



## International Forest Products Limited

Vancouver, BC

November 6, 2013

### Interfor's Q3 Results Impacted by Lower Prices and Higher Log Costs EBITDA<sup>1</sup> totals \$24.6 million in the Quarter

**INTERNATIONAL FOREST PRODUCTS LIMITED** ("Interfor" or the "Company") (TSX: IFP.A) reported a net loss of \$0.1 million or \$0.00 per share in the third quarter of 2013 compared to net earnings of \$15.8 million or \$0.28 per share in the second quarter and \$0.9 million or \$0.02 per share in the third quarter of 2012.

EBITDA, adjusted to exclude the effects of share-based compensation and other items, was \$24.6 million compared with \$36.1 million in the second quarter of 2013 and \$17.1 million in the third quarter last year.

Share-based compensation amounted to \$6.1 million or \$0.11 per share in the third quarter.

Lumber production in the third quarter was a record 447 million board feet, up 7% from the second quarter of 2013, in spite of a number of weather-related curtailments at the Company's operations in the US South. Lumber sales, including wholesale and agency volumes, were a record 446 million board feet, up 3% versus the prior quarter.

The Company's results in the third quarter were negatively impacted by a decline in commodity lumber prices and higher log costs in the BC Interior.

In the quarter, SPF 2x4 in the US market averaged US\$328, down US\$7 versus the second quarter. Hem-Fir studs were particularly hard hit, averaging US\$333, down US\$40 versus the prior quarter, while SYP 2x4 East was up US\$1 at US\$393.

Export taxes on shipments to the US averaged 5% in the third quarter of this year versus 0% in the second quarter and an average of 8% in the third quarter last year.

In the third quarter, Interfor generated \$20.1 million in cash from operations before working capital changes and \$15.2 million after working capital changes. Capital spending, including timber additions, amounted to \$15.8 million during the quarter.

During the quarter Interfor completed the purchase of the sawmill operations of Keadle Lumber Enterprises for \$33.8 million, including working capital.

On September 30, 2013 the Company closed a public offering of 7,187,500 Class A Subordinate Voting Class Shares at a price of \$12.00 per share for net proceeds of \$82.4 million.

Net debt closed the quarter at \$150.3 million or 23% of invested capital.

The U.S. housing market is projected to continue its gradual recovery and lumber prices are expected to remain volatile through the balance of 2013 with some improvement expected in 2014. Export tax rates will decrease to 0% in November as lumber prices in September moved above the relevant benchmark price.

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<sup>1</sup> Adjusted to exclude the effects of share-based compensation, certain foreign exchange gains (losses), other income (expense) and restructuring costs (see MD&A for definition)

Although Japan is expected to continue its growth into 2014, prices for traditional products have adjusted down in competition with domestic species. Demand and pricing in China is expected to remain stable.

As always, Interfor will maintain its disciplined approach to production, cost control, inventory management and capital spending to help position the Company to deliver above average returns on invested capital as conditions improve. At the same time, Interfor will remain alert to opportunities to position the Company for long-term success.

## **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](http://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. Our Company has annual production capacity of more than 2.2 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](http://www.interfor.com).

There will be a conference call on Thursday, November 7, 2013 at 8:00 AM (Pacific Time) hosted by **INTERNATIONAL FOREST PRODUCTS LIMITED** for the purpose of reviewing the Company’s release of its Third Quarter, 2013 Financial Results.

The dial-in number is **1-866-323-8540**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until November 21, 2013. The number to call is **1-866-245-6755, Passcode 523430**.

For further information:

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# International Forest Products Limited

## Third Quarter Report

### For the three and nine months ended September 30, 2013

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## Management's Discussion and Analysis

Dated as of November 6, 2013

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and nine months ended September 30, 2013 relative to 2012, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the interim Condensed Consolidated Financial Statements for the three and nine months ended September 30, 2013 and 2012, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2012 and 2011 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 IAS 34 *Interim Financial Reporting* and 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 write-downs of property, plant, equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for long term incentive compensation expense (recovery), and other income (expense). 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 not a defined term under IFRS, 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 Statements

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", "Income Taxes", and "Cash Flow and Financial Position"; changes in accounting policy under the heading "Accounting Policy Changes"; and in the description of economic conditions under the headings "Sales" and "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 the U.S. and Canada, as well as other factors management believes are appropriate in the circumstances including, among others: product selling prices, raw material and operating costs, changes in foreign currency exchange rates, and other factors referenced herein. 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 herein 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.

### Review of Operating Results

#### Overview

Interfor recorded a net loss of \$0.1 million, or \$0.00 per share for the third quarter, 2013, as compared to net earnings of \$0.9 million, or \$0.02 per share for the third quarter, 2012. For the first nine months, 2013, the Company recorded net earnings of \$30.8 million, or \$0.55 per share as compared to a net loss of \$5.6 million, or \$0.10 per share for the first nine months, 2012.

The Company recorded share-based incentive compensation expense of \$6.1 million, or \$0.11 per share in the third quarter, 2013, as compared to an expense of \$2.3 million, or \$0.04 per share for the same period, 2012. For the first nine months, 2013, the Company recorded share-based incentive compensation expense of \$13.6 million, or \$0.24 per share, as compared to \$3.8 million, or \$0.07 per share for the same period, 2012.

Adjusted EBITDA for the third quarter, 2013, was \$24.6 million compared to \$17.1 million for the third quarter, 2012.

Adjusted EBITDA for the first nine months, 2013, was \$97.8 million compared to \$40.6 million for the same period, 2012.

Compared to 2012, sales prices and volumes improved with the gradual recovery in the U.S. housing market, bolstered by increased demand from China. U.S. housing starts strengthened in the first quarter, 2013, but fell off in the second quarter, and remained flat in the third quarter, 2013.

The average price reported by Random Lengths for SPF 2x4 #2&Btr improved to US\$347 per mfbm for September, 2013, from the 2013 low of US\$297 per mfbm in June, 2013, and US\$296 per mfbm in September, 2012. The Random Lengths average price for SYP East 2x4 #2&Btr for September, 2013, increased to US\$410 per mfbm compared to June, 2013, at US\$358 per mfbm and US\$338 per mfbm for September, 2012. Average prices for both products remain lower than the peaks achieved in March, 2013, at US\$406 per mfbm and US\$457 per mfbm respectively.

No export tax was payable in either the first or second quarter under the Softwood Lumber Agreement. However, the Random Lengths Composite monthly average price for the third quarter, 2013, fell below the threshold of US\$355 per mfbm resulting in an export tax rate averaging 5% for Canadian lumber exports to the U.S. For the third quarter, 2013, Canadian sawmill shipments to the U.S. were approximately 15% of the Company's lumber sales volumes.

On September 30, 2013, the Company closed a public offering of 7,187,500 Class A Subordinate Voting shares at a price of \$12.00 per share for gross proceeds of \$86.3 million. For full details of the Offering see the short form prospectus filed on September 23, 2013 on [www.sedar.com](http://www.sedar.com).

### Sales

The Company's sales revenue in the third quarter, 2013, at \$272.7 million, an improvement of \$58.0 million over the same quarter, 2012. For the first nine months, 2013, sales revenue increased by \$163.1 million over the first nine months, 2012.

Lumber shipments reached a record level of 446 million board feet for the third quarter, 2013, and totaled 1.26 billion board feet for the first nine months, 2013, up 20% over 2012. The increases reflect the acquisition of the four U.S. Southeast sawmills in 2013, together with increased production from the B.C. Interior operations.

