



## Interfor Corporation

Vancouver, BC

July 30, 2015

### **Interfor Reports Q2'15 Results** ***Decision to Exit the Tacoma Sawmill Announced***

**INTERFOR CORPORATION** ("Interfor" or the "Company") (TSX: IFP) recorded a net loss of \$20.6 million, or \$0.29 per share, on sales of \$429.7 million in Q2'15 compared with a net loss of \$0.2 million in Q1'15 and net earnings of \$7.4 million in Q2'14.

Included in the Company's results for Q2'15 is a pre-tax loss of \$7.7 million<sup>(1)</sup> associated with the operations of the Tacoma sawmill which was acquired from Simpson Lumber Company, LLC ("Simpson") earlier this year as part of a larger transaction involving a total of four mills.

Excluding the Tacoma loss and certain other items, the Company reported an adjusted net loss<sup>(2)</sup> of \$14.7 million, or \$0.21 per share, in Q2'15 versus adjusted net earnings<sup>(2)</sup> of \$4.5 million in Q1'15 and \$21.1 million in Q2'14.

Adjusted EBITDA<sup>(2)</sup>, which excludes the results associated with Tacoma and certain other items, was \$12.7 million in Q2'15 versus \$31.8 million in Q1'15 and \$47.3 million in Q2'14.

The Company's operations in all regions were impacted by the significant drop in product prices experienced in Q2'15.

Benchmark prices for Western SPF 2x4, SYP East 2x4 and HF Studs 2x4 9' declined US\$38, US\$30 and US\$46 per mfbm, respectively, compared to the prior quarter. Prices for SPF 2x4 and HF Studs 9' began to strengthen in the final month of Q2'15 as increased takeaway levels and production curtailments helped to rebalance in-market inventories. SYP lagged SPF and HF prices on the decline and remained soft through quarter-end, with discounts from list prevalent on most items.

Beyond the benchmarks, prices for low-grade products were particularly weak in Q2'15, with SPF 2x4 #3 off US\$55 and SYP 2x4 #3 off US\$59 versus Q1'15.

The Canadian dollar strengthened by 0.9% against the US dollar during the quarter, averaging US\$0.8132 in Q2'15 versus US\$0.8057 in Q1'15.

In addition, the reintroduction of export duties on April 1, 2015 on lumber shipments from Canada into the US resulted in \$2.5 million of duties paid in Q2'15 compared with \$0 in Q1'15 and Q2'14.

The Company's Q2'15 results were further impacted by an EBITDA loss of \$1.5 million related to its Castlegar sawmill which was curtailed for 13 days during the quarter as part of a \$50 million modernization project at that facility. The Castlegar Project is proceeding on-time and on-budget with construction expected to be completed in Q4'15 and full operating performance targeted for Q1'16.

Lumber production increased to 672 million board feet in Q2'15, up 33 million board feet or 5.2% compared to Q1'15 and up 90 million board feet or 15.5% compared to Q2'14.

(1) Including negative adjustments to log and lumber carrying values

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

Production from the Company's US Southeast and US Northwest regions totaled 288 million board feet and 190 million board feet, respectively, in Q2'15 versus 239 million board feet and 176 million board feet, respectively, in Q1'15. The growth in production in the US Southeast and US Northwest regions versus the preceding quarter reflects primarily the inclusion of the former Simpson mills and another mill in Arkansas acquired from The Price Companies, Inc. ("Price") in June, offset in part by a reduction in operating hours at the Company's other mills in the US Northwest.

Canadian production totaled 194 million board feet in Q2'15 versus 224 million board feet in the immediately preceding quarter. The drop in Canadian production reflects the curtailment at Castlegar and a reduction in operating hours at the Company's other BC Interior mills.

In the second quarter, Interfor generated \$20.1 million in cash from operations after considering working capital changes. Capital spending amounted to \$38.6 million during the quarter.

On June 19<sup>th</sup>, Interfor closed the previously announced acquisition of the Price sawmill in Monticello, Arkansas. The Monticello mill produced 75 million board feet in 2014 and 2 million board feet in Q2'15 following its acquisition.

Net debt increased during the quarter to \$430.9 million, or 38.0% of invested capital, leaving the Company with \$120.8 million of available liquidity as of June 30, 2015.

Commodity lumber prices are expected to remain volatile in the near term as the market responds to shifts in currency values and changes in export duty rates. Interfor expects demand for lumber to continue to grow over the mid-term as the US housing market recovers and market promotion efforts in North America and offshore take full effect. Demand in China is also expected to grow in the years ahead, albeit at a slower pace than in recent years.

#### Tacoma Sawmill

As a result of challenging lumber and log market conditions, Interfor curtailed operations at its Tacoma sawmill on May 22, 2015. Following a comprehensive strategic review, the Company has decided to exit the mill.

Interfor's upfront investment at Tacoma was limited to working capital, with the remaining consideration contingent upon earnings over the first three years of ownership. The minimum total contingent payment payable to Simpson is US\$10 million, US\$9.5 million of which the Company has recorded as a liability at June 30, 2015.

The Tacoma sawmill accounted for 26 million board feet of production in Q2'15 and 47 million board feet since acquisition.

"The decision to exit the Tacoma sawmill was taken after much analysis and deliberation," said Duncan Davies, Interfor's President and CEO. "We understood at the time the mill was acquired that a turnaround was required at Tacoma. While good progress has been made from an operating standpoint, the drop in product prices experienced in Q2'15 resulted in operating losses greater than expected when the mill was acquired. In the face of continued uncertainty, we have concluded that we would be better served to exit the mill and to redeploy the capital associated with the facility elsewhere within our system. We understand the uncertainty this decision brings to the mill's employees and to others associated with the operation and will do everything we can to bring matters to conclusion as soon as possible."

#### **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 availability and costs, 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 release 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 3.2 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 Friday, July 31, 2015 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company's release of its second quarter 2015 financial results.

The dial-in number is **1-866-233-4795**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until August 14, 2015. The number to call is **1-866-245-6755, Passcode 292559**.

