



## *Positioned for Success*

Scotia Capital  
Canadian Housing Conference 2010  
Toronto, Ontario

Duncan Davies,  
President and CEO

May 13, 2010

# ***Forward-Looking Statements***

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Information contained herein constitutes forward-looking statements. Forward-looking statements, which include all statements that are not historical facts, are subject to certain risks and uncertainties that could cause actual results to differ materially from those anticipated in or suggested by the forward-looking statements. See additional risks described in the Company's MD&A under "Risks and Uncertainties" in the Company's 2008 Annual Report, which is incorporated by reference. All forward-looking statements made are qualified by these cautionary statements.

Participants should not place undue reliance on the forward-looking statements, which reflect Management's plans, estimates, projections and views only as of the date hereof. The Company undertakes no obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances.

# Section 1

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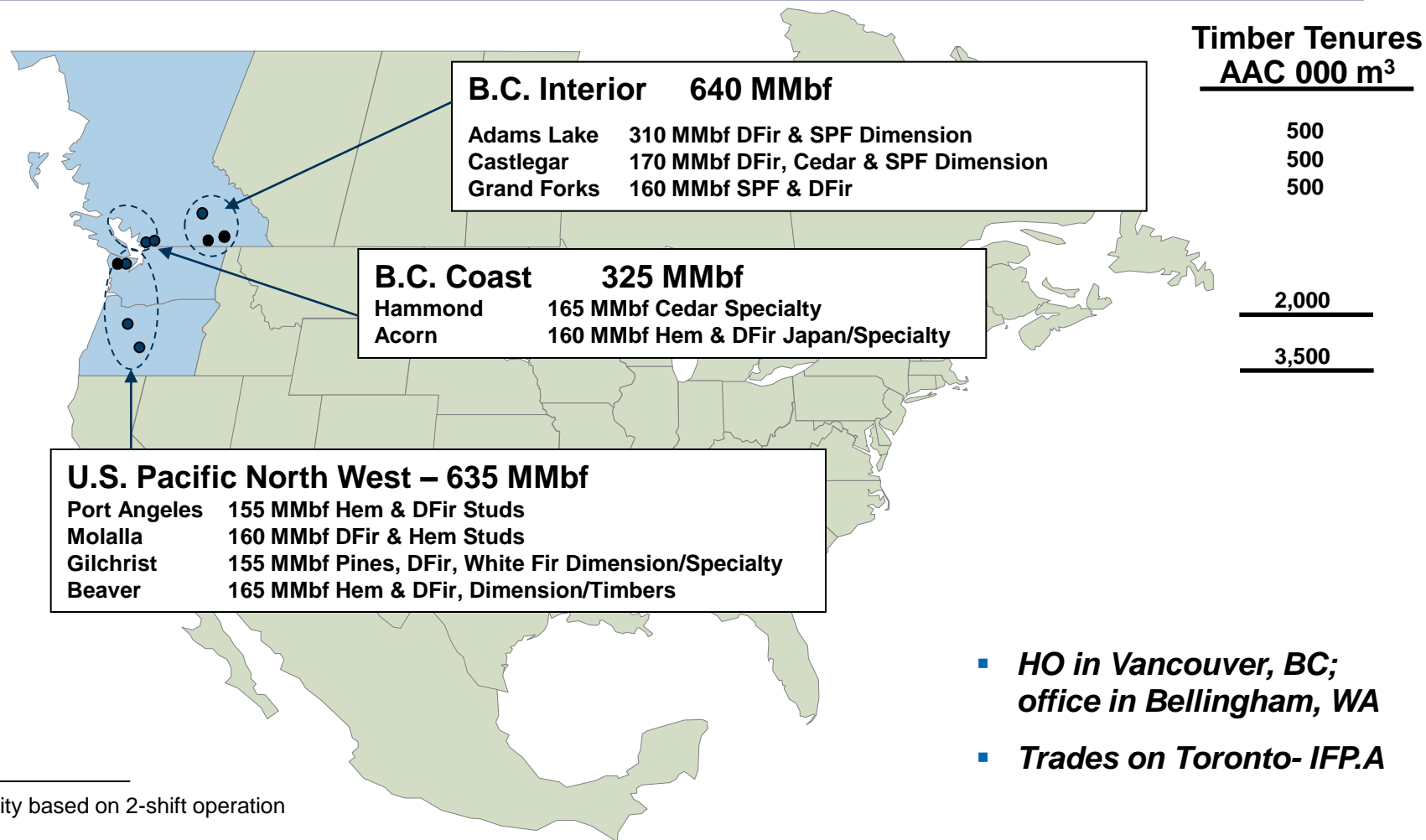
## *Introduction*