Higher North American pricing, supplemented by higher realizations in China and Japan and a weaker Japanese yen were reflected in improvements in average lumber sales prices of \$34 per mfbm for the third quarter, 2013, and \$57 per mfbm for the first nine months, 2013, compared to the same periods, 2012.

Compared to the same periods, 2012, log sales increased by 37% for the third quarter, 2013, and 7% for the first nine months, 2013. As compared to the first nine months, 2012, higher average overall log sales prices and a shift in mix to offshore markets mitigated the 13% decline in log sales volumes in Canada in the same period, 2013.

Higher chip and residuals volumes from the addition of the four U.S. Southeast mills were offset by lower overall chip prices which resulted in relatively unchanged wood chip and other residuals revenues.

### Operating Costs

Production costs increased \$49.0 million and \$105.8 million, for the third quarter and first nine months, 2013, respectively, compared to the same periods in 2012.

The Company achieved record lumber production in the third quarter, 2013, at 447 million board feet, a 28% rise over the same quarter, 2012, and up 25% to 1.25 billion board feet for the first nine months, 2013. The Company's increased production resulted primarily from the addition of production from the four U.S. Southeast sawmills, improved productivity from the rebuilt Grand Forks sawmill, and increased operating rates in the U.S. Pacific Northwest.

Unit cash conversion costs for the third quarter and first nine months, 2013, increased approximately 5% as compared to the same periods, 2012, despite improved operating rates. The increase was primarily due to increased labour and maintenance costs, higher conversion costs in the U.S. Southeast sawmills, and the impacts of curtailments in the U.S. Pacific Northwest sawmills in June, 2013. Unit costs of logs consumed increased for 2013, as compared to 2012, resulting from higher delivered log prices, and higher logging and stumpage costs in the B.C. Interior, partially offset by the lower log costs in the U.S. Southeast. Competition for logs from China spurred increased log costs for some of the Company's sawmills in the U.S. Pacific Northwest.

Compared to the same period in 2012, B.C. log production increased by 10% and 4% during the third quarter and first nine months, 2013, respectively, resulting from a favourable fire season. Higher stumpage rates and a higher percentage of helicopter logging on the B.C. Coast contributed to higher unit logging costs vis-à-vis the comparative periods, 2012.

As a result of the lift in commodity lumber prices, the export tax rate under the Softwood Lumber Agreement remained

at 0% for the first six months, 2013. A decline in commodity lumber prices in the third quarter, 2013, resulted in an export tax rate which averaged 5%. This compares to an average export tax rate of 8% in the third quarter, 2012 and 12% for the first nine months, 2012.

Business development costs, including transaction and integration costs related to the acquisition of the four U.S. Southeast sawmills, increased selling and administrative costs for the third quarter and first nine months, 2013, compared to the same periods, 2012.

Third quarter and first nine months, 2013, long term incentive compensation expense increased by \$3.8 million and \$9.8 million over the corresponding periods, 2012, reflecting increased participation and changes in the estimated fair value of the share-based compensation plans. The movement in the Company's share price had the greatest impact on this expense, as reflected by an increase in the closing share price of almost 50% for the first nine months, 2013 (first nine months, 2012 – 37% increase).

Increased operating rates in the U.S. Pacific Northwest sawmills, a higher depreciation base for the rebuilt Grand Forks sawmill, and the inclusion of depreciation for the four acquired U.S. Southeast sawmills resulted in increases in depreciation of plant and equipment in 2013, as compared to 2012. Road amortization and depletion expense for the third quarter and first nine months, 2013, was up over the same periods, 2012, consistent with the increases in B.C. log production.

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

Third quarter and first nine months, 2013, finance costs increased compared to the same periods, 2012, primarily as a result of an overall increase in average debt levels.

Other foreign exchange losses are impacted by the volatility of the Canadian dollar and the timing and amount of derivative forward foreign exchange contracts.

#### Income Taxes

In the third quarter, 2013, the Company recorded an income tax expense of \$0.2 million (Quarter 3, 2012 - negligible) and decreased its unrecognized deferred tax asset by \$0.2 million (Quarter 3, 2012 – \$0.4 million) in relation to certain unused tax losses that are available to be carried forward against future taxable income. For the first nine months, 2013, the income tax expense of \$0.2 million (first nine months, 2012 - \$0.3 million) included the benefit of the recognition of \$8.9 million of its previously unrecognized deferred tax assets (first nine months, 2012 excluded the benefit of \$1.6 million).

As of December 31, 2012, the Company had Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately \$292 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 asset in excess of its deferred tax liabilities, except in limited circumstances.

#### Cash Flow and Financial Position

The Company generated \$88.5 million from operations, before changes in working capital for the first nine months, 2013, an improvement of \$55.3 million over the first nine months, 2012. Higher lumber shipments and lumber sales prices, zero export tax for six months, and the positive contributions of the four newly acquired U.S. Southeast sawmills drove higher cash earnings for the first nine months, 2013, as compared to the first nine months, 2012.

Increased operating rates, log costs, and lumber prices contributed to a working capital cash utilization of \$24.4 million in the first nine months, 2013. In contrast, for the first nine months, 2012 cash utilization of \$2.5 million resulted from increased sales volumes, North American sales values and the shift away from lumber export markets.

Including changes in non-cash working capital, cash generated from operations was \$64.1 million for the first nine months, 2013, an improvement of \$33.3 million over the same period, 2012.

On March 1, 2013, the Company concluded the acquisition of Rayonier Inc.'s Wood Products Business in Georgia, U.S., consisting of three manufacturing facilities plus working capital, for \$86.6 million.

On May 1, 2013, the Company acquired two timber tenures in the Kootenay Region of British Columbia from Springer Creek Management Ltd. The tenures have a combined Allowable Annual Cut of approximately 174,000 cubic metres and will support an increase in production at Interfor's Castlegar sawmill.

On July 1, 2013, the Company acquired the sawmill operations of Keadle Lumber Enterprises, Inc. in Georgia, U.S.A., including working capital, for \$33.8 million. The Company will pay an additional US\$7 million contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift. Receipt of this approval is expected in the fourth quarter, 2013, with the payment to be made 365 days thereafter.

Capital expenditures for the first nine months, 2013, totalled \$49.8 million (first nine months, 2012 - \$45.5 million) with \$12.8 million spent on capital upgrades for the Grand Forks and Castlegar sawmills, \$6.9 million on capital upgrades for the U.S. Southeast sawmills, \$2.6 million on other high-return discretionary projects, \$3.0 million on business maintenance and \$24.5 million on road construction and timber tenures.

On May 24, 2013, the Company entered into an agreement with Wells Fargo for a US\$20 million Operating Line, with a maturity of April 28, 2015.

On June 26, 2013, the Company completed a US\$50 million term debt financing led by the Prudential Capital Group. The Senior Secured Notes bear an interest rate of 4.33% and require payments of US\$16.7 million on each of June 26, 2021 and 2022, with the balance due on June 26, 2023. This debt financing reduced the credit available under the Company's existing Revolving Term Line from \$250 million to \$200 million.

As at September 30, 2013, the Operating Line of \$65.0 million was drawn by \$5.6 million in outstanding letters of credit, leaving an unused available line of \$59.4 million. The Revolving Term Line of \$200.0 million was drawn by US\$100.2 million (revalued at the quarter-end exchange rate to \$103.2 million), leaving an unused available line of \$96.8 million.

