ 246,701	$ 162,839	$ 864,309	$ 556,878
Canada	55,778	61,710	231,733	226,989
China/Taiwan	40,163	38,871	170,785	130,697
Japan	31,388	32,638	127,279	121,548
Other export	14,944	19,260	53,051	69,110
	$ 388,974	$ 315,318	$ 1,447,157	$ 1,105,222

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

13. Segmented information (continued):

Sales by product line are as follows:

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Lumber	$ 318,622	$ 249,157	$ 1,177,258	$ 872,264
Logs	37,395	41,288	144,770	136,633
Wood chips and other by-products	29,065	19,954	105,506	72,418
Ocean freight and other	3,892	4,919	19,623	23,907
	$ 388,974	$ 315,318	$ 1,447,157	$ 1,105,222

14. Financial instruments:

At December 31, 2014, the fair value of the Company's long-term debt approximated its carrying value of $220,419,000 (2013 - $145,479,000) measured based on Level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

The Company uses a variety of derivative financial instruments to reduce its exposures to risks associated with fluctuations in foreign exchange rates, lumber prices, and floating interest rates on long-term debt including foreign currency forward, collar and option contracts, interest rate swaps and lumber futures.

On March 25, 2013, the Company entered into two interest rate swaps, each with notional value of US$25,000,000 and maturing February 17, 2017. Under the terms of these swaps the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates.

On April 14, 2014, the Company entered into two additional interest rate swaps, each with a notional value of US$25,000,000 and maturing on April 14, 2016. Under the terms of these interest swaps, the company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates.

The intent of the interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense and both have been designed as cash flow hedges.

In respect of its trading in foreign currency forward, collars and option contracts, and its interest rate swaps, the Company does not expect any credit losses in the event of non-performance by counterparties as the counterparties are the Company's Canadian and U.S. bankers, which are all highly rated.

Trading activity in lumber futures to manage price risk was minimal in 2014 and 2013.

Fair value of the Company's derivative financial instruments is measured based on Level 2 of the fair value hierarchy as defined under IFRS 13, *Fair Value Measurement* and summarized in the following table as at December 31.

	Dec. 31, 2014	Dec. 31, 2013
Foreign exchange collars and forward contracts	$ (177)	$ 136
Interest rate swaps	132	166
Total asset (liability), net	$ (45)	$ 302

Financial instruments in an asset position are classified as Trade accounts receivable and other in the Statement of Financial Position, while financial instruments in a liability position are classified as Trade accounts payable and provisions. Assets and liabilities are not netted, for purposes of presentation on the Statement of Financial Position.

	3 Months Dec. 31, 2014	3 Months Dec. 31, 2013	Year Dec. 31, 2014	Year Dec. 31, 2013
Foreign exchange collars and forward contracts[1]	$ (1,646)	$ (211)	$ (884)	$ (1,138)
Interest rate swaps[2]	(145)	23	(34)	241
Lumber futures[3]	(1)	12	9	118
Total gain (loss), net	$ (1,792)	$ (176)	$ 909	$ (779)

[1] Recognized in Other foreign exchange gain (loss) in Net earnings.
[2] Recognized in Other comprehensive income.
[3] Recognized in Other income (loss) in Net earnings.

15. Commitment:

Upon acquisition of the Thomaston sawmill operations from Keadle Lumber Enterprises, Inc., the Company agreed to pay an additional US$7,000,000, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift. Receipt of this approval was received on February, 28, 2014, with the payment to be made February 27, 2015. The liability, revalued at the year-end exchange rate to $8,121,000, is included in Trade accounts payable and provisions as at December 31, 2014 (2013 - $7,445,000 included in Provisions and other liabilities).

16. Subsequent events:

(a) Acquisition:

On December 18, 2014, a wholly-owned subsidiary of the Company entered into an asset purchase agreement with Simpson Lumber Company, LLC ("Simpson") to acquire its sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington (the "Acquisition"). Consideration is comprised of US$94,700,000, plus working capital and adjustments related to Simpson's pre-closing capital expenditure commitments, and a series of future payments tied to the financial performance of the Tacoma sawmill.

The contingent future payments will be calculated over the three years following the closing of the transaction as follows:

(i) An annual payment equal to half of the Tacoma sawmill's EBITDA for each of the three years post closing; and

(ii) A final payment at the end of the third year equal to 2.5 times the Tacoma sawmill's average annual EBITDA over the three year period.

The minimum total contingent future payments as outlined in (i) and (ii) combined will be US$10,000,000.

Regulatory approval was received on January 23, 2015. The Acquisition remains subject to various closing conditions, and is anticipated to close on March 1, 2015. The Acquisition will be financed through proceeds from a share issuance (see Note 16 (b)) and from Interfor's existing credit facilities.

(b) Public offering:

On January 27, 2015, Interfor closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 (including 300,000 Subscription Receipts issued pursuant to the exercise of the over-allotment option) Subscription Receipts at a price of $20.10 per Subscription Receipt, for aggregate gross proceeds of $66,330,000 (the "Offering").

The gross proceeds from the Offering less one half of the underwriters' commission will be held in escrow until all conditions precedent to completion of the Acquisition from Simpson described above, have been satisfied. Each Subscription Receipt entitles the holder thereof, for no additional consideration and without further action, one Common Share of the Company upon the closing of the Acquisition. Net proceeds of the offering will be used to partially fund the acquisition price and thereby provide the Company with ongoing financial flexibility.

If the Acquisition does not close, holders of the Subscription Receipts will be entitled to receive the full purchase price of their Subscription Receipts, together with their pro rata share of interest earned thereon.

INTERFOR

Interfor Corporation
P.O. Box 49114, Four Bentall Centre
3500 – 1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1H7
Telephone: (604) 689-6800 Fax: (604) 688-0313

Contact: John Horning, Executive Vice President and Chief Financial Officer

Web Site: www.interfor.com