# ***Why Interfor?***

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- ***Clear vision and strategy***
- ***Strong record of lumber EBITDA margins relative to peers***
- ***Proven track record of acquiring and turning around businesses***
- ***Strong balance sheet and liquidity***
- ***Significantly undervalued***
- ***Well-positioned to capitalize on market recovery***

# Positioned for Success



<sup>1</sup> Capacity based on 2-shift operation

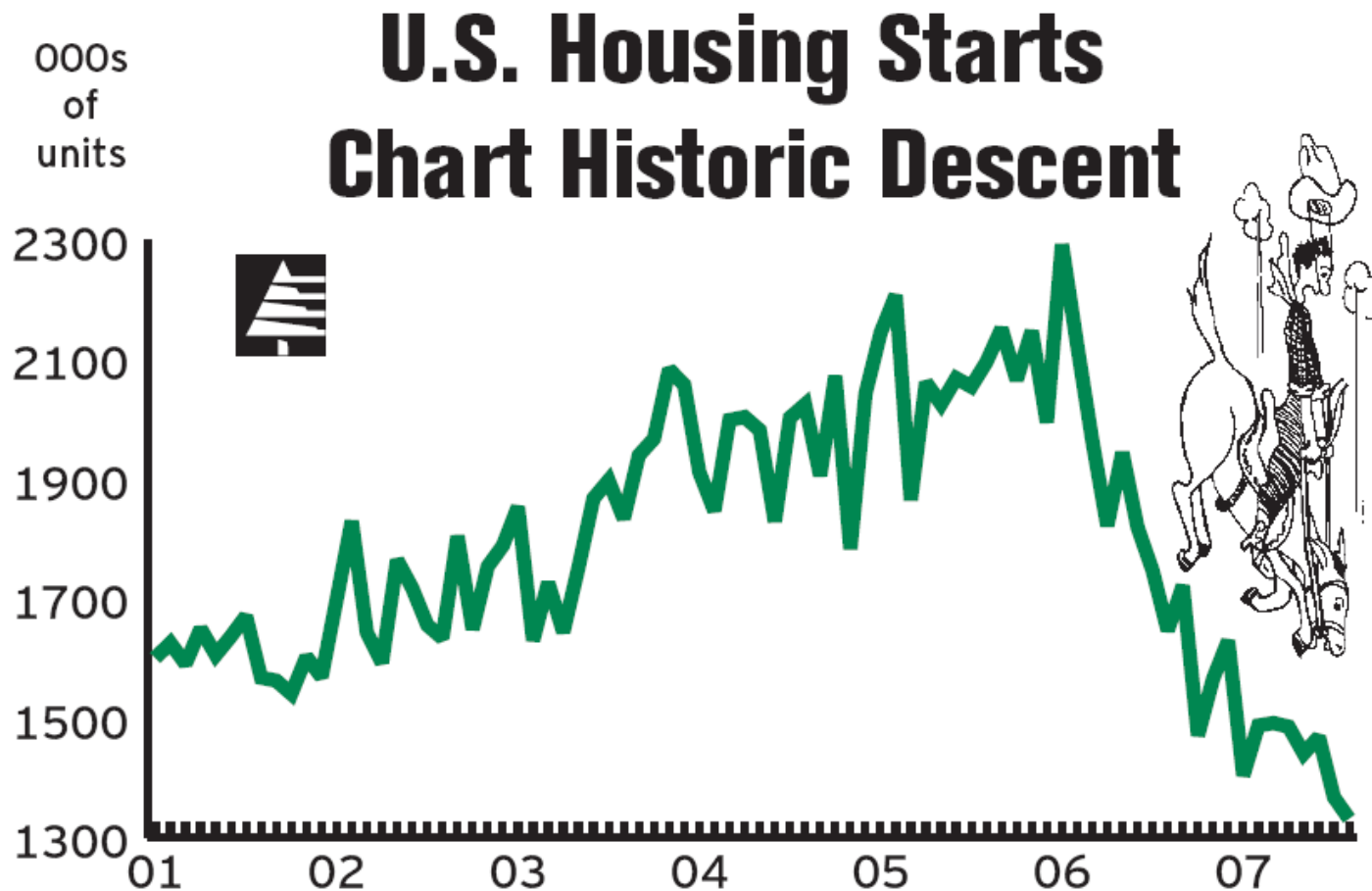
**Interfor has a diversified base of operations with lumber capacity of 1,600 MMbf <sup>1</sup>.**