As at September 30, 2013, the Senior Secured Notes outstanding totalled US\$50.0 million and the U.S. Operating Line was drawn by US\$8.0 million, revalued at the quarter-end exchange rate to \$51.5 million and \$8.2 million respectively, and leaving an unused available line of \$12.4 million for the U.S. Operating Line.

On September 30, 2013, the Company closed a public offering of 7,187,500 Class A Subordinate Voting shares at a price of \$12.00 per share for net proceeds of \$82.4 million, which was initially used to pay down its Revolving Term Line. The closing of the Offering included the exercise in full of the overallotment option of 937,500 shares by the Underwriters.

Including cash of \$12.7 million, the Company had available liquidity of \$181.2 million as at September 30, 2013. This liquidity, together with cash generated from operations, will be used to support our working capital requirements, capital expenditures and debt servicing commitments.

The Company ended the third quarter, 2013, with net debt of \$150.3<sup>1</sup> million or 23% of invested capital as compared to 24% as at September 30, 2012 and 24% as at December 31, 2012.

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.

<sup>1</sup> Net debt is defined as the total of drawings under the Operating Line, U.S. Operating Line, Revolving Term Line, and Senior Secured Notes less cash and deposits.

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

| Quarterly Earnings Summary  | 2013   |        |        | 2012   |        |        | 2011   |        |
|---|--|--------|--------|--------|--------|--------|--------|--------|
|   | Q3   | Q2     | Q1     | Q4     | Q3     | Q2     | Q1     | Q4     |
|   | (millions of dollars except share and per share amounts) |        |        |        |        |        |        |        |
| Sales – Lumber  | 212.2  | 219.5  | 191.4  | 173.3  | 161.9  | 162.4  | 133.6  | 133.6  |
| – Logs  | 36.6   | 32.6   | 26.1   | 24.5   | 26.8   | 35.6   | 27.0   | 22.9   |
| – Wood chips and other residual products  | 18.4   | 17.4   | 16.6   | 15.9   | 17.5   | 17.8   | 18.2   | 17.5   |
| – Other   | 5.4  | 5.2    | 8.4    | 8.7    | 8.5    | 9.6    | 7.9    | 14.6   |
| Total Sales   | 272.7  | 274.7  | 242.5  | 222.4  | 214.7  | 225.4  | 186.7  | 188.7  |
| Operating earnings (loss) before restructuring costs and asset impairments <sup>2</sup> | 2.3  | 19.5   | 17.3   | (2.1)  | 2.4    | 2.8    | (5.6)  | (6.4)  |
| Operating earnings (loss) <sup>2</sup>  | 2.3  | 19.3   | 17.2   | (2.4)  | 2.3    | 2.6    | (5.6)  | (6.3)  |
| Net earnings (loss) <sup>2</sup>  | (0.1)  | 15.8   | 15.2   | (3.8)  | 0.9    | 0.1    | (6.7)  | (6.6)  |
| Net earnings (loss) per share – basic and diluted <sup>2</sup>                          | 0.00   | 0.28   | 0.27   | (0.07) | 0.02   | 0.00   | (0.12) | (0.12) |
| EBITDA <sup>6</sup>   | 18.4   | 35.3   | 30.6   | 13.0   | 15.0   | 16.4   | 5.8    | 6.5    |
| Adjusted EBITDA <sup>2,6</sup>  | 24.6   | 36.1   | 37.1   | 19.3   | 17.1   | 16.6   | 7.0    | 7.5    |
| Cash flow from operations per share <sup>3</sup>  | 0.36   | 0.64   | 0.59   | 0.24   | 0.20   | 0.24   | 0.15   | 0.08   |
| Shares outstanding – end of period (millions) <sup>4</sup>                              | 63.0   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   |
| – weighted average (millions)   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   | 55.9   |
| Average foreign exchange rate per US\$1.00 <sup>5</sup>                                 | 1.0385   | 1.0233 | 1.0080 | 0.9914 | 0.9954 | 1.0104 | 1.0010 | 1.0230 |
| Closing foreign exchange rate per US\$1.00 <sup>5</sup>                                 | 1.0303   | 1.0518 | 1.0160 | 0.9949 | 0.9832 | 1.0181 | 0.9975 | 1.0170 |

1 Tables may not add due to rounding.

2 Effective January 1, 2013, IAS 19, *Employee Benefits*, was revised (see “Accounting Policy Changes”). Previously, the impact of defined benefit plans on Net earnings included an interest cost on the obligation using the discount rate (based on current bond yields), and a credit on the plan assets using the expected rate of return (based on long term expected bond and equity returns). Under the new standard, the credit on plan assets no longer recognized the equity risk premium and is based on the discount rate only. The resulting impact of the changes in the standard is an increase to Production expense and Finance costs in the Statement of earnings, which is fully offset by an increase (decrease) in Defined benefit plan actuarial gains (losses) in the Statement of comprehensive income.

The policy has been applied on a retrospective basis and comparative information has been restated.

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

4 As at November 6, 2013, the number of Class A Subordinate Voting shares outstanding is: Class A Subordinate Voting shares – 63,050,455. 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” Common Shares for Class “A” Subordinate Voting Shares on a share for share basis without any cash or non-cash consideration. As a result of the exchange by SIL, all remaining Multiple Voting Shares were automatically converted to Class “A” Shares and there are no Class “B” Common Shares outstanding.

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

- 6 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 long-term incentive compensation expense (recovery) and other income (expense). EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

|   | 2013                  |       |       | 2012  |       |      | 2011  |       |
|---|-----------------------|-------|-------|-------|-------|------|-------|-------|
|   | Q3                    | Q2    | Q1    | Q4    | Q3    | Q2   | Q1    | Q4    |
|   | (millions of dollars) |       |       |       |       |      |       |       |
| Net earnings (loss)   | (0.1)                 | 15.8  | 15.2  | (3.8) | 0.9   | 0.1  | (6.7) | (6.6) |
| Add: Income taxes (recovery)                                | 0.2                   | 0.4   | (0.4) | 0.0   | 0.0   | 0.3  | -     | 0.2   |
| Finance costs   | 2.8                   | 2.4   | 1.8   | 1.5   | 1.6   | 1.7  | 1.6   | 1.3   |
| Depreciation, depletion and amortization                    | 16.2                  | 15.7  | 13.2  | 15.1  | 12.4  | 13.6 | 11.3  | 13.0  |
| Other foreign exchange (gains) losses                       | (0.5)                 | 0.8   | 0.7   | (0.2) | (0.1) | 0.5  | (0.4) | (1.1) |
| Restructuring costs, asset write-downs and other (recovery) | 0.0                   | 0.2   | 0.1   | 0.3   | 0.1   | 0.1  | 0.0   | (0.1) |
| EBITDA  | 18.4                  | 35.3  | 30.6  | 13.0  | 15.0  | 16.4 | 5.8   | 6.5   |
| Add (deduct):   |                       |       |       |       |       |      |       |       |
| Long-term incentive compensation expense (recovery)         | 6.1                   | 0.9   | 6.6   | 6.2   | 2.3   | 0.2  | 1.3   | 0.9   |
| Other income (expense)                                      | (0.0)                 | (0.1) | (0.1) | 0.0   | (0.2) | 0.0  | (0.1) | 0.0   |
| Adjusted EBITDA   | 24.6                  | 36.1  | 37.1  | 19.3  | 17.1  | 16.6 | 7.0   | 7.5   |