For further information:

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

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

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

	Unit	For the 3 months ended June 30,		For the 6 months ended June 30,	
		2015	2014	2015	2014
<b>Financial Highlights</b> <sup>(2)</sup>					
Total sales	\$mm	429.7	390.2	845.1	685.1
Lumber	\$mm	352.2	325.2	692.9	555.6
Logs, residual products and other	\$mm	77.5	65.0	152.2	129.5
Operating earnings (loss)	\$mm	(25.8)	3.8	(18.0)	17.1
Net earnings (loss)	\$mm	(20.6)	7.4	(20.7)	34.9
Net earnings (loss) per share, basic and diluted	\$/share	(0.29)	0.11	(0.30)	0.53
Adjusted net earnings (loss) <sup>(3)</sup>	\$mm	(14.7)	21.1	(10.2)	36.1
Adjusted net earnings (loss) per share, basic and diluted <sup>(3)</sup>	\$/share	(0.21)	0.32	(0.15)	0.55
EBITDA <sup>(3)</sup>	\$mm	1.0	47.8	33.3	80.1
Adjusted EBITDA <sup>(3)</sup>	\$mm	12.7	47.3	44.5	86.5
Adjusted EBITDA margin <sup>(3)</sup>	%	3.0%	12.1%	5.3%	12.6%
Total assets	\$mm	1,364.6	1,036.0	1,364.6	1,036.0
Total debt	\$mm	445.0	244.5	445.0	244.5
Pre-tax return on total assets <sup>(3)</sup>	%	-7.7%	9.9%	-3.0%	8.7%
Net debt to invested capital <sup>(3)</sup>	%	38.0%	28.1%	38.0%	28.1%
<b>Operating Highlights</b>					
Lumber production	million fbm	672	582	1311	1077
Lumber sales	million fbm	719	628	1351	1067
Lumber - average selling price <sup>(4)</sup>	\$/thousand fbm	490	518	513	521

#### 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 Second Quarter 2015 Financial Performance**

### Sales

Interfor recorded \$429.7 million of total sales, up 10.1% from \$390.2 million in the second quarter of 2014, driven by the sale of 719 million board feet of lumber at an average price of \$490 per mfbm. Lumber sales volume increased 91 million board feet, or 14.5%, while average selling price declined \$28 per thousand board feet, or 5.4%, as compared to the same quarter of 2014.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 141 million board feet or 33.8% over the second quarter of 2014. This growth is mostly attributable to sales from four U.S. located sawmills acquired from Simpson on March 1, 2015. Partially offsetting this growth in U.S. sales was a 36 million board foot, or 38.2%, reduction in volume sold to the China/Taiwan markets.

The decline in the average selling price of lumber reflects lower benchmark prices in USD terms across all key species as compared to the second quarter of 2014, partially offset by the strengthening of the U.S. Dollar against the Canadian Dollar by 12.8% on average.

Sales generated from logs, residual products and other increased by \$12.5 million or 19.2% compared to the same quarter of 2014. \$10.3 million of this increase related to wood chips and other residual products and was the result of higher lumber production as compared to Q2'14.

## Operations

Production costs increased by \$76.1 million or 22.8% over the second quarter of 2014, explained primarily by the 14.5% increase in lumber sales volume, higher costs at the Company's Canadian operations and the impact of a weaker Canadian Dollar as noted above.

Depreciation of plant and equipment was \$18.1 million, up 29.7% from the second quarter of 2014. The majority of this increase is explained by the inclusion of depreciation on four sawmills acquired on March 1, 2015.

Depletion and amortization of timber, roads and other was \$8.9 million, up 27.0% from the comparable quarter of 2014. The majority of this increase reflects higher rates of road amortization within the Company's B.C. Coastal logging division, due to production from camps with higher road costs.

## Corporate and Other

Selling and administration expenses were \$12.2 million, up \$3.1 million from the second quarter of 2014. This increase reflects the growth of Interfor's operations through the acquisition of five sawmills in year-to-date 2015. The Company incurred \$0.6 million of non-recurring acquisition and integration costs, which represents an increase of \$0.4 million over similar costs incurred in the same period of 2014.

The \$3.9 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing and a 7.0% increase in the market price for Interfor Common Shares during the quarter.

Export taxes of \$2.5 million were incurred in Q2'15 in respect of lumber shipments from the Company's Canadian operations to the U.S. under the Softwood Lumber Agreement. The duty rates were set at 5% in each of April and May and then 10% in June. The duty rate was 0% throughout the comparable quarter of 2014.

Finance costs increased to \$4.1 million from \$2.5 million in the second quarter of 2014. Financing the acquisition of five sawmills in the year-to-date 2015 period and capital improvements through borrowings during the quarter contributed to a higher average level of debt outstanding in Q2'15 as compared to Q2'14.

Other foreign exchange gain of \$2.3 million includes a \$2.4 million gain on an intercompany loan denominated in U.S. Dollars. This foreign exchange gain is offset by a decrease in the equity translation reserve upon consolidation, for a net nil impact on equity.

## Income Taxes

The Company recorded an income tax recovery of \$7.2 million in Q2'15, comprised of \$0.3 million of current taxes net of a \$7.5 million deferred tax recovery, mainly in respect of its U.S. operations.

## Net Earnings (Loss)

The Company recorded a net loss of \$20.6 million or \$0.29 per share, compared to net earnings of \$7.4 million or \$0.11 per share in the comparable period of 2014. Adjusted Net Earnings were \$(14.7) million or \$(0.21) per share compared with \$21.1 million or \$0.32 per share in Q2'14.

## **Summary of Year-to-Date 2015 Financial Performance**

### Sales

Interfor recorded \$845.1 million of total sales, up 23.4% from \$685.1 million in the first half of 2014, driven by the sale of 1.4 billion board feet of lumber at an average price of \$513 per mfbm. Lumber sales volume increased 284 million board feet, or 26.6%, while average selling price declined \$8 per thousand board feet, or 1.5%, as compared to the same period of 2014.

