



## Interfor Corporation

Vancouver, BC

April 30, 2015

### **Interfor Reports Q1'15 Results** ***Results Impacted by Lower Lumber Prices, Higher Log Costs and Deal-related Items***

**INTERFOR CORPORATION** ("Interfor" or the "Company") (TSX: IFP) reported sales of \$415.4 million and EBITDA<sup>(1)</sup> of \$30.8 million in Q1'15. These figures compare with sales and EBITDA<sup>(1)</sup> of \$389.0 million and \$37.4 million in Q4'14, and \$294.8 million and \$39.2 million in Q1'14, respectively.

The Company's Q1'15 results include a number of unusual items including one-time transaction and integration costs related to the acquisition of four sawmills from Simpson Lumber Company, LLC ("Simpson"), which closed on March 1, 2015, as well as a negative contribution from its Tacoma mill (formerly called Commencement Bay), one of the facilities acquired from Simpson. These items totaled \$1.4 million and \$1.0 million, respectively, during the quarter.

Lumber production was a record 639 million board feet in Q1'15 up 61 million board feet or 11%, compared to Q4'14 and up 144 million board feet or 29% compared to Q1'14.

Production at the Company's Canadian operations totaled 224 million board feet in Q1'15 versus 223 million board feet in the immediately preceding quarter while production in the Northwest and Southeast regions totaled 176 million board feet and 239 million board feet, respectively, in Q1'15 versus 136 million board feet and 219 million board feet, respectively, in Q4'14.

The growth in production in the Northwest and Southeast regions versus the preceding quarter reflects primarily the inclusion of the former Simpson sawmills which added 37 million board feet and 21 million board feet, respectively, to the totals for the two regions in Q1'15.

Following the closing of the Simpson transaction, Interfor's total lumber capacity is 3.1 billion board feet, with 67% located in the US and 33% in Canada.

Average commodity lumber prices were down across the board in Q1'15 as weaker-than-expected demand in China and the US and currency shifts, which discouraged exports and encouraged imports into the US, contributed to excess supply in that market and put downward pressure on product prices.

Increased shipments from Canada to the US in the final weeks of the quarter in anticipation of export duties beginning on April 1<sup>st</sup> further exacerbated demand/supply balances in the US and put additional pressure on prices.

Benchmark prices for Western SPF 2x4, SYP East 2x4 and HF Stud 2x4 9' declined US\$32, US\$14 and US\$33 per mfbm, respectively, compared to the prior quarter.

The Canadian dollar weakened by 9% against the US dollar during the quarter, averaging US\$0.806 in Q1'15 versus US\$0.881 in Q4'14.

The Company's operations in the US Northwest, which lacked protection from the lower Canadian dollar, were impacted disproportionately by the drop in prices in Q1'15.

(1) Adjusted to exclude the effects of long-term incentive compensation, foreign exchange gain (loss), other income and restructuring costs. Refer to Interfor's MD&A prepared as of April 30, 2015 for the full definition.

Other factors impacting the Company's results in Q1'15 included higher log costs in Canada and in the US Northwest as well as negative contributions from the Company's wholesale and VMI programs resulting from the rapid drop in prices in Q1'15.

The Company realized Adjusted Net Earnings<sup>(1)</sup> of \$3.9 million, or \$0.06 per share, compared to \$10.2 million or \$0.15 per share in Q4'14 and \$15.0 million or \$0.24 per share in Q1'14.

In the first quarter, Interfor generated \$22.9 million of cash from operations before working capital changes and an outflow of \$0.6 million after working capital changes were considered. Capital spending amounted to \$27.6 million during the quarter.

Interfor's \$50 million capital project to upgrade its sawmill in Castlegar, BC, is well underway. The project is on-budget and on-schedule, with construction expected to be completed in Q4'15 and full operating performance targeted for Q1'16.

The Company's net debt increased during the quarter to \$369.7 million, or 34% of invested capital, leaving the Company with \$169.8 million of available liquidity as of March 31, 2015. Subsequent to the end of Q1'15, Interfor extended the maturity date of its U.S. Operating Line from April 28, 2015, to May 1, 2017, and increased the credit available under that line from US\$30 million to US\$50 million.

The near term outlook for commodity lumber prices will be challenging unless there is a rebound in takeaway levels in North America or a reduction of available supply. With respect to demand over the medium term, Interfor anticipates a gradual upward trend in U.S. housing starts on positive gains in employment and consumer confidence while the growth of 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 production from that region. By contrast, modest increases in industry capacity and utilization rates are anticipated in the US South.

## **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. The Company has annual production capacity of 3.1 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 Friday, May 1, 2015 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company's release of its first quarter 2015 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 May 14, 2015. The number to call is **1-866-245-6755, Passcode 3361727**.