### Volume and Price Statistics

|   |                         | 2013  |       |       | 2012  |       |       | 2011  |       |
|---|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|   |                         | Q3    | Q2    | Q1    | Q4    | Q3    | Q2    | Q1    | Q4    |
| Lumber sales                                | (million fbm)           | 446   | 433   | 383   | 384   | 366   | 363   | 320   | 318   |
| Lumber production                           | (million fbm)           | 447   | 418   | 390   | 347   | 350   | 333   | 323   | 294   |
| Log sales <sup>1</sup>                      | (thousand cubic metres) | 353   | 301   | 289   | 267   | 345   | 379   | 361   | 310   |
| Log production <sup>1</sup>                 | (thousand cubic metres) | 895   | 854   | 902   | 748   | 817   | 840   | 892   | 795   |
| Average selling price – lumber <sup>2</sup> | (\$/thousand fbm)       | \$476 | \$507 | \$500 | \$452 | \$442 | \$448 | \$418 | \$420 |
| Average selling price – logs <sup>1</sup>   | (\$/cubic metre)        | \$93  | \$90  | \$76  | \$76  | \$75  | \$75  | \$64  | \$69  |
| Average selling price – pulp chips          | (\$/thousand fbm)       | \$35  | \$36  | \$36  | \$39  | \$43  | \$46  | \$48  | \$51  |

1 B.C. operations, including timber sales activity

2 Gross sales before 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.

Production levels slowed in the last half, 2011, as China introduced measures to cool its overheated housing market and U.S. demand remained weak. Demand from China stabilized through 2012, and steady recoveries in the U.S. housing market helped drive up domestic demand and pricing through the end of 2012. Building on the positive momentum of fourth quarter, 2012, U.S. housing starts continued to surge, supporting higher lumber prices and positive net earnings in the first quarter, 2013.

In addition, the acquisition of three sawmills in Georgia, U.S.A. towards the end of the first quarter, 2013, was immediately accretive to net earnings. Mid-way through the second quarter, 2013, as supply outstripped demand, lumber prices dropped, ending the quarter at levels close to those in the first quarter, 2012. Late in the third quarter, 2013, lumber prices rose in response to improved demand from China which provided competition for limited supply.

The acquisition of a fourth sawmill in Georgia, U.S.A. on July 1, 2013, was immediately accretive to net earnings.

## **U.S.W. Union Agreement**

The United Steel Workers (“USW”) is the certificated bargaining agent for the majority of unionized employees in the Company’s manufacturing operations in B.C. The Southern Interior USW agreement expired on June 30, 2013. Employees continue to work under the terms of the expired agreement with no workplace disruptions.

## **Accounting Policy Changes**

Effective January 1, 2013, the Company adopted new and revised accounting standards as disclosed in Note 3 to the Condensed Consolidated Interim Financial Statements for the three and nine months ending September 30, 2013. The Note also describes new standards and interpretations not yet adopted.

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.

## **Controls and Procedures**

There were no changes in the Company’s internal controls over financial reporting (“ICFR”) during the quarter ended September 30, 2013, that have materially affected, or are reasonably likely to materially affect, the Company’s ICFR. The newly acquired Georgia operations have been in compliance with the Company’s ICFR since acquisition.

## **Critical Accounting Estimates**

There were no material changes to the Company’s critical accounting estimates during the quarter ended September 30, 2013. For a full discussion of critical accounting estimates, please refer to the Company’s discussion in its MD&A for the year ended December 31, 2012 as filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outlook**

The U.S. housing market is projected to continue its gradual recovery and lumber prices are expected to remain volatile through the balance of 2013 with some improvement expected in 2014. Export tax rates will decrease to 0% in November as lumber prices in September moved above the relevant benchmark price.

Although Japan is expected to continue its growth into 2014, prices for traditional products have adjusted down in competition with domestic species. Demand and pricing in China is expected to remain stable.

As always, Interfor will maintain its disciplined approach to production, cost control, inventory management and capital spending to help position the Company to deliver above average returns on invested capital as conditions improve. At the same time, Interfor will remain alert to opportunities to position the Company for long-term success.

## **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), 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.



Lawrence Sauder  
Chairman



Duncan K. Davies  
President and Chief Executive Officer



**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)**  
**For the three and nine months ended September 30, 2013 and 2012 (unaudited)**

(thousands of Canadian dollars except loss per share)

|   | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   |                            | Re-stated<br>(note 3(a))   |                            | Re-stated<br>(note 3(a))   |
| <b>Sales</b>  | \$ 272,707                 | \$ 214,712                 | \$ 789,904                 | \$ 626,796                 |
| <b>Costs and expenses:</b>  |                            |                            |                            |                            |
| Production (note 3(a))  | 239,462                    | 190,451                    | 669,132                    | 563,331                    |
| Selling and administration  | 7,540                      | 4,925                      | 21,871                     | 15,557                     |
| Long term incentive compensation expense                          | 6,139                      | 2,298                      | 13,636                     | 3,820                      |
| Export taxes  | 1,147                      | 2,252                      | 1,146                      | 7,276                      |
| Depreciation of plant and equipment (note 10)                     | 10,220                     | 7,465                      | 28,166                     | 21,180                     |
| Depletion and amortization of timber, roads and other (note 10)   | 5,930                      | 4,932                      | 16,808                     | 16,120                     |
|   | 270,438                    | 212,323                    | 750,759                    | 627,284                    |
| <b>Operating earnings (loss) before restructuring costs</b>       | 2,269                      | 2,389                      | 39,145                     | (488)                      |
| Restructuring costs   | -                          | (100)                      | (322)                      | (246)                      |
| <b>Operating earnings (loss)</b>                                  | 2,269                      | 2,289                      | 38,823                     | (734)                      |
| Finance costs (notes 3(a) and 9)                                  | (2,762)                    | (1,618)                    | (6,972)                    | (4,892)                    |
| Other foreign exchange gain (loss)                                | 524                        | 76                         | (1,039)                    | 15                         |
| Other income  | 19                         | 211                        | 227                        | 339                        |
|   | (2,219)                    | (1,331)                    | (7,784)                    | (4,538)                    |
| <b>Earnings (loss) before income taxes</b>                        | 50                         | 958                        | 31,039                     | (5,272)                    |
| <b>Income tax expense (recovery):</b>                             |                            |                            |                            |                            |
| Current   | 217                        | 146                        | 96                         | 503                        |
| Deferred  | (37)                       | (132)                      | 135                        | (128)                      |
|   | 180                        | 14                         | 231                        | 375                        |
| <b>Net earnings (loss)</b>  | \$ (130)                   | \$ 944                     | \$ 30,808                  | \$ (5,647)                 |
| <b>Net earnings (loss) per share, basic and diluted (note 11)</b> | \$ (0.00)                  | \$ 0.02                    | \$ 0.55                    | \$ (0.10)                  |