The growth in lumber sales volume was primarily in the U.S., where sales increased by 323 million board feet or 45.1% over the first half of 2014. This growth is mostly attributable to the impact of seven sawmills acquired since March 14, 2014. Partially offsetting this growth in U.S. sales was a 44

million board foot, or 29.6%, reduction in volume sold to the China/Taiwan markets.

The decline in the average selling price of lumber reflects lower benchmark prices in USD terms across all key species as compared to the first half of 2014, partially offset by the strengthening of the U.S. Dollar against the Canadian Dollar by 12.6% on average.

Sales generated from logs, residual products and other increased by \$22.7 million or 17.5% compared to the first half of 2014. Nearly all of this increase is related to wood chips and other residual products as a result of higher lumber production.

### Operations

Production costs increased by \$202.4 million or 34.8% as compared to the first half of 2014, explained primarily by the 26.6% 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 \$34.6 million, up 31.7% from the first six months of 2014. The majority of this increase is explained by the inclusion of depreciation on seven sawmills acquired since March 14, 2014 and higher operating rates.

Depletion and amortization of timber, roads and other was \$16.9 million, up 26.5% as compared with the first half of 2014. The majority of this increase reflects higher rates of road amortization within the Company's B.C. Coastal logging division, due to production from camps with higher road costs, and a full period 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 \$24.1 million, up \$6.2 million from the first half of 2014. This increase reflects the growth of Interfor's operations with the acquisition of seven sawmills since March 14, 2014. The Company incurred \$1.9 million of non-recurring acquisition and integration costs, which represents an increase of \$0.6 million over similar costs incurred in the same period of 2014.

The \$2.2 million long term incentive compensation expense in the first six months of 2015 mainly reflects the impact of incentive awards maturing, partially offset by a 6.7% decrease in the market price of Interfor Common Shares over the same period.

Export taxes of \$2.5 million were incurred in respect of lumber shipments from the Company's Canadian operations to the U.S. under the Softwood Lumber Agreement. The duty rates were set at 0% in Q1'15, 5% in each of April and May and then 10% in June. The duty rate was 0% throughout the first half of 2014.

Finance costs increased to \$7.2 million from \$4.3 million in year-to-date period of 2014. Financing the acquisition of seven sawmills since March 14, 2014, and capital improvements through borrowings contributed to a higher average level of debt outstanding in the current year.

Other foreign exchange loss of \$3.1 million includes a \$1.9 million 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 \$7.6 million in the first half of 2015, comprised of \$0.5 million of current taxes net of an \$8.1 million deferred tax recovery, mainly in respect of its U.S. operations.

### Net Earnings (Loss)

The Company recorded a net loss of \$20.7 million or \$0.30 per share, compared to net earnings of \$34.9 million or \$0.53 per share in the comparable period of 2014. Adjusted Net Earnings were \$(10.2) million or \$(0.15) per share compared with \$36.1 million or \$0.55 per share in the first half of 2014.

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

Unit	2015		2014				2013		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	
<b>Financial Performance (Unaudited)</b>									
Total sales	\$mm	429.7	415.4	389.0	373.1	390.2	294.8	315.3	272.7
Lumber	\$mm	352.2	340.7	318.6	303.0	325.2	230.4	249.2	212.2
Logs, residual products and other	\$mm	77.5	74.7	70.4	70.1	65.0	64.4	66.2	60.4
Operating earnings (loss)	\$mm	(25.8)	7.8	(1.1)	20.1	3.8	13.3	13.7	2.3
Net earnings (loss)	\$mm	(20.6)	(0.2)	(5.2)	11.0	7.4	27.5	11.4	(0.1)
Net earnings (loss) per share, basic and diluted	\$/share	(0.29)	(0.00)	(0.08)	0.16	0.11	0.43	0.18	(0.00)
Adjusted net earnings (loss) <sup>(2)</sup>	\$mm	(14.7)	4.5	10.2	16.1	21.1	15.0	16.5	5.4
Adjusted net earnings (loss) per share, basic and diluted <sup>(2)</sup>	\$/share	(0.21)	0.07	0.15	0.24	0.32	0.24	0.26	0.10
EBITDA <sup>(2)</sup>	\$mm	1.0	32.3	23.2	40.9	47.8	32.3	31.4	18.4
Adjusted EBITDA <sup>(2)</sup>	\$mm	12.7	31.8	37.4	45.4	47.3	39.2	36.2	24.6
Shares outstanding - end of period	million	70.0	70.0	66.7	66.7	66.7	66.7	63.1	63.1
Shares outstanding - weighted average	million	70.0	67.8	66.7	66.7	66.7	63.8	63.1	55.9
<b>Operating Performance</b>									
Lumber production	million fbm	672	639	578	567	582	495	470	447
Lumber sales	million fbm	719	632	620	595	628	439	500	446
Lumber - average selling price <sup>(3)</sup>	\$/thousand fbm	490	539	514	509	518	525	498	476
Average USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.2297	1.2412	1.1350	1.0890	1.0905	1.1033	1.0491	1.0385
Closing USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.2474	1.2683	1.1601	1.1208	1.0676	1.1053	1.0636	1.0303

### 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. 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 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.

Two sawmills acquired on March 14, 2014, four sawmills acquired on March 1, 2015, and one sawmill acquired on June 19, 2015, have all contributed to the growth in production and sales. The permanent closure of the Beaver sawmill and curtailment of the Tacoma sawmill impacted production and sales subsequent to June 30, 2014, and May 22, 2015, respectively.

The volatility of the Canadian Dollar against the U.S. Dollar also impacted results. A weaker Canadian Dollar increases the lumber sales realizations of Canadian operations and increases net earnings of U.S. operations when translated to Canadian Dollars.