For further information:

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

## **Financial and Operating Highlights** <sup>(1)</sup>

	Unit	For the 3 months ended March 31,	
		2015	2014
<b>Financial Highlights</b> <sup>(2)</sup>			
Total sales	\$mm	415.4	294.8
Lumber	\$mm	340.7	230.4
Logs	\$mm	36.2	37.6
Wood chips and other residual products	\$mm	34.9	22.4
Ocean freight and other	\$mm	3.6	4.4
Operating earnings (loss)	\$mm	7.8	13.3
Net earnings (loss)	\$mm	(0.2)	27.5
Net earnings (loss) per share, basic and diluted	\$/share	(0.00)	0.43
Adjusted Net Earnings <sup>(3)</sup>	\$mm	3.9	15.0
Adjusted Net Earnings per share, basic and diluted <sup>(3)</sup>	\$/share	0.06	0.24
EBITDA <sup>(3)</sup>	\$mm	32.3	32.3
Adjusted EBITDA <sup>(3)</sup>	\$mm	30.8	39.2
Adjusted EBITDA margin <sup>(3)</sup>	%	7.4%	13.3%
Total assets	\$mm	1,343.2	1,079.3
Total debt	\$mm	389.8	274.8
Pre-tax return on total assets <sup>(3)</sup>	%	2.9%	6.6%
Net debt to invested capital <sup>(3)</sup>	%	33.6%	30.7%
<b>Operating Highlights</b>			
Lumber production	million fbm	639	495
Lumber sales	million fbm	632	439
Lumber - average selling price <sup>(4)</sup>	\$/thousand fbm	539	525

### 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.

## **Summary of First Quarter 2015 Financial Performance**

### Sales

Interfor recorded \$415.4 million of total sales, up 40.9% from \$294.8 million in the first quarter of 2014, driven by the sale of 632 million board feet of lumber at an average price of \$539 per mfbm. Lumber sales volume and average selling price increased 193 million board feet and 2.7%, respectively, over the same quarter of 2014.

The growth in lumber sales volume was primarily in the U.S., where sales increased by 182 million board feet or 60.9% over the first quarter of 2014. This growth is mostly attributable to a full quarter of sales from two sawmills acquired on March 14, 2014, in addition to four sawmills acquired from Simpson on March 1, 2015.

The increase in the average selling price of lumber is primarily related to the U.S. dollar strengthening against the Canadian dollar by 12.5%, partially offset by lower benchmark prices and an increased proportion of Southern Yellow Pine sales as compared to the first quarter of 2014.

Log sales of \$36.2 million represent a decrease of \$1.4 million or 3.7% compared to the same quarter of 2014. This reflects lower sales volume partially offset by a 13.6% increase in the average selling price on B.C. log sales, which accounted for 83.3% of total log sales revenue in the quarter.

Sales of wood chips and other residual products increased to \$34.9 million, up \$12.5 million over the comparable quarter of 2014. This increase mainly reflects a 29.1% rise in lumber production and higher realized prices from Q1'14.

### Operations

Production costs increased by \$126.3 million or 51.2% over the first quarter of 2014, explained primarily by the 44.0% increase in lumber sales volume, higher costs at the Company's Canadian operations and the stronger U.S. dollar as noted above.

Depreciation of plant and equipment was \$16.5 million, up 33.9% from the first quarter of 2014. The majority of this increase is explained by the inclusion of depreciation on the two sawmills acquired on March 14, 2014 and four sawmills acquired on March 1, 2015 and higher operating rates.

Depletion and amortization of timber, roads and other was \$7.9 million, up 25.9% from the comparable quarter of 2014. The majority of this increase relates to a full quarter of amortization of a non-competition agreement associated with the acquisition of two sawmills on March 14, 2014.

### Corporate and Other

Selling and administration expenses were \$11.9 million, up \$3.0 million from the first quarter of 2014. This increase reflects the growth of Interfor's operations with the acquisition of six sawmills since March 14, 2014. The Company incurred \$1.4 million of non-recurring acquisition and integration costs, which represents an increase of \$0.3 million over similar costs incurred in the same period of 2014.

The \$1.7 million long term incentive compensation recovery mostly reflects the impact of a 12.8% decrease in the market price for Interfor Common shares during the quarter on the Company's share-based incentive compensation plans.

Finance costs increased to \$3.1 million from \$1.8 million in the first quarter of 2014. Financing the acquisition of two sawmills on March 14, 2014 and four sawmills on March 1, 2015 contributed to a higher average level of debt outstanding in Q1'15 as compared to Q1'14.

Other foreign exchange loss of \$5.4 million includes a \$4.3 million foreign exchange loss on an intercompany loan denominated in U.S. dollars. This foreign exchange loss is offset by an increase in the equity translation reserve upon consolidation, for a net nil impact on equity.

### Income Taxes

The Company recorded an income tax recovery of \$0.4 million in Q1'15, comprised of \$0.2 million of current taxes mainly in respect of its U.S. operations net of a \$0.5 million deferred tax recovery.

### Net Earnings (Loss)

The Company recorded a net loss of \$0.2 million or \$0.00 per share, compared to net earnings of \$27.5 million or \$0.43 per share in the comparable period of 2014. Adjusted Net Earnings were \$3.9 million or \$0.06 per share compared with \$15.0 million or \$0.24 per share in Q1'14.