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the three and nine months ended September 30, 2013 and 2012 (unaudited)**

|   | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   |                            | Re-stated<br>(note 3(a))   |                            | Re-stated<br>(note 3(a))   |
| <b>Net earnings (loss)</b>  | \$ (130)                   | \$ 944                     | \$ 30,808                  | \$ (5,647)                 |
| <b>Other comprehensive income (loss):</b>   |                            |                            |                            |                            |
| <b>Items that will not be reclassified subsequently to net earnings (loss):</b>                   |                            |                            |                            |                            |
| Defined benefit plan actuarial gains (losses) (note 3(a))   | 2,383                      | (399)                      | 4,890                      | (3,437)                    |
| <b>Items that are or may be reclassified subsequently to net earnings (loss):</b>                 |                            |                            |                            |                            |
| Foreign currency translation differences – foreign operations                                     | (2,022)                    | (4,402)                    | 4,408                      | (4,297)                    |
| Gain (loss) in fair value of interest rate swaps (note 13)  | (362)                      | 68                         | 218                        | 281                        |
| Reclassification of loss in fair value of interest rate swaps<br>to net earnings (loss) (note 13) | 58                         | -                          | 58                         | -                          |
| Income tax recovery (expense) on other comprehensive income                                       | -                          | (132)                      | 212                        | (128)                      |
| <b>Total items that are or may be reclassified subsequently to<br/>net earnings (loss):</b>       | (2,326)                    | (4,466)                    | 4,896                      | (4,144)                    |
| <b>Total other comprehensive income (loss), net of tax</b>  | 57                         | (4,865)                    | 9,786                      | (7,581)                    |
| <b>Total comprehensive income (loss) for the period</b>   | \$ (73)                    | \$ (3,921)                 | \$ 40,594                  | \$ (13,228)                |

See accompanying notes to consolidated financial statements



## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the nine months ended September 30, 2013 and 2012 (unaudited)

(thousands of Canadian dollars)

|   | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|---|----------------------------|----------------------------|
|   |                            | Re-stated<br>(note 3(a))   |
| <b>Cash provided by (used in):</b>  |                            |                            |
| <b>Operating activities:</b>  |                            |                            |
| <b>Net earnings (loss)</b>  | \$ 30,808                  | \$ (5,647)                 |
| <b>Items not involving cash:</b>  |                            |                            |
| Depreciation of plant and equipment   | 28,166                     | 21,180                     |
| Depletion and amortization of timber, roads and other                                       | 16,808                     | 16,120                     |
| Income tax expense  | 231                        | 375                        |
| Finance costs (note 3(a) and 9)   | 6,972                      | 4,892                      |
| Other assets  | 44                         | (1,986)                    |
| Reforestation liability   | 2,039                      | 888                        |
| Other liabilities and provisions  | 3,413                      | (2,536)                    |
| Write-down of plant and equipment   | -                          | 128                        |
| Foreign exchange losses   | 126                        | 124                        |
| Other   | (121)                      | (314)                      |
|   | <b>88,486</b>              | <b>33,224</b>              |
| <b>Cash generated from (used in) operating working capital:</b>                             |                            |                            |
| Trade accounts receivable and other   | (4,784)                    | (7,153)                    |
| Inventories   | (35,693)                   | (3,490)                    |
| Prepayments   | (3,054)                    | (1,773)                    |
| Trade accounts payable and accrued liabilities  | 19,625                     | 11,014                     |
| Income taxes paid   | (512)                      | (1,055)                    |
|   | <b>64,068</b>              | <b>30,767</b>              |
| <b>Investing activities:</b>  |                            |                            |
| Additions to property, plant and equipment  | (24,278)                   | (29,316)                   |
| Additions to logging roads  | (12,287)                   | (15,960)                   |
| Additions to timber and other intangible assets   | (13,224)                   | (180)                      |
| Proceeds on disposal of property, plant, and equipment                                      | 371                        | 392                        |
| Acquisitions (note 4)   | (120,407)                  | -                          |
| Investments and other assets  | (73)                       | (206)                      |
|   | <b>(169,898)</b>           | <b>(45,270)</b>            |
| <b>Financing activities:</b>  |                            |                            |
| Issuance of capital stock (note 8)  | 82,350                     | -                          |
| Interest payments   | (4,952)                    | (3,978)                    |
| Financing transaction costs   | (1,445)                    | -                          |
| Additions to long-term debt (notes 4 and 7)   | 289,770                    | 65,000                     |
| Repayments of long-term debt (note 7)   | (262,866)                  | (40,000)                   |
|   | <b>102,857</b>             | <b>21,022</b>              |
| <b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b> | <b>715</b>                 | <b>(107)</b>               |
| <b>Increase (decrease) in cash</b>  | <b>(2,258)</b>             | <b>6,412</b>               |
| <b>Cash and cash equivalents, beginning of period</b>                                       | <b>14,994</b>              | <b>10,435</b>              |
| <b>Cash and cash equivalents, end of period</b>   | <b>\$ 12,736</b>           | <b>\$ 16,847</b>           |

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2013 and December 31, 2012 (unaudited)**

(thousands of Canadian dollars)

|  | Sept. 30,<br>2013 | Dec. 31,<br>2012  |
|--|-------------------|-------------------|
| <b>Assets</b>                                  |                   |                   |
| <b>Current assets:</b>                         |                   |                   |
| Cash and cash equivalents                      | \$ 12,736         | \$ 14,994         |
| Trade accounts receivable and other            | 56,863            | 47,392            |
| Inventories (note 6)                           | 143,217           | 98,024            |
| Prepayments                                    | 14,729            | 11,749            |
|  | <b>227,545</b>    | <b>172,159</b>    |
| <b>Employee future benefits</b>                | <b>2,783</b>      | <b>878</b>        |
| <b>Other investments and assets</b>            | <b>4,957</b>      | <b>4,198</b>      |
| <b>Property, plant and equipment</b>           | <b>452,859</b>    | <b>349,779</b>    |
| <b>Logging roads and bridges</b>               | <b>15,521</b>     | <b>17,316</b>     |
| <b>Timber licences</b>                         | <b>83,756</b>     | <b>73,796</b>     |
| <b>Other intangible assets</b>                 | <b>1,328</b>      | <b>738</b>        |
| <b>Goodwill</b>                                | <b>23,381</b>     | <b>13,078</b>     |
| <b>Deferred income taxes</b>                   | <b>175</b>        | <b>98</b>         |
|  | <b>\$ 812,305</b> | <b>\$ 632,040</b> |
| <b>Liabilities and Equity</b>                  |                   |                   |
| <b>Current liabilities:</b>                    |                   |                   |
| Trade accounts payable and accrued liabilities | \$ 88,565         | \$ 70,597         |
| Reforestation liability                        | 12,467            | 10,864            |
| Income taxes payable                           | 186               | 593               |
|  | <b>101,218</b>    | <b>82,054</b>     |
| <b>Reforestation liability</b>                 | <b>19,975</b>     | <b>17,621</b>     |
| <b>Long-term debt (note 7)</b>                 | <b>162,993</b>    | <b>135,046</b>    |
| <b>Employee future benefits</b>                | <b>6,443</b>      | <b>9,631</b>      |
| <b>Other liabilities and provisions</b>        | <b>22,702</b>     | <b>11,658</b>     |
| <b>Equity:</b>                                 |                   |                   |
| Share capital (note 8)                         |                   |                   |
| Class A subordinate voting shares              | 428,715           | 342,285           |
| Class B common shares                          | -                 | 4,080             |
| Contributed surplus                            | 7,476             | 7,476             |
| Reserves                                       | (3,054)           | (7,950)           |
| Retained earnings                              | 65,837            | 30,139            |
|  | <b>498,974</b>    | <b>376,030</b>    |
|  | <b>\$ 812,305</b> | <b>\$ 632,040</b> |