## **Liquidity**

### **Balance Sheet**

Net debt at June 30, 2015 was \$430.9 million, or 38.0% of invested capital, representing an increase of \$228.3 million over the level at December 31, 2014. This increase includes \$151.4 million of borrowings for the Simpson and Monticello acquisitions and \$21.0 million invested to date for the Castlegar sawmill upgrade.

As at June 30, 2015, the Company had net working capital of \$185.2 million and available capacity on operating and term facilities of \$120.8 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 \$25.1 million of cash flow from operations before changes in working capital in the first six months of 2015, down \$52.7 million over the same period of 2014. Incremental cash flow generated from increased sales was offset by reduced sales margin and increases of \$6.2 million and \$2.5 million to selling and administration costs and export taxes, respectively.

There was a net cash inflow from operations after changes in working capital of \$19.5 million in YTD'15, with \$5.6 million of cash invested in operating working capital. In the first half of 2014, \$20.2 million of cash was consumed by operating working capital, leading to \$57.7 million of total cash generated from operations.

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

Investing activities totaled \$285.5 million in YTD'15, including \$170.8 million for the Simpson acquisition, \$43.8 million for the Monticello acquisition, \$8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., \$52.1 million for property, plant and equipment and \$12.9 million for development of logging roads. Discretionary mill improvements of \$22.6 million during the period were focused primarily on the Castlegar sawmill rebuild.

In the first half of 2014, total investing activities of \$153.7 million included \$124.4 million for the acquisition of Tolleson Ilim Lumber Company and \$31.3 million of capital expenditures.

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

Net drawings on the Company's credit facilities were \$205.8 million and net proceeds from issuance of 3.3 million shares were \$63.2 million, leading to total cash from financing activities of \$262.1 million in the first half of 2015. This includes \$151.4 million drawn on the Company's credit facilities to fund the Simpson and Monticello acquisitions.

In the first half of 2014, net drawings on the Company's credit facilities were \$106.9 million with total cash from financing activities of \$102.9 million.

## **Capital Resources**

The following table summarizes Interfor's credit facilities and availability as of June 30, 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	\$ 249,480	\$ 62,370	\$ 576,850
Less:					
Drawings	1,972	162,162	249,480	31,337	444,951
Outstanding letters of credit included in line utilization	9,038	-	-	2,083	11,121
Unused portion of facility	\$ 53,990	\$ 37,838	\$ -	\$ 28,950	\$ 120,778



As of June 30, 2015, the Company had commitments for capital expenditures totaling \$42.2 million, related to both maintenance and discretionary capital projects.

### **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 six months ended June 30, 2015.

### **Off-Balance Sheet Arrangements**

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber purchases. At June 30, 2015, such instruments aggregated \$39.1 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, thereby mitigating the risk of credit loss on such instruments.

### **Outstanding Shares**

As of July 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 June 30, 2015, that have materially affected, or are reasonably likely to materially affect, its ICFR.

As of June 30, 2015, the scope of design and disclosure controls and procedures ("DC&P") and ICFR has been limited to exclude controls, policies and procedures of the Monticello sawmill operation acquired from Price on June 19, 2015, as we have not yet completed an evaluation of these controls and procedures nor designed and implemented any necessary changes. The Company intends to include such controls, policies and procedures within the design of DC&P and ICFR during 2015. The Monticello sawmill accounted for less than 1% of the Company's total consolidated sales for the second quarter of 2015. Additional information about this acquisition is provided in Note 4 to Interfor's unaudited consolidated financial statements for the three and six months ended June 30, 2015.

### **Critical Accounting Estimates**

There were no significant changes to the Company's critical accounting estimates during the quarter ended June 30, 2015, other than estimates associated with allocating the Monticello sawmill purchase price to the assets acquired and liabilities assumed as described in Note 4 to its unaudited interim consolidated 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 June 30, 2015, and have not been applied in preparing the Company's unaudited interim 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. On April 28, 2015, the International Accounting Standards Board voted to publish an Exposure Draft proposing a one-year deferral of the effective date of this standard to January 1, 2018, with earlier adoption still 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 (loss), Adjusted net earnings (loss) per share, 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 consolidated financial statements prepared in accordance with IFRS:

Thousands of Canadian dollars	For the 3 months ended			For the 6 months ended	
	March 31, <sup>(1)</sup>	June 30,	2014	2015	2014
<b>Adjusted Net Earnings</b>					
Net earnings (loss)	(163)	(20,583)	7,395	(20,746)	34,883
Add:					
Restructuring (recovery) costs, capital asset and timber write-downs	(122)	(12)	22,917	(134)	23,246
Other foreign exchange loss (gain)	5,413	(2,303)	(284)	3,110	(10)
Long term incentive compensation expense (recovery)	(1,709)	3,908	(427)	2,199	6,490
Other (income) expense	(133)	162	(117)	29	(173)
Beaver sawmill post-closure wind-down costs	341	11	-	352	-
Tacoma sawmill post-acquisition losses	1,008	7,651	-	8,659	-
Income tax effect of above adjustments	(142)	(3,505)	(8,418)	(3,647)	(9,098)
Recognition of previously unrecognized deferred tax assets	-	-	-	-	(19,253)
Adjusted net earnings (loss) <sup>(1)</sup>	4,493	(14,671)	21,066	(10,178)	36,085
Weighted average number of shares - basic and diluted ('000)	67,830	70,030	66,730	68,937	65,267
Adjusted net earnings (loss) per share <sup>(1)</sup>	0.07	(0.21)	0.32	(0.15)	0.55
<b>Adjusted EBITDA</b>					
Net earnings (loss)	(163)	(20,583)	7,395	(20,746)	34,883
Add:					
Depreciation of plant and equipment	16,515	18,130	13,978	34,645	26,309
Depletion and amortization of timber, roads and other	7,944	8,909	7,016	16,853	13,325
Restructuring (recovery) costs, capital asset and timber write-downs	(122)	(12)	22,917	(134)	23,246
Finance costs	3,074	4,088	2,537	7,162	4,300
Other foreign exchange loss (gain)	5,413	(2,303)	(284)	3,110	(10)
Income tax recovery	(383)	(7,199)	(5,717)	(7,582)	(21,914)
EBITDA	32,278	1,030	47,842	33,308	80,139
Add:					
Long term incentive compensation expense (recovery)	(1,709)	3,908	(427)	2,199	6,490
Other (income) expense	(133)	162	(117)	29	(173)
Beaver sawmill post-closure wind-down costs	340	10	-	350	-
Tacoma sawmill post-acquisition losses	981	7,604	-	8,585	-
Adjusted EBITDA	31,757	12,714	47,298	44,471	86,456
<b>Pre-tax return on total assets</b>					
Operating earnings (loss) before restructuring and capital asset write-downs	7,686	(25,847)	26,731	(18,161)	40,332
Total assets <sup>(2)</sup>	1,068,523	1,343,211	1,079,282	1,216,542	930,235
Pre-tax return on total assets <sup>(3)</sup>	2.9%	-7.7%	9.9%	-3.0%	8.7%
<b>Net debt to invested capital</b>					
Net debt					
Total debt	389,787	444,951	244,529	444,951	244,529
Cash and cash equivalents	(20,104)	(14,081)	(11,639)	(14,081)	(11,639)
Current bank indebtedness	-	-	4,400	-	4,400
Total net debt	369,683	430,870	237,290	430,870	237,290
Invested capital					
Net debt	369,683	430,870	237,290	430,870	237,290
Shareholders' equity	729,839	703,695	607,713	703,695	607,713
Total invested capital	1,099,522	1,134,565	845,003	1,134,565	845,003
Net debt to invested capital <sup>(4)</sup>	33.6%	38.0%	28.1%	38.0%	28.1%