## Summary of Quarterly Results<sup>(1)</sup>

Unit	2015		2014				2013		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
<b>Financial Performance (Unaudited)</b>									
Total sales	\$mm	415.4	389.0	373.1	390.2	294.8	315.3	272.7	274.7
Lumber	\$mm	340.7	318.6	303.0	325.2	230.4	249.2	212.2	219.5
Logs	\$mm	36.2	37.4	34.4	35.4	37.6	41.3	36.6	32.6
Wood chips and other residual products	\$mm	34.9	29.1	28.3	25.8	22.4	20.0	18.4	17.4
Ocean freight and other	\$mm	3.6	3.9	7.4	3.8	4.4	4.9	5.4	5.2
Operating earnings (loss)	\$mm	7.8	(1.1)	20.1	3.8	13.3	13.7	2.3	19.3
Net earnings (loss)	\$mm	(0.2)	(5.2)	11.0	7.4	27.5	11.4	(0.1)	15.8
Net earnings (loss) per share, basic and diluted	\$/share	(0.00)	(0.08)	0.16	0.11	0.43	0.18	(0.00)	0.28
Adjusted Net Earnings <sup>(2)</sup>	\$mm	3.9	10.2	16.1	21.1	15.0	16.5	5.4	17.6
Adjusted Net Earnings per share, basic and diluted <sup>(2)</sup>	\$/share	0.06	0.15	0.24	0.32	0.24	0.26	0.10	0.31
EBITDA <sup>(2)</sup>	\$mm	32.3	23.2	40.9	47.8	32.3	31.4	18.4	35.3
Adjusted EBITDA <sup>(2)</sup>	\$mm	30.8	37.4	45.4	47.3	39.2	36.2	24.6	36.1
Shares outstanding - end of period	million	70.0	66.7	66.7	66.7	66.7	63.1	63.1	55.9
Shares outstanding - weighted average	million	67.8	66.7	66.7	66.7	63.8	63.1	55.9	55.9
<b>Operating Performance</b>									
Lumber production	million fbm	639	578	567	582	495	470	447	418
Lumber sales	million fbm	632	620	595	628	439	500	446	433
Lumber - average selling price <sup>(3)</sup>	\$/thousand fbm	539	514	509	518	525	498	476	507
Average USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.2412	1.1350	1.0890	1.0905	1.1033	1.0491	1.0385	1.0233
Closing USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.2683	1.1601	1.1208	1.0676	1.1053	1.0636	1.0303	1.0518

### 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) 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.

One sawmill acquired on July 1, 2013, two sawmills acquired on March 14, 2014 and four sawmills acquired on March 1, 2015, contributed to growth in production and sales throughout the past eight quarters. The permanent closure of the Beaver sawmill impacted production and sales subsequent to June 30, 2014.

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 maintained its strong financial position throughout the first quarter of 2015. Net debt at quarter-end of \$369.7 million, or 33.6% of invested capital, was \$167.1 million higher than at December 31, 2014, due primarily to borrowings for the acquisition of the four sawmills from Simpson.

As at March 31, 2015, the Company had net working capital of \$194.5 million and available capacity on operating and term facilities of \$155.6 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**

The Company generated \$22.9 million of cash flow from operations before changes in working capital in Q1'15, down \$9.3 million over the first quarter of 2014. Incremental cash flow generated from increased sales was offset by reduced sales margin and a \$3.0 million increase in selling and administration costs.

There was a net cash outflow from operations after changes in working capital of \$0.6 million in Q1'15, with \$23.5 million of cash invested in operating working capital. This change includes an increase in accounts receivable of \$15.6 million from December 31, 2014. In the first quarter of 2014, \$16.1 million of cash was consumed by operating working capital, leading to \$16.0 million of total cash generated from operations.

### **Cash Flow from Investing Activities**

Investing activities totaled \$201.0 million in Q1'15, including \$168.1 million related to the Simpson acquisition, \$8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., \$21.6 million for property, plant and equipment and \$5.1 million for development of logging roads. Discretionary mill improvements of \$15.2 million during the period included significant progress on the Castlegar sawmill rebuild.

In the first quarter of 2014, total investing activities of \$137.4 million included \$122.3 million for the acquisition of Tolleson Ilim Lumber Company and \$15.3 million of capital expenditures.

### **Cash Flow from Financing Activities**

Net drawings on the Company's credit facilities were \$145.8 million and net proceeds from issuance of 3.3 million shares were \$63.2 million, leading to total cash from financing activities of \$205.8 million in Q1'15. This includes \$104.9 million drawn on the Company's credit facilities to fund the Simpson acquisition.

In the first quarter 2014, net drawings on the Company's credit facilities were \$123.8 million with total cash from financing activities of \$124.4 million.