**Commitment (note 14)**

See accompanying notes to consolidated financial statements

On behalf of the Board:

L. Sauder  
Director

D. Whitehead  
Director



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

For the nine months ended September 30, 2013 and 2012 (unaudited)

(thousands of Canadian dollars)

|   | Class A<br>Share Capital | Class B<br>Share Capital | Contributed<br>Surplus | Translation<br>Reserve | Hedging<br>Reserve | Retained<br>Earnings | Total      |
|---|--------------------------|--------------------------|------------------------|------------------------|--------------------|----------------------|------------|
| <b>Balance at December 31, 2012</b>   | \$ 342,285               | \$ 4,080                 | \$ 7,476               | \$ (7,818)             | \$ (132)           | \$ 30,139            | \$ 376,030 |
| <b>Net earnings (loss) for the period:</b>  | -                        | -                        | -                      | -                      | -                  | 30,808               | 30,808     |
| <b>Other comprehensive earnings (loss):</b>   |                          |                          |                        |                        |                    |                      |            |
| Foreign currency translation differences, net of tax                                    | -                        | -                        | -                      | 4,620                  | -                  | -                    | 4,620      |
| Defined benefit plan actuarial gains (losses)   | -                        | -                        | -                      | -                      | -                  | 4,890                | 4,890      |
| Gain in fair value of interest rate swaps   | -                        | -                        | -                      | -                      | 218                | -                    | 218        |
| Reclassification of loss in fair value of interest rate swaps<br>to net earnings (loss) | -                        | -                        | -                      | -                      | 58                 | -                    | 58         |
| <b>Contributions:</b>   |                          |                          |                        |                        |                    |                      |            |
| Share issuance, net of share issue expenses (note 8)                                    | 82,350                   | -                        | -                      | -                      | -                  | -                    | 82,350     |
| Share exchange (note 8)   | 4,080                    | (4,080)                  | -                      | -                      | -                  | -                    | -          |
| <b>Balance at September 30, 2013</b>  | \$ 428,715               | \$ -                     | \$ 7,476               | \$ (3,198)             | \$ 144             | \$ 65,837            | \$ 498,974 |
| <b>Balance at December 31, 2011</b>   | \$ 342,285               | \$ 4,080                 | \$ 7,476               | \$ (4,929)             | \$ (503)           | \$ 42,413            | \$ 390,822 |
| <b>Net earnings (loss) for the period (note 3(a)):</b>                                  | -                        | -                        | -                      | -                      | -                  | (5,647)              | (5,647)    |
| <b>Other comprehensive earnings (loss):</b>   |                          |                          |                        |                        |                    |                      |            |
| Foreign currency translation differences, net of tax                                    | -                        | -                        | -                      | (4,425)                | -                  | -                    | (4,425)    |
| Defined benefit plan actuarial gain (losses) (note 3(a))                                | -                        | -                        | -                      | -                      | -                  | (3,437)              | (3,437)    |
| Gain in fair value of interest rate swaps   | -                        | -                        | -                      | -                      | 281                | -                    | 281        |
| <b>Balance at September 30, 2012</b>  | \$ 342,285               | \$ 4,080                 | \$ 7,476               | \$ (9,354)             | \$ (222)           | \$ 33,329            | \$ 377,594 |

See accompanying notes to consolidated financial statements

## INTERNATIONAL FOREST PRODUCTS LIMITED

### Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2013 and 2012 (unaudited)

#### 1. Nature of operations:

International Forest Products Limited and its subsidiaries (the "Company" or "Interfor") is a producer of wood products in British Columbia, the U.S. Pacific Northwest and the U.S. Southeast 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 is located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

The condensed consolidated interim financial statements of the Company as at and for the three and nine months ended September 30, 2013 comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 are available on [www.sedar.com](http://www.sedar.com).

#### 2. Statement of Compliance:

##### (a) Statement of compliance:

These 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 condensed consolidated interim financial statements were approved by the Board of Directors on November 6, 2013.

##### (b) Basis of measurement:

The condensed consolidated interim 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) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (iii) 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 benefit obligations on a plan by plan basis.

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

#### 3. Significant accounting policies:

These 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 December 31, 2012 annual consolidated financial statements, except for the accounting policy adopted subsequent to that date, as discussed below.

##### (a) Change in accounting policy:

Effective January 1, 2013, 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.

Application of this standard also impacts the calculation of finance costs, resulting in an increase to Production expense and Finance costs in the Statement of Earnings, which will be fully offset by an increase (decrease) in Defined benefit plan actuarial gains (losses) in the Statement of Comprehensive Income. Prior to this standard, the impact of defined benefit plans on Net earnings included an interest cost on the obligation using the discount rate (based on current bond yields), and a credit on the plan assets using the expected rate of return (based on long term expected bond and equity returns). Under the new standard, the credit on plan assets no longer recognizes the equity risk premium and is based on the discount rate only.

The policy has been applied on a retrospective basis and comparative information has been restated. The following changes to historical financial statements have been made to reflect the new policy:

|   | As previously<br>reported | Adjustment | Restated   |
|---|---------------------------|------------|------------|
| For the three months ended September 30, 2012 |                           |            |            |
| Statement of Earnings (Loss)                  |                           |            |            |
| Production                                    | \$ 190,293                | \$ 158     | \$ 190,451 |
| Finance costs                                 | 1,587                     | 31         | 1,618      |
| Net earnings (loss)                           | 1,133                     | (189)      | 944        |
| Statement of Comprehensive Income (Loss)      |                           |            |            |
| Defined benefit plan actuarial losses         | (588)                     | 189        | (399)      |
| Other comprehensive income (loss)             | (5,054)                   | 189        | (4,865)    |
| For the nine months ended September 30, 2012  |                           |            |            |
| Statement of Earnings (Loss)                  |                           |            |            |
| Production                                    | 562,856                   | 475        | 563,331    |
| Finance costs                                 | 4,797                     | 95         | 4,892      |
| Net earnings (loss)                           | (5,077)                   | (570)      | (5,647)    |
| Statement of Comprehensive Income (Loss)      |                           |            |            |
| Defined benefit plan actuarial losses         | (4,007)                   | 570        | (3,437)    |
| Other comprehensive income (loss)             | (8,151)                   | 570        | (7,581)    |

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2013 and 2012 (unaudited)

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

#### (a) Change in accounting policy (continued):

There are no changes to previously issued Statements of Financial Position as a result of this change in accounting policy.

Effective January 1, 2013, IFRS 13, *Fair Value Measurement*, replaced the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance and established new requirements for fair value measurements and disclosures. The new standard is applied prospectively and will require more extensive disclosure, but has no impact on the Company's financial information.

#### (b) Amendments to IAS 1 – Presentation of Financial Statements:

The amendments to IAS 1, *Presentation of Financial Statements*, require items of other comprehensive income and the corresponding tax expense to be grouped based on whether or not they will be reclassified to the Statement of Earnings (loss) in the future. In accordance with the amendments to IAS 1, the Company has modified its Statement of Other Comprehensive Income (loss).

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

The IASB periodically issues new standards and amendments or interpretations to existing standards. The following new pronouncement is one that the Company considers most significant and is not intended to be a complete list of new pronouncements that may affect the 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. The Company does not expect this standard to have a significant effect on its financial statements.