Notes:

- (1) Q1'15 adjusted net earnings, adjusted net earnings per share and adjusted EBITDA have been revised for inclusion of Tacoma sawmill post-acquisition losses.
- (2) Total assets at period beginning for three month periods; average of opening and closing total assets for six month periods.
- (3) Annualized rate.
- (4) 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 six month period ended June 30, 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 (LOSS)**  
**For the three and six months ended June 30, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars except earnings per share)

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
<b>Sales</b>	\$ 429,683	\$ 390,219	\$ 845,129	\$ 685,059
<b>Costs and expenses:</b>				
Production	409,949	333,885	783,045	580,685
Selling and administration	12,155	9,036	24,069	17,918
Long term incentive compensation (recovery) expense	3,908	(427)	2,199	6,490
Export taxes	2,479	-	2,479	-
Depreciation of plant and equipment (note 9)	18,130	13,978	34,645	26,309
Depletion and amortization of timber, roads and other (note 9)	8,909	7,016	16,853	13,325
	455,530	363,488	863,290	644,727
<b>Operating earnings (loss) before restructuring costs</b>	(25,847)	26,731	(18,161)	40,332
Restructuring recovery (costs) (note 10)	12	(22,917)	134	(23,246)
<b>Operating earnings (loss)</b>	(25,835)	3,814	(18,027)	17,086
Finance costs (note 11)	(4,088)	(2,537)	(7,162)	(4,300)
Other foreign exchange gain (loss)	2,303	284	(3,110)	10
Other income (expense)	(162)	117	(29)	173
	(1,947)	(2,136)	(10,301)	(4,117)
<b>Earnings (loss) before income taxes</b>	(27,782)	1,678	(28,328)	12,969
Income tax expense (recovery)				
Current	308	542	472	936
Deferred	(7,507)	(6,259)	(8,054)	(22,850)
	(7,199)	(5,717)	(7,582)	(21,914)
<b>Net earnings (loss)</b>	\$ (20,583)	\$ 7,395	\$ (20,746)	\$ 34,883
<b>Net earnings (loss) per share, basic and diluted (note 12)</b>	\$ (0.29)	\$ 0.11	\$ (0.30)	\$ 0.53

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**For the three and six months ended June 30, 2015 and 2014 (unaudited)**

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
<b>Net earnings (loss)</b>	\$ (20,583)	\$ 7,395	\$ (20,746)	\$ 34,883
<b>Other comprehensive income (loss):</b>				
<b>Items that will not be recycled to Net earnings (loss):</b>				
Defined benefit plan actuarial gain (loss)	1,158	(168)	1,440	(309)
Income tax recovery	376	-	376	-
<b>Total items that will not be recycled to Net earnings (loss)</b>	1,534	(168)	1,816	(309)
<b>Items that are or may be recycled to Net earnings (loss):</b>				
Foreign currency translation differences – foreign operations	(7,184)	(8,662)	23,138	(3,421)
Loss in fair value of interest rate swaps (note 14)	(10)	(249)	(288)	(217)
<b>Total items that are or may be recycled to Net earnings (loss)</b>	(7,194)	(8,911)	22,850	(3,638)
<b>Total other comprehensive income (loss), net of tax</b>	(5,660)	(9,079)	24,666	(3,947)
<b>Total comprehensive income (loss)</b>	\$ (26,243)	\$ (1,684)	\$ 3,920	\$ 30,936

Subsequent event (note 15)

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the three and six months ended June 30, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars)