## **Capital Resources**

The following table summarizes Interfor's credit facilities and availability as of March 31, 2015:

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	\$ 200,000	\$ 253,660	\$ 38,049	\$ 556,709
Less:					
Drawings	2,831	120,488	253,660	12,808	389,787
Outstanding letters of credit included in line utilization	9,158	-	-	2,117	11,275
Unused portion of facility	\$ 53,011	\$ 79,512	\$ -	\$ 23,124	\$ 155,647

As of March 31, 2015, the Company had commitments for capital expenditures totaling \$34.0 million, related to both maintenance and discretionary capital projects. 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 three months ended March 31, 2015.

### **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 March 31, 2015, such instruments aggregated \$39.0 million (December 31, 2014 - \$30.9 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

### **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.

### **Outstanding Shares**

As of April 30, 2015, Interfor had 70,030,455 Common shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

### **Controls and Procedures**

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2015, that have materially affected, or are reasonably likely to materially affect, its ICFR.

As of March 31, 2015, the scope of our design and disclosure controls and procedures ("DC&P") and ICFR has been limited to exclude controls, policies and procedures of the four sawmill operations acquired from Simpson on March 1, 2015, as we have not yet completed evaluating these controls and procedures or designing and implementing any necessary changes. The Company intends to include such controls, policies and procedures within the design of DC&P and ICFR during 2015. The four sawmills acquired from Simpson accounted for approximately 6% of the Company's total consolidated sales for the first quarter of 2015. Additional information about the acquisition is provided in Note 4 to Interfor's consolidated financial statements as at and for the quarter ended March 31, 2015.

### **Critical Accounting Estimates**

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2015, other than estimates associated with allocating the Simpson purchase price to the assets acquired and liabilities assumed as described in Note 4 to its interim financial statements. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2014, filed under the Company's profile on [www.sedar.com](http://www.sedar.com).

### **Accounting Policy Changes**

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended March 31, 2015, and have not been applied in preparing the Company's unaudited interim condensed consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

IFRS 9, *Financial Instruments*, will replace 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements. Application is required for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet completed an assessment of the impact, if any, of this standard on its financial statements.

### **Non-GAAP Measures**

This MD&A makes reference to the following non-GAAP measures: Adjusted Net Earnings, 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 March 31,**

Thousands of Canadian dollars

**2015      2014**

**Adjusted Net Earnings**

Net earnings (loss)	(163)	27,488
Add:		
Restructuring (recovery) costs, capital asset and timber write-downs	(122)	329
Other foreign exchange loss (gain)	5,413	274
Long term incentive compensation	(1,709)	6,917
Other income	(133)	(56)
Beaver sawmill post-closure wind-down costs	341	-
Income tax effect of above adjustments	235	(681)
Recognition of previously unrecognized deferred tax assets	-	(19,253)
<b>Adjusted Net Earnings</b>	<b>3,862</b>	<b>15,018</b>
<i>Weighted average number of shares - basic and diluted ('000)</i>	<i>67,830</i>	<i>63,786</i>
<b>Adjusted Net Earnings per share</b>	<b>0.06</b>	<b>0.24</b>

**Adjusted EBITDA**

Net earnings (loss)	(163)	27,488
Add:		
Depreciation of plant and equipment	16,515	12,331
Depletion and amortization of timber, roads and other	7,944	6,309
Restructuring (recovery) costs, capital asset and timber write-downs	(122)	329
Finance costs	3,074	1,763
Other foreign exchange loss (gain)	5,413	274
Income tax recovery	(383)	(16,197)
<b>EBITDA</b>	<b>32,278</b>	<b>32,297</b>
Add:		
Long term incentive compensation	(1,709)	6,917
Other income	(133)	(56)
Beaver sawmill post-closure wind-down costs	340	-
<b>Adjusted EBITDA</b>	<b>30,776</b>	<b>39,158</b>

**Pre-tax return on total assets**

Operating earnings before restructuring and capital asset write-downs	7,686	13,601
<b>Total assets<sup>(1)</sup></b>	<b>1,068,523</b>	<b>824,126</b>
<b>Pre-tax return on total assets<sup>(2)</sup></b>	<b>2.9%</b>	<b>6.6%</b>

**Net debt to invested capital**

Net debt		
Total debt	389,787	274,830
Cash and cash equivalents	(20,104)	(8,051)
Current bank indebtedness	-	2,764
<b>Total net debt</b>	<b>369,683</b>	<b>269,543</b>
Invested capital		
Net debt	369,683	269,543
Shareholders' equity	729,839	609,397
<b>Total invested capital</b>	<b>1,099,522</b>	<b>878,940</b>
<b>Net debt to invested capital<sup>(3)</sup></b>	<b>33.6%</b>	<b>30.7%</b>

Notes:

(1) Total assets at period beginning.

(2) Annualized rate.

(3) Net debt to invested capital as of the period end.

### **Risks and Uncertainties**

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; environmental matters; and labour disruptions. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2014, filed under the Company's profile on [www.sedar.com](http://www.sedar.com). There have been no significant changes to the Company's risks and uncertainties during the three month period ended March 31, 2015.