### 4. Acquisitions:

On March 1, 2013, the Company concluded the acquisition of Rayonier Inc.'s Wood Products Business in Georgia, U.S.A. ("U.S. Southeast") for US\$84,355,000.

On July 1, 2013, the Company acquired the sawmill operations of Keadle Lumber Enterprises, Inc. in Thomaston, Georgia for US\$39,104,000, of which US\$32,104,000 had been paid as at September 30, 2013. The Company will 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 is expected in the fourth quarter, 2013, with the payment to be made 365 days thereafter.

Transaction costs of \$1,347,000 related to the acquisitions have been expensed in Selling and administration for the nine months ended September 30, 2013 and \$208,000 for the third quarter, 2013.

The purchase price of each of these acquisitions has been allocated to the fair value of assets acquired and related liabilities arising from the transaction, based on management's best estimates and taking into account all available information to September 30, 2013. As updated information is available, further analysis may result in a refinement to the values attributable to assets and liabilities arising on the acquisition.

These acquisitions have been accounted for using the acquisition method and the purchase price is allocated as follows:

|                               | Rayonier<br>acquisition | Keadle<br>acquisition | Total      |
|-------------------------------|-------------------------|-----------------------|------------|
| Net assets acquired:          |                         |                       |            |
| Current assets                | \$ 10,730               | \$ 2,283              | \$ 13,013  |
| Property, plant and equipment | 76,516                  | 28,337                | 104,853    |
| Goodwill                      | -                       | 10,518                | 10,518     |
|                               | 87,246                  | 41,138                | 128,384    |
| Current liabilities assumed   | (605)                   | (9)                   | (614)      |
|                               | \$ 86,641               | \$ 41,129             | \$ 127,770 |
| Cash consideration funded by: |                         |                       |            |
| Cash on hand                  | \$ 7,223                | \$ -                  | \$ 7,223   |
| Current liabilities (note 14) | -                       | 7,363                 | 7,363      |
| Operating Line                | 27,848                  | -                     | 27,848     |
| Revolving Term Line           | 51,570                  | 33,766                | 85,336     |
|                               | \$ 86,641               | \$ 41,129             | \$ 127,770 |

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and nine months ended September 30, 2013 and 2012 (unaudited)

### 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 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.

### 6. Inventories:

|        | Sept. 30, 2013    | Dec. 31, 2012    |
|--------|-------------------|------------------|
| Logs   | \$ 80,335         | \$ 59,772        |
| Lumber | 53,167            | 31,833           |
| Other  | 9,715             | 6,419            |
|        | <b>\$ 143,217</b> | <b>\$ 98,024</b> |

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at September 30, 2013 was \$7,973,000 (December 31, 2012 - \$7,050,000).

### 7. Cash and borrowings:

|  | Canadian<br>Operating<br>Line | Revolving<br>Term<br>Line | Senior<br>Secured Notes | U.S.<br>Operating<br>Line | Total             |
|--|-------------------------------|---------------------------|-------------------------|---------------------------|-------------------|
| <b>September 30, 2013</b>                                  |                               |                           |                         |                           |                   |
| Available line of credit                                   | \$ 65,000                     | \$ 200,000                | \$ 51,515               | \$ 20,626                 | \$ 337,141        |
| Maximum borrowing available                                | 65,000                        | 200,000                   | 51,515                  | 20,626                    | 337,141           |
| Drawings   | -                             | 103,236                   | 51,515                  | 8,242                     | 162,993           |
| Outstanding letters of credit included in line utilization | 5,640                         | -                         | -                       | -                         | 5,640             |
| Unused portion of line                                     | <b>\$ 59,360</b>              | <b>\$ 96,764</b>          | <b>\$ -</b>             | <b>\$ 12,384</b>          | <b>\$ 168,508</b> |
| <b>December 31, 2012</b>                                   |                               |                           |                         |                           |                   |
| Available line of credit                                   | \$ 65,000                     | \$ 200,000                | \$ -                    | \$ -                      | \$ 265,000        |
| Maximum borrowing available                                | 65,000                        | 200,000                   | -                       | -                         | 265,000           |
| Drawings   | -                             | 135,046                   | -                       | -                         | 135,046           |
| Outstanding letters of credit included in line utilization | 5,190                         | -                         | -                       | -                         | 5,190             |
| Unused portion of line                                     | <b>\$ 59,810</b>              | <b>\$ 69,954</b>          | <b>\$ -</b>             | <b>\$ -</b>               | <b>\$ 124,764</b> |

#### (a) Canadian Operating Line:

On February 27, 2013, the Company extended the maturity of its existing Canadian operating line of credit ("Operating Line") to February 27, 2017. The terms and conditions of this line remain unchanged except for a reduction in pricing.

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

As at September 30, 2013, the Operating Line was undrawn (December 31, 2012 - \$nil) except for outstanding letters of credit of \$5,640,000 (December 31, 2012 - \$5,190,000).

#### (b) Revolving Term Line:

On February 27, 2013, the Company extended the maturity of its existing revolving term line of credit ("Revolving Term Line") to February 27, 2017 and increased the credit available from \$200,000,000 to \$250,000,000. Subsequent to the issuance of US\$50,000,000 of Senior Notes on June 26, 2013 (see note 7(c)), the credit available on the Revolving Term Line was reduced from \$250,000,000 to \$200,000,000. All other terms and conditions of this line remain unchanged except for a reduction in pricing.

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>.

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

## INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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### 7. Cash and borrowings (continued):

#### (b) Revolving Term Line (continued):

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 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 September 30, 2013, the Revolving Term Line was drawn by US\$100,200,000 (December 31, 2012 – US\$30,200,000) revalued at the quarter-end exchange rate to \$103,236,000 (December 31, 2012 - US\$30,046,000), with being the total drawings under the facility (December 31, 2012 – drawings of CAD\$105,000,000 and total drawings of \$135,046,000).

Drawings of US\$100,200,000 under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$2,190,000 for the nine months ended September 30, 2013, (September 30, 2012 - \$1,021,000 gain) arising on revaluation of the Revolving Term Line were recognized in Foreign exchange translation differences in Other comprehensive income. For the third quarter, 2013, the unrealized foreign exchange gain of \$2,451,000 (Quarter 3, 2012 - \$1,054,000 gain) 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 ("Senior Secured Notes"), bearing interest at 4.33%. 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\$16,667,000 are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023.

As at September 30, 2013, the Senior Secured Notes were revalued at the quarter-end exchange rate to \$51,515,000. The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of \$1,030,000 arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the nine months ended September 30, 2013. For the third quarter, 2013, the unrealized foreign exchange gain of \$1,075,000 was recognized in Other comprehensive income.

#### (d) U.S. Operating Line

On May 24, 2013, the Company entered into an agreement with a U.S. lender for a US\$20,000,000 operating line ("U.S. Operating Line"). The U.S. Operating Line is secured by accounts receivable and inventories of Interfor U.S. Inc., and matures on April 28, 2015. As at September 30, 2013, the U.S. Operating Line was drawn by US\$8,000,000 revalued at the quarter-end exchange rate to \$8,242,000.