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
Net earnings (loss)	\$ (20,583)	\$ 7,395	\$ (20,746)	\$ 34,883
<b>Items not involving cash:</b>				
Depreciation of plant and equipment (note 9)	18,130	13,978	34,645	26,309
Depletion and amortization of timber, roads and other (note 9)	8,909	7,016	16,853	13,325
Income tax recovery	(7,199)	(5,717)	(7,582)	(21,914)
Finance costs (note 11)	4,088	2,537	7,162	4,300
Other assets	26	184	372	465
Reforestation liability	(1,931)	(885)	(692)	1,854
Provisions and other liabilities	2,951	829	(3,470)	(1,628)
Stock options (note 8)	99	-	99	-
Reversal of write-down of plant and equipment (note 10)	-	-	(1,195)	-
Write-down of plant and equipment (note 10)	-	20,468	-	20,468
Unrealized foreign exchange loss (gain)	(2,355)	56	(328)	(34)
Other	162	(117)	29	(163)
	<b>2,297</b>	<b>45,744</b>	<b>25,147</b>	<b>77,865</b>
<b>Cash generated from (used in) operating working capital:</b>				
Trade accounts receivable and other	6,170	(23,501)	(9,421)	(7,315)
Inventories	13,348	21,460	9,572	(2,797)
Prepayments	1,312	893	(2,848)	(3,477)
Trade accounts payable and provisions	(2,666)	(489)	(2,483)	(3,862)
Income taxes paid	(319)	(2,444)	(455)	(2,708)
	<b>20,142</b>	<b>41,663</b>	<b>19,512</b>	<b>57,706</b>
<b>Investing activities:</b>				
Additions to property, plant and equipment	(30,543)	(7,584)	(52,118)	(17,692)
Additions to logging roads	(7,765)	(7,180)	(12,903)	(11,603)
Additions to timber and other intangible assets	(297)	(1,167)	(1,137)	(1,966)
Proceeds on disposal of property, plant and equipment	587	1,734	3,790	2,087
Acquisitions (note 4)	(46,568)	(2,086)	(223,361)	(124,421)
Investments and other assets	74	13	180	(56)
	<b>(84,512)</b>	<b>(16,270)</b>	<b>(285,549)</b>	<b>(153,651)</b>
<b>Financing activities:</b>				
Issuance of capital stock, net of share issue expenses (notes 4 and 8)	-	-	63,196	-
Bank indebtedness	-	1,636	-	4,400
Interest payments	(3,679)	(1,955)	(6,630)	(3,264)
Financing transaction costs	(95)	73	(254)	(736)
Additions to long term debt (notes 4 and 7)	275,297	91,020	755,408	299,931
Repayments of long term debt (note 7)	(215,236)	(112,313)	(549,596)	(197,467)
	<b>56,287</b>	<b>(21,539)</b>	<b>262,124</b>	<b>102,864</b>
<b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b>	<b>2,060</b>	<b>(266)</b>	<b>128</b>	<b>3</b>
<b>Increase (decrease) in cash</b>	<b>(6,023)</b>	<b>3,588</b>	<b>(3,785)</b>	<b>6,922</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>20,104</b>	<b>8,051</b>	<b>17,866</b>	<b>4,717</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 14,081</b>	<b>\$ 11,639</b>	<b>\$ 14,081</b>	<b>\$ 11,639</b>

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**June 30, 2015 and December 31, 2014 (unaudited)**

(thousands of Canadian dollars)

	June 30, 2015	Dec. 31, 2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 14,081	\$ 17,866
Trade accounts receivable and other	110,188	80,283
Inventories (note 6)	189,865	148,668
Prepayments	20,513	12,175
	<b>334,647</b>	<b>258,992</b>
<b>Employee future benefits</b>	<b>3,564</b>	<b>2,520</b>
<b>Other investments and assets</b>	<b>2,439</b>	<b>2,972</b>
<b>Property, plant and equipment (notes 4 and 10)</b>	<b>750,829</b>	<b>541,378</b>
<b>Logging roads and bridges</b>	<b>23,412</b>	<b>22,244</b>
<b>Timber licences</b>	<b>77,608</b>	<b>79,024</b>
<b>Other intangible assets</b>	<b>24,448</b>	<b>24,397</b>
<b>Goodwill</b>	<b>146,322</b>	<b>136,996</b>
<b>Deferred income taxes</b>	<b>1,291</b>	<b>-</b>
	<b>\$ 1,364,560</b>	<b>\$ 1,068,523</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable and provisions	\$ 136,700	\$ 139,153
Reforestation liability	12,427	9,797
Income taxes payable	310	365
	<b>149,437</b>	<b>149,315</b>
<b>Reforestation liability</b>	<b>22,593</b>	<b>23,099</b>
<b>Long term debt (note 7)</b>	<b>444,951</b>	<b>220,419</b>
<b>Employee future benefits</b>	<b>7,366</b>	<b>7,361</b>
<b>Provisions and other liabilities</b>	<b>36,518</b>	<b>25,190</b>
<b>Deferred income taxes</b>	<b>-</b>	<b>6,659</b>
<b>Equity:</b>		
Share capital (note 8)	553,559	490,363
Contributed surplus	7,575	7,476
Translation reserve	44,088	20,950
Hedge reserve	(155)	133
Retained earnings	98,628	117,558
	<b>703,695</b>	<b>636,480</b>
	<b>\$ 1,364,560</b>	<b>\$ 1,068,523</b>

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

*"Lawrence Sauder"*

L. Sauder  
Director

*"Douglas W.G. Whitehead"*

D.W.G. Whitehead  
Director



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the six months ended June 30, 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>	-	-	-	-	(20,746)	(20,746)
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	23,138	-	-	23,138
Defined benefit plan actuarial gain, net of tax	-	-	-	-	1,816	1,816
Loss in fair value of interest rate swaps (note 14)	-	-	-	(288)	-	(288)
<b>Contributions:</b>						
Share issuance, net of share issue expenses (notes 4 and 8(a))	63,196	-	-	-	-	63,196
Stock options (note 8(b))	-	99	-	-	-	99
<b>Balance at June 30, 2015</b>	\$ 553,559	\$ 7,575	\$ 44,088	\$ (155)	\$ 98,628	\$ 703,695
<b>Balance at December 31, 2013</b>	\$ 428,723	\$ 7,476	\$ 561	\$ 167	\$ 78,210	\$ 515,137
<b>Net earnings:</b>	-	-	-	-	34,883	34,883
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	(3,421)	-	-	(3,421)
Defined benefit plan actuarial loss	-	-	-	-	(309)	(309)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(217)	-	(217)
<b>Contributions:</b>						
Shares issued in business combination (notes 4 and 8(a))	61,640	-	-	-	-	61,640
<b>Balance at June 30, 2014</b>	\$ 490,363	\$ 7,476	\$ (2,860)	\$ (50)	\$ 112,784	\$ 607,713

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 and six months ended June 30, 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 and six months ended June 30, 2015 and 2014, comprise the accounts of Interfor Corporation 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 July 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 effective January 1, 2015 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 June 30, 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.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements. On April 28, 2015, the International Accounting Standards Board voted to publish an Exposure Draft proposing a one-year deferral of the effective date of this standard to January 1, 2018, with earlier adoption still permitted. The Company has not yet completed an assessment of the impact, if any, of this standard on its financial statements.