### **Additional Information**

Additional information relating to the Company and its operations, including the Company's Annual Information Form, can be found on its website at [www.interfor.com](http://www.interfor.com) and on SEDAR at [www.sedar.com](http://www.sedar.com).



**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**  
**For the three months ended March 31, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars except earnings per share)

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
<b>Sales</b>	\$ 415,446	\$ 294,840
<b>Costs and expenses:</b>		
Production	373,096	246,800
Selling and administration	11,914	8,882
Long term incentive compensation (recovery) expense	(1,709)	6,917
Depreciation of plant and equipment (note 9)	16,515	12,331
Depletion and amortization of timber, roads and other (note 9)	7,944	6,309
	<b>407,760</b>	<b>281,239</b>
<b>Operating earnings before restructuring costs</b>	<b>7,686</b>	<b>13,601</b>
Restructuring recovery (costs) (note 10)	122	(329)
<b>Operating earnings</b>	<b>7,808</b>	<b>13,272</b>
Finance costs (note 11)	(3,074)	(1,763)
Other foreign exchange loss	(5,413)	(274)
Other income	133	56
	<b>(8,354)</b>	<b>(1,981)</b>
<b>Earnings (loss) before income taxes</b>	<b>(546)</b>	<b>11,291</b>
Income tax expense (recovery)		
Current	164	394
Deferred	(547)	(16,591)
	<b>(383)</b>	<b>(16,197)</b>
<b>Net earnings (loss)</b>	<b>\$ (163)</b>	<b>\$ 27,488</b>
<b>Net earnings (loss) per share, basic and diluted (note 12)</b>	<b>\$ (0.00)</b>	<b>\$ 0.43</b>

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the three months ended March 31, 2015 and 2014 (unaudited)**

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
<b>Net earnings (loss)</b>	<b>\$ (163)</b>	<b>\$ 27,488</b>
<b>Other comprehensive income (loss):</b>		
<b>Items that will not be recycled to Net earnings (loss):</b>		
Defined benefit plan actuarial gain (loss)	282	(141)
<b>Items that are or may be recycled to Net earnings (loss):</b>		
Foreign currency translation differences – foreign operations	30,322	5,241
Gain (loss) in fair value of interest rate swaps (note 14)	(278)	32
<b>Total items that are or may be recycled to Net earnings (loss)</b>	<b>30,044</b>	<b>5,273</b>
<b>Total other comprehensive income, net of tax</b>	<b>30,326</b>	<b>5,132</b>
<b>Total comprehensive income</b>	<b>\$ 30,163</b>	<b>\$ 32,620</b>

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three months ended March 31, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars)

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
<b>Cash provided by (used in):</b>		
<b>Operating activities:</b>		
<b>Net earnings (loss)</b>	\$ (163)	\$ 27,488
<b>Items not involving cash:</b>		
Depreciation of plant and equipment (note 9)	16,515	12,331
Depletion and amortization of timber, roads and other (note 9)	7,944	6,309
Income tax recovery	(383)	(16,197)
Finance costs (note 11)	3,074	1,763
Other assets	346	281
Reforestation liability	1,239	2,739
Provisions and other liabilities	(6,421)	(2,457)
Reversal of impairment of plant and equipment (note 10)	(1,195)	-
Unrealized foreign exchange loss (gain)	2,027	(90)
Other	(133)	(46)
	<b>22,850</b>	<b>32,121</b>
<b>Cash generated from (used in) operating working capital:</b>		
Trade accounts receivable and other	(15,591)	16,186
Inventories	(3,776)	(24,257)
Prepayments	(4,160)	(4,370)
Trade accounts payable and provisions	183	(3,373)
Income taxes paid	(136)	(264)
	<b>(630)</b>	<b>16,043</b>
<b>Investing activities:</b>		
Additions to property, plant and equipment	(21,575)	(10,108)
Additions to logging roads	(5,138)	(4,423)
Additions to timber and other intangible assets	(840)	(799)
Proceeds on disposal of property, plant and equipment	3,203	353
Acquisitions (note 4)	(176,793)	(122,335)
Investments and other assets	106	(69)
	<b>(201,037)</b>	<b>(137,381)</b>
<b>Financing activities:</b>		
Issuance of capital stock, net of share issue expenses (notes 4 and 8(a))	63,196	2,764
Interest payments	(2,951)	(1,309)
Financing transaction costs	(159)	(809)
Additions to long term debt (notes 4 and 7)	480,111	208,911
Repayments of long term debt (note 7)	(334,360)	(85,154)
	<b>205,837</b>	<b>124,403</b>
<b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b>	<b>(1,932)</b>	<b>269</b>
<b>Increase in cash</b>	<b>2,238</b>	<b>3,334</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>17,866</b>	<b>4,717</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 20,104</b>	<b>\$ 8,051</b>

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**March 31, 2015 and December 31, 2014 (unaudited)**

(thousands of Canadian dollars)