## Section 2

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# *Housing Market and Financial Update*

# The U.S. Housing Start Bust

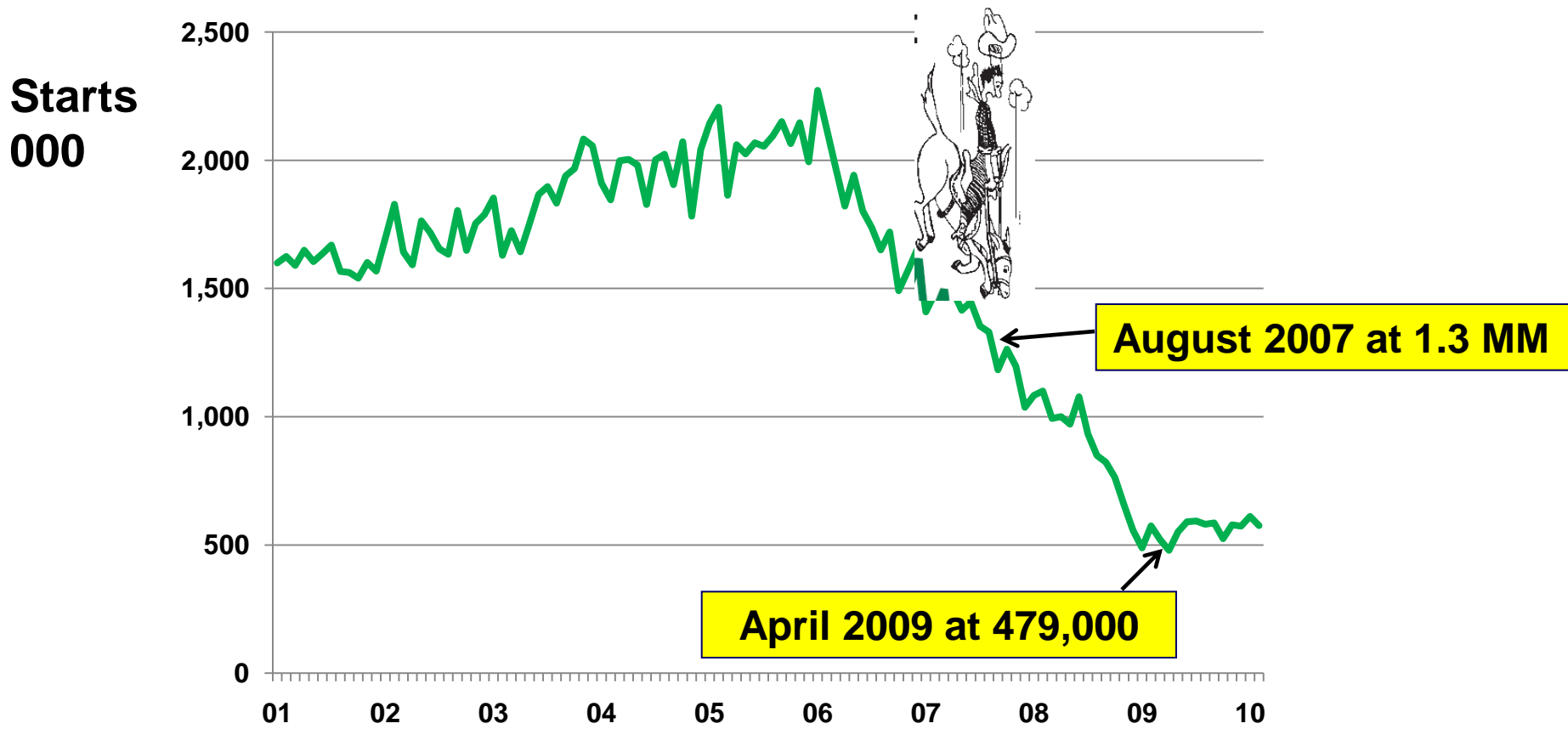


Source: U.S. Census Bureau

Random Lengths: November 2, 2007; Starts to August, 2007

# Little Did We Know....

## U.S. Housing Starts Jan'01– March'10