### 4. Acquisitions:

On March 1, 2015, Interfor concluded the acquisition of sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington from Simpson Lumber Company, LLC ("the Simpson Acquisition"), pursuant to an Asset Purchase Agreement ("APA") for total consideration of US\$146,088,000 (\$182,654,000).

Consideration per the APA included a series of future payments tied to the financial performance of the Tacoma sawmill. The contingent future payments are calculated and payable over 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.

## INTERFOR CORPORATION

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three and six months ended June 30, 2015 and 2014 (unaudited)

### 4. Acquisitions (continued):

The minimum total contingent future payments as outlined in (a) and (b) combined are 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 June 30, 2015, this provision was revalued at the quarter-end exchange rate to \$11,805,000. On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington (see note 15).

On June 19, 2015, Interfor concluded the acquisition of sawmill operations in Monticello, Arkansas from The Price Companies, Inc. ("the Monticello Acquisition"), for total consideration of US\$35,706,000 (\$43,797,000).

These acquisitions have been accounted for as a business combination and the estimated value of the consideration transferred is allocated on a preliminary basis as follows:

	Simpson Acquisition	Monticello Acquisition	Total
Net assets acquired:			
Current assets	\$ 57,661	\$ 2,898	\$ 60,559
Property, plant and equipment	129,227	40,946	170,173
	186,888	43,844	230,732
Current liabilities assumed:	(4,234)	(47)	(4,281)
	\$ 182,654	\$ 43,797	\$ 226,451
Cash consideration funded by:			
Revolving Term Loan	\$ 107,625	\$ 43,773	\$ 151,398
Current liabilities for settlement of working capital	-	24	24
Contingent future payments	11,833	-	11,833
Common share issuance	63,196	-	63,196
	\$ 182,654	\$ 43,797	\$ 226,451

The Company incurred acquisition related costs of approximately \$578,000 and \$1,945,000 for the second quarter and first six months, 2015, which are included in Selling and administration in the Company's Consolidated Statements of Earnings.

On March 14, 2014, a wholly-owned subsidiary of Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A., pursuant to a Share Purchase Agreement for total consideration of \$188,545,000 which resulted in the recognition of \$107,419,000 in goodwill.

In 2013, the Company acquired the Thomaston sawmill operations from Keadle Lumber Enterprises, Inc. Upon acquisition, 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.

### 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:

	June 30, 2015	Dec. 31, 2014
Logs	\$ 83,734	\$ 71,841
Lumber	87,259	66,798
Other	18,872	10,029
	\$ 189,865	\$ 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 June 30, 2015 was \$13,930,000 (December 31, 2014 - \$9,774,000).

**INTERFOR CORPORATION**

Notes to Unaudited Condensed Consolidated Interim Financial Statements  
(Tabular amounts expressed in thousands except number of shares and per share amounts)  
Three and six months ended June 30, 2015 and 2014 (unaudited)

**7. Cash and borrowings:**

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
<b>June 30, 2015</b>					
Available line of credit	\$ 65,000	\$ 200,000	\$ 249,480	\$ 62,370	\$576,850
Drawings	1,972	162,162	249,480	31,337	444,951
Outstanding letters of credit included in line utilization	9,038	-	-	2,083	11,121
Unused portion of line	\$ 53,990	\$ 37,838	\$ -	\$ 28,950	\$ 120,778
<b>December 31, 2014</b>					
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

**(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 June 30, 2015, the Operating Line was drawn by \$11,010,000 (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 certain 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 June 30, 2015, the Revolving Term Line was drawn by US\$130,000,000 (December 31, 2014 - US\$90,000,000) revalued at the quarter-end exchange rate to \$162,162,000 (December 31, 2014 - \$104,409,000), leaving \$37,838,000 (December 31, 2014 - \$145,591,000) of the line unused.

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 \$12,892,000 for the first six months, 2015 (first six months, 2014 - \$3,724,000 gain) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income. For the second quarter, 2015, a foreign exchange gain of \$694,000 (Quarter 2, 2014 - \$6,952,000 gain) was recognized 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 June 30, 2015 (December 31, 2014 - US\$100,000,000) and revalued at the quarter-end exchange rate to \$249,480,000 (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 \$5,440,000 (first six months, 2014 - \$200,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the first six months, 2015. For the second quarter, 2015, an unrealized foreign exchange gain of \$4,180,000 (Quarter 2, 2014 - \$1,885,000 gain) was recognized in Other comprehensive income.

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

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**7. Cash and borrowings (continued):****(d) U.S. Operating Line:**

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. The U.S. Operating Line is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. 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 June 30, 2015, the U.S. Operating Line was drawn by US\$26,792,000, including outstanding letters of credit, revalued at the quarter-end exchange rate to \$33,420,000 (December 31, 2014 – US\$1,020,000 revalued at the year-end exchange rate to \$1,183,000), with cumulative foreign exchange losses of \$453,000 (first six months, 2014 - \$115,000 loss) recognized in Foreign currency translation differences in Other comprehensive income for the first six months, 2015. For the second quarter, 2015, a cumulative foreign exchange gain of \$22,000 (Quarter 2, 2014 - \$233,000) was recognized in Other comprehensive income.

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

Twelve months ending	
June 30, 2016	\$ -
June 30, 2017	195,471
June 30, 2018	-
June 30, 2019	-
June 30, 2020	-
Thereafter	249,480
	<b>\$ 444,951</b>

**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, June 30, 2015	70,030,455	\$ 553,559

**(a) Share transactions:**

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 (see note 4).