	Mar. 31, 2015	Dec. 31, 2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 20,104	\$ 17,866
Trade accounts receivable and other	114,871	80,283
Inventories (note 6)	201,033	148,668
Prepayments	21,844	12,175
	<b>357,852</b>	<b>258,992</b>
<b>Employee future benefits</b>	<b>2,366</b>	<b>2,520</b>
<b>Other investments and assets</b>	<b>2,600</b>	<b>2,972</b>
<b>Property, plant and equipment (note 4)</b>	<b>705,181</b>	<b>541,378</b>
<b>Logging roads and bridges</b>	<b>22,164</b>	<b>22,244</b>
<b>Timber licences</b>	<b>78,500</b>	<b>79,024</b>
<b>Other intangible assets</b>	<b>25,993</b>	<b>24,397</b>
<b>Goodwill</b>	<b>148,555</b>	<b>136,996</b>
	<b>\$ 1,343,211</b>	<b>\$ 1,068,523</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable and provisions	\$ 138,559	\$ 139,153
Reforestation liability	11,594	9,797
Income taxes payable	402	365
Principal due within one year on long term debt (notes 7 and 15)	12,808	-
	<b>163,363</b>	<b>149,315</b>
<b>Reforestation liability</b>	<b>24,443</b>	<b>23,099</b>
<b>Long term debt (notes 7 and 15)</b>	<b>376,979</b>	<b>220,419</b>
<b>Employee future benefits</b>	<b>7,724</b>	<b>7,361</b>
<b>Provisions and other liabilities</b>	<b>34,041</b>	<b>25,190</b>
<b>Deferred income taxes</b>	<b>6,822</b>	<b>6,659</b>
<b>Equity:</b>		
Share capital (note 8)	553,559	490,363
Contributed surplus	7,476	7,476
Translation reserve	51,272	20,950
Hedge reserve	(145)	133
Retained earnings	117,677	117,558
	<b>729,839</b>	<b>636,480</b>
	<b>\$ 1,343,211</b>	<b>\$ 1,068,523</b>

**Subsequent event (note 15)**

**See accompanying notes to consolidated financial statements**

Approved on behalf of the Board:

L. Sauder  
Director

D.W.G. Whitehead  
Director



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the three months ended March 31, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars)

	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
<b>Balance at December 31, 2014</b>	\$ 490,363	\$ 7,476	\$ 20,950	\$ 133	\$ 117,558	\$ 636,480
<b>Net loss:</b>	-	-	-	-	(163)	(163)
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	30,322	-	-	30,322
Defined benefit plan actuarial gain	-	-	-	-	282	282
Loss in fair value of interest rate swaps (note 14)	-	-	-	(278)	-	(278)
<b>Contributions:</b>						
Share issuance, net of share issue expenses (notes 4 and 8)	63,196	-	-	-	-	63,196
<b>Balance at March 31, 2015</b>	\$ 553,559	\$ 7,476	\$ 51,272	\$ (145)	\$ 117,677	\$ 729,839
<b>Balance at December 31, 2013</b>	\$ 428,723	\$ 7,476	\$ 561	\$ 167	\$ 78,210	\$ 515,137
<b>Net earnings:</b>	-	-	-	-	27,488	27,488
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	5,241	-	-	5,241
Defined benefit plan actuarial loss	-	-	-	-	(141)	(141)
Gain in fair value of interest rate swaps (note 14)	-	-	-	32	-	32
<b>Contributions:</b>						
Shares issued in business combination (note 8)	61,640	-	-	-	-	61,640
<b>Balance at March 31, 2014</b>	\$ 490,363	\$ 7,476	\$ 5,802	\$ 199	\$ 105,557	\$ 609,397

See accompanying notes to consolidated financial statements

## INTERFOR CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three months ended March 31, 2015 and 2014 (unaudited)

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### 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 ended March 31, 2015 and 2014 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 April 30, 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 Statements 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, 2014, annual consolidated financial statements, which are available on [www.sedar.com](http://www.sedar.com). The adoption of new accounting standards or interpretations under IFRS had no effect on these financial statements.

#### New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2015, and have not been applied in preparing these unaudited consolidated interim financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

IFRS 9, Financial Instruments, will replace 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect this standard to have a significant effect on its financial statements.

In May 2014, the International Accounting Standards Board issued IFRS 15, Revenue from Contracts with Customers, which will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is in process of assessing the impact, if any, on the financial statements of this new standard.

### 4. Acquisitions:

On March 1, 2015, a wholly-owned subsidiary of Interfor concluded the acquisition of sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington from Simpson Lumber Company, LLC ("Simpson Acquisition"), pursuant to an Asset Purchase Agreement ("APA") for total consideration estimated at US\$146,020,000.

Consideration per the APA includes 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 as follows:

- (a) An annual payment equal to half of the Tacoma sawmill's EBITDA for each of the three years post closing; and
- (b) 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 (a) and (b) combined will be US\$10,000,000 and the Company recorded a discounted provision of US\$9,464,000 (\$11,833,000) in Provisions and other liabilities in the Consolidated Statements of Financial Position as part of the acquisition. At March 31, 2015, this provision was revalued at the quarter-end exchange rate to \$12,003,000.