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

| Twelve months ending |                   |
|----------------------|-------------------|
| September 30, 2014   | \$ -              |
| September 30, 2015   | 8,242             |
| September 30, 2016   | -                 |
| September 30, 2017   | 103,236           |
| September 30, 2018   | -                 |
|                      | <u>\$ 111,478</u> |

#### (e) Cash and cash equivalents:

At September 30, 2013, the Company's cash balances were restricted by \$37,000 for contractor holdbacks (December 31, 2012 - \$652,000).

### 8. Share capital:

The transactions in share capital are described below:

|  | Number     |             |            | Amount     |
|--|------------|-------------|------------|------------|
|  | Class A    | Class B     | Total      |            |
| Balance, December 31, 2011 and 2012      | 54,847,176 | 1,015,779   | 55,862,955 | \$ 346,365 |
| Share exchange                           | 1,015,779  | (1,015,779) | -          | -          |
| Share issuance, net of share issue costs | 7,187,500  | -           | 7,187,500  | 82,350     |
| Balance, September 30, 2013              | 63,050,455 | -           | 63,050,455 | \$ 428,715 |

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" Common Shares for Class "A" Subordinate Voting Shares on a share for share basis without any cash or non-cash consideration. As a result of the exchange by SIL, all remaining Multiple Voting Shares were automatically converted to Class "A" Shares.

On September 30, 2013, the Company closed a public offering of 7,187,500 Class A Subordinate Voting shares at a price of \$12.00 per share for net cash proceeds of \$82,350,000.

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### 9. Finance costs:

|   | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
| Interest on borrowing                     | \$ 2,260                   | \$ 1,290                   | \$ 5,676                   | \$ 3,943                   |
| Interest on defined benefit obligations   | 48                         | 31                         | 144                        | 95                         |
| Loss in fair value of interest rate swaps | 124                        | -                          | 124                        | -                          |
| Accretion expense                         | 168                        | 103                        | 371                        | 354                        |
| Amortization of prepaid finance costs     | 162                        | 194                        | 657                        | 500                        |
|   | \$ 2,762                   | \$ 1,618                   | \$ 6,972                   | \$ 4,892                   |

### 10. Depreciation, depletion and amortization:

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

|                            | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|----------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Production                 | \$ 15,920                  | \$ 12,155                  | \$ 44,223                  | \$ 36,623                  |
| Selling and administration | 230                        | 242                        | 751                        | 677                        |
|                            | \$ 16,150                  | \$ 12,397                  | \$ 44,974                  | \$ 37,300                  |

### 11. Net earnings (loss) per share:

|   | 3 Months Sept. 30, 2013 |                     |           | 3 Months Sept. 30, 2012 |                     |           |
|---|-------------------------|---------------------|-----------|-------------------------|---------------------|-----------|
|   | Net earnings<br>(loss)  | Number of<br>Shares | Per share | Net earnings<br>(loss)  | Number of<br>Shares | Per share |
| Basic and diluted earnings (loss) per share | \$ (130)                | 55,941              | \$ (0.00) | \$ 944                  | 55,863              | \$ 0.02   |

|   | 9 Months Sept. 30, 2013 |                     |           | 9 Months Sept. 30, 2012 |                     |           |
|---|-------------------------|---------------------|-----------|-------------------------|---------------------|-----------|
|   | Net earnings<br>(loss)  | Number of<br>Shares | Per share | Net earnings<br>(loss)  | Number of<br>Shares | Per share |
| Basic and diluted earnings (loss) per share | \$ 30,808               | 55,889              | \$ 0.55   | \$ (5,647)              | 55,863              | \$ (0.10) |

The Company has no dilutive securities.

### 12. Segmented information:

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

The Company's sales to both foreign and domestic markets are as follows:

|               | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|---------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Canada        | \$ 54,364                  | \$ 58,288                  | \$ 165,279                 | \$ 183,254                 |
| United States | 130,385                    | 102,264                    | 394,039                    | 264,585                    |
| China/Taiwan  | 37,490                     | 20,443                     | 91,826                     | 72,270                     |
| Japan         | 30,318                     | 24,428                     | 88,910                     | 77,492                     |
| Other export  | 20,150                     | 9,289                      | 49,850                     | 29,195                     |
|               | \$ 272,707                 | \$ 214,712                 | \$ 789,904                 | \$ 626,796                 |

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### 12. Segmented information (continued):

Sales by product line are as follows:

|                                  | 3 Months<br>Sept. 30, 2013 | 3 Months<br>Sept. 30, 2012 | 9 Months<br>Sept. 30, 2013 | 9 Months<br>Sept. 30, 2012 |
|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Lumber                           | \$ 212,222                 | \$ 161,903                 | \$ 623,107                 | \$ 457,894                 |
| Logs                             | 36,592                     | 26,787                     | 95,345                     | 89,387                     |
| Wood chips and other by products | 18,446                     | 17,519                     | 52,464                     | 53,527                     |
| Ocean freight and other          | 5,447                      | 8,503                      | 18,988                     | 25,988                     |
|                                  | \$ 272,707                 | \$ 214,712                 | \$ 789,904                 | \$ 626,796                 |

### 13. Financial instruments:

At September 30, 2013, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of \$162,993,000 (December 31, 2012 - \$135,046,000) measured based on Level 2 of the fair value hierarchy.

As at September 30, 2013, the Company has outstanding obligations to sell a maximum of US\$14,500,000 at an average rate of CAD\$1.0325 to the US\$1.00 during 2013 and ¥145,425,000 at an average rate of ¥96.95 to the US\$1.00 during 2013. All foreign currency gains or losses to September 30, 2013 have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of these foreign currency contracts, being an asset of \$47,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2012 - \$134,000 asset recorded in Trade accounts receivable and other measured based on Level 2 of the fair value hierarchy).

On August 25, 2011, the Company entered into two interest rate swaps, each with 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. On March 25, 2013, the Company entered into two additional interest rate swaps, each with notional value of US\$25,000,000 and maturing February 17, 2017. Under the terms of these additional 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. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense.

The fair value of these interest rate swaps at September 30, 2013, being an asset of \$19,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2012 - \$133,000 liability recorded in Trade accounts payable and accrued liabilities measured based on Level 2 of the fair value hierarchy). The US\$ interest rate swaps are designated as cash flow hedges while the CAD\$ interest rate swaps were treated as cash flow hedges until September 1, 2013. A gain of \$218,000 (September 30, 2012 - \$281,000 gain) has been recognized in Other comprehensive income and a loss of \$124,000 (September 30, 2012 - \$nil) has been recognized in Finance costs for the nine months ending September 30, 2013. For the third quarter, 2013, a loss of \$362,000 (Quarter 3, 2012 - \$68,000 gain) was recognized in Other comprehensive income, a loss of \$124,000 (Quarter 3, 2012 - \$nil) was recognized in Finance costs including the reclassification of a loss in fair value of interest rate swaps of \$58,000 from Other comprehensive income to Finance costs.

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. At September 30, 2013, the Company recognized \$15,000 in Trade accounts receivable and other in respect of the fair value of the outstanding contracts measured based on Level 2 of the fair value hierarchy (December 31, 2012 - \$nil) and a gain of \$106,000 was recognized in Other income (expense) for the first nine months, 2013 (September 30, 2012 - gain of \$26,000). For the third quarter, 2013, a gain of \$15,000 (Quarter 3, 2012 - \$nil) was recognized in Other income (expense).

### 14. Commitment:

On 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 is expected in the fourth quarter, 2013, with the payment to be made 365 days thereafter.



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