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.

On May 6, 2014, the Company eliminated its Class B Common shares, known as Multiple Voting Shares, and designated its Class A Subordinate Voting Shares as Common Shares.

**(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 six months, 2015, the Company granted 73,048 options, of which 69,534 remained outstanding at June 30, 2015 (December 31, 2014 – no options outstanding). No options were issued in the second quarter, 2015 (Quarter 2, 2014 – nil). The Company recognized an expense of \$99,000 for the first six months, 2015 (first six months, 2014 - \$nil) and \$66,000 for the second quarter, 2015 (Quarter 2, 2014 - \$nil) in Net earnings.

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

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

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
Production	\$ 24,998	\$ 19,749	\$ 47,726	\$ 38,024
Selling and administration	2,041	1,245	3,772	1,610
	<b>\$ 27,039</b>	<b>\$ 20,994</b>	<b>\$ 51,498</b>	<b>\$ 39,634</b>

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**10. Restructuring (recovery) costs:**

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
Reversal of write-down of plant and equipment	\$ -	\$ -	\$ (1,195)	\$ -
Write-down of plant and equipment	-	20,468	-	20,468
Severance	24	776	886	1,105
Onerous contract	(36)	-	175	-
Other	-	1,673	-	1,673
	\$ (12)	\$ 22,917	\$ (134)	\$ 23,246

In 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 \$886,000 for the first six months, 2015 (first six months, 2014 - \$536,000), and \$24,000 for the second quarter, 2015 (Quarter 2, 2014 - \$207,000). The Company also increased its provision for an onerous contract related to the Beaver-Forks operations by \$175,000 in the first six months, 2015 and reduced it by \$36,000 in the second quarter, 2015.

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

**11. Finance costs:**

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
Interest on borrowings	\$ 3,777	\$ 2,178	\$ 6,516	\$ 3,629
Interest (income) expense on defined benefit obligations	4	(16)	3	(34)
Accretion expense	94	169	217	339
Amortization of deferred finance costs	213	206	426	366
	\$ 4,088	\$ 2,537	\$ 7,162	\$ 4,300

**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 June 30, 2015			3 Months June 30, 2014		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at April 1		70,030			66,730	
Basic and diluted earnings (loss) per share	\$ (20,583)	70,030	\$ (0.29)	\$ 7,395	66,730	\$ 0.11

	6 Months June 30, 2015			6 Months June 30, 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		-			2,217	
Effect of shares issued on March 2, 2015		2,207			-	
Basic and diluted earnings (loss) per share	\$ (20,746)	68,937*	\$ (0.30)	\$ 34,883	65,267	\$ 0.53

\*As 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.

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### 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 June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
United States	\$ 291,621	\$ 220,835	\$ 566,289	\$ 388,412
Canada	55,272	57,452	119,623	110,966
China/Taiwan	30,790	50,104	54,928	83,585
Japan	37,053	39,147	71,700	68,358
Other export	14,947	22,681	32,589	33,738
	\$ 429,683	\$ 390,219	\$ 845,129	\$ 685,059

Sales by product line are as follows:

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
Lumber	\$ 352,139	\$ 325,152	\$ 692,867	\$ 555,616
Logs	39,820	35,407	76,040	72,995
Wood chips and other by-products	36,034	25,779	70,905	48,179
Ocean freight and other	1,690	3,881	5,317	8,269
	\$ 429,683	\$ 390,219	\$ 845,129	\$ 685,059

### 14. Financial instruments:

At June 30, 2015, the fair value of the Company's long term debt approximated its carrying value of \$444,951,000 (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.

As at June 30, 2015, the Company has outstanding obligations to sell US\$4,000,000 at an average rate of CAD\$1.2487 to US\$1.00 during 2015.

The Company also has four interest rate swaps outstanding, each with a notional value of US\$25,000,000. Under two of the interest rate swaps, maturing February 17, 2017, 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. Under the other two interest rate swaps, maturing April 14, 2016, the Company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates. The intent of the interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense.

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.

	June 30, 2015	Dec. 31, 2014
Foreign exchange forward contracts	\$ (1)	\$ (177)
Interest rate swaps, designated as cash flow hedges	(156)	132
Total liability, net	\$ (157)	\$ (45)

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:

	3 Months June 30, 2015	3 Months June 30, 2014	6 Months June 30, 2015	6 Months June 30, 2014
Foreign exchange forward contracts <sup>1</sup>	\$ 116	\$ 353	\$ (1,721)	\$ 37
Interest rate swaps <sup>2</sup>	(10)	(249)	(288)	(217)
Total gain (loss), net	\$ 106	\$ 104	\$ (2,009)	\$ (180)

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

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

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**15. Subsequent event:**

On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington. The Tacoma sawmill was acquired on March 1, 2015, as part of the Simpson Acquisition and its operations were curtailed on May 22, 2015.

As at June 30, 2015, the Tacoma sawmill comprised the following assets and liabilities:

	June 30, 2015
Current assets	\$ 22,489
Property, plant and equipment	28,655
Deferred tax asset	36
	51,180
Current liabilities	1,114
Provisions and other liabilities (note 4)	11,805
	12,919
Net assets	\$ 38,261

There are cumulative expenses of \$56,000 included in Other comprehensive income relating to the Tacoma sawmill.

The Company does not expect to recognize any impairment losses on the remeasurement of the Tacoma sawmill net assets to the lower of their carrying amount and the fair value less costs to sell. A sale of substantially all assets of the Tacoma sawmill could accelerate the payment due date of the contingent liability described in note 4 to within 45 days of disposal, with the payout expected to equal the US\$10,000,000 minimum. The plan to exit did not result in adjustment to the contingent liability recorded as of June 30, 2015.

Monetization of the Tacoma sawmill assets is expected by June 30, 2016.



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

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

Web Site: [www.interfor.com](http://www.interfor.com)