The Company incurred acquisition related costs of approximately \$1,367,000 for the first quarter, 2015, which are included in Selling and administration in the Company's Consolidated Statements of Earnings.

**INTERFOR CORPORATION**

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three months ended March 31, 2015 and 2014 (unaudited)

**4. Acquisitions (continued):**

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

Assets acquired:	
Current assets	\$ 57,581
Property, plant and equipment	129,140
	186,721
Current liabilities assumed:	
	(4,152)
	\$ 182,569
Consideration funded by:	
Current liabilities for settlement of working capital	\$ 2,686
Revolving Term Line	104,854
Contingent future payments	11,833
Cash consideration from share issuance	63,196
	\$ 182,569

Upon acquisition of the Thomaston sawmill operations from Keadle Lumber Enterprises Inc. in 2013, the Company agreed to pay additional consideration of US\$7,000,000, contingent upon receipt of an upgrade to the air permit which allows the Company to operate a second shift. Approval was received on February 28, 2014, and a payment of \$8,743,000 was made on February 27, 2015.

In 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., pursuant to a Share Purchase Agreement for total consideration of \$188,545,000 which resulted in the recognition of \$107,419,000 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. 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:**

	Mar. 31, 2015	Dec. 31, 2014
Logs	\$ 85,273	\$ 71,841
Lumber	97,836	66,798
Other	17,924	10,029
	\$ 201,033	\$ 148,668

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 March 31, 2015 was \$12,360,000 (December 31, 2014 - \$9,774,000).

**7. Cash and borrowings:**

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
March 31, 2015					
Available line of credit	\$ 65,000	\$ 200,000	\$ 253,660	\$ 38,049	\$ 556,709
Drawings	2,831	120,488	253,660	12,808	389,787
Outstanding letters of credit included in line utilization	9,158	-	-	2,117	11,275
Unused portion of line	\$ 53,011	\$ 79,512	\$ -	\$ 23,124	\$ 155,647
December 31, 2014					
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



## INTERFOR CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three months ended March 31, 2015 and 2014 (unaudited)

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### 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<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 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 March 31, 2015, the Operating Line was drawn by \$11,989,000 (December 31, 2014 - \$8,637,000), including outstanding letters of credit.

#### (b) Revolving Term Line:

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

The Revolving Term Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The 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.

The Revolving Term Line matures on February 27, 2017.

On March 16, 2015, the Company decreased the credit available under its Revolving Term Line from \$250,000,000 to \$200,000,000. All other terms and conditions remained unchanged.

As at March 31, 2015, the Revolving Term Line was drawn by US\$95,000,000 (December 31, 2014 - US\$90,000,000) revalued at the quarter-end exchange rate to \$120,488,000 (December 31, 2014 - \$104,409,000), and leaving an unused available line of \$79,512,000 (December 31, 2014 - \$145,591,000).

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 foreign exchange losses of \$13,586,000 for the first quarter, 2015 (first quarter, 2014 - \$3,228,000) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income.

#### (c) Senior Secured Notes:

On March 16, 2015, the Company issued US\$100,000,000 of Series C Senior Secured Notes, bearing interest at 4.17%. Together with the Series A Senior Secured Notes (US\$50,000,000, bearing interest at 4.33%) and Series B Senior Secured Notes (US\$50,000,000, bearing interest at 4.02%), US\$200,000,000 of Senior Secured Notes were outstanding as at March 31, 2015 (December 31, 2014 - US\$100,000,000) and revalued at the quarter-end exchange rate to \$253,660,000 (December 31, 2014 - \$116,010,000).

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\$33,333,000 are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US\$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes.

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 \$9,620,000 (first quarter, 2014 - \$2,085,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the first quarter, 2015.

#### (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.

As at March 31, 2015, the U.S. Operating Line was drawn by US\$11,769,000, including outstanding letters of credit, revalued at the quarter-end exchange rate to \$14,925,000 (December 31, 2014 - US\$1,020,000 revalued at the year-end exchange rate to \$1,183,000), with cumulative foreign exchange losses of \$475,000 for the first quarter, 2015 (first quarter, 2014 - \$349,000) recognized in Foreign currency translation differences in Other comprehensive income.

See also Subsequent event (note 15).

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

**INTERFOR CORPORATION**

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three months ended March 31, 2015 and 2014 (unaudited)

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

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

Twelve months ending	
March 31, 2016	\$ 12,808
March 31, 2017	123,319
March 31, 2018	-
March 31, 2019	-
March 31, 2020	-
Thereafter	253,660
	<u>\$ 389,787</u>

**8. Share capital:**

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2013	63,050,455	\$ 428,723
Shares issued in business combination	3,680,000	61,640
Balance, December 31, 2014	66,730,455	490,363
Shares issued for cash, net of share issue costs	3,300,000	63,196
Balance, March 31, 2015	70,030,455	\$ 553,559

**(a) Share transactions:**

On March 14, 2014, the Company issued 3,680,000 Common Shares at a share price of \$16.75 per share to partially fund the Tolleson acquisition (see note 4).

On January 27, 2015, the Company 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 cash proceeds, net of share issue costs, of \$63,196,000. In connection with the completion of the Simpson Acquisition (see note 4), each Subscription Receipt was exchanged, for no additional consideration, for one Common Share of the Company. The shares were issued on March 2, 2015.

**(b) Stock option plan:**

The Company has an employee stock option plan for its key employees and directors. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. In the first quarter, 2015, the Company granted 73,048 options, of which 69,534 remained outstanding at March 31, 2015 (December 31, 2014 - no options outstanding), and recognized an expense of \$33,000 (first quarter, 2014 - \$nil) in Net earnings.

**9. Depreciation, depletion and amortization:**

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

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
Production	\$ 22,728	\$ 18,275
Selling and administration	1,731	365
	<u>\$ 24,459</u>	<u>\$ 18,640</u>

**10. Restructuring costs:**

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
Reversal of write-down of plant and equipment	\$ (1,195)	\$ -
Severance	862	329
Onerous contract	211	-
	<u>\$ (122)</u>	<u>\$ 329</u>

During the first quarter, 2015, in conjunction with the sale of assets at the Company's Beaver-Forks operation, the Company recognized a reversal of an asset impairment of \$1,195,000.

The Company also recorded provisions for severance of \$862,000, and increased its provision for an onerous contract related to the Beaver-Forks operations by \$211,000.

**INTERFOR CORPORATION**

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three months ended March 31, 2015 and 2014 (unaudited)

**11. Finance costs:**

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
Interest on borrowing	\$ 2,739	\$ 1,451
Interest income on defined benefit obligations	(1)	(18)
Accretion expense	123	170
Amortization of deferred finance costs	213	160
	<u>\$ 3,074</u>	<u>\$ 1,763</u>

**12. Net earnings (loss) per share:**

Net earnings (loss) per share is calculated utilizing the treasury stock method approach for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	3 Months Mar. 31, 2015			3 Months Mar. 31, 2014		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		66,730			63,050	
Effect of shares issued on March 14, 2014		-			736	
Effect of shares issued on March 2, 2015		1,100			-	
Basic earnings (loss) per share	\$ (163)	67,830	\$ (0.00)	\$ 27,488	63,786	\$ 0.43
Effect of stock options issued on February 11, 2015	-	-*	-	-	-	-
Diluted earnings (loss) per share	\$ (163)	67,830	\$ (0.00)	\$ 27,488	63,786	\$ 0.43

\*Where the addition of stock options to the total shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

**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 Mar. 31, 2015	3 Months Mar. 31, 2014
United States	\$ 274,668	\$ 167,577
Canada	64,351	53,514
China/Taiwan	24,138	33,481
Japan	34,647	29,211
Other export	17,642	11,057
	<u>\$ 415,446</u>	<u>\$ 294,840</u>

Sales by product line are as follows:

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
Lumber	\$ 340,728	\$ 230,464
Logs	36,220	37,588
Wood chips and other by-products	34,871	22,400
Ocean freight and other	3,627	4,388
	<u>\$ 415,446</u>	<u>\$ 294,840</u>

## INTERFOR CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three months ended March 31, 2015 and 2014 (unaudited)

### 14. Financial instruments:

At March 31, 2015, the fair value of the Company's long term debt approximated its carrying value of \$389,787,000 (December 31, 2014 - \$220,419,000) 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 from time to time 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.

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.

	Mar. 31, 2015	Dec. 31, 2014
Foreign exchange forward contracts	\$ (1)	\$ (177)
Interest rate swaps, designated as cash flow hedges	(146)	132
<b>Total asset (liability), net</b>	<b>\$ (147)</b>	<b>\$ (45)</b>

Financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements 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 Statements of Financial Position.

The following table summarizes the gain (loss) on derivative financial instruments for the three months ended March 31, 2015 and 2014.

	3 Months Mar. 31, 2015	3 Months Mar. 31, 2014
Foreign exchange forward contracts <sup>1</sup>	\$ (1,837)	\$ (265)
Interest rate swaps <sup>2</sup>	(278)	32
Lumber futures <sup>3</sup>	-	10
<b>Total loss, net</b>	<b>\$ (2,115)</b>	<b>\$ (223)</b>

<sup>1</sup> Recognized in Other foreign exchange gain (loss) in Net earnings.

<sup>2</sup> Recognized in Other comprehensive income (loss).

<sup>3</sup> Recognized in Other income (loss) in Net earnings.

### 15. Subsequent event:

On April 27, 2015, the Company extended the maturity of its U.S. Operating Line from April 28, 2015 to May 1, 2017 and increased the credit available from US\$30,000,000 to US\$50,000,000. All other terms and conditions remain substantially unchanged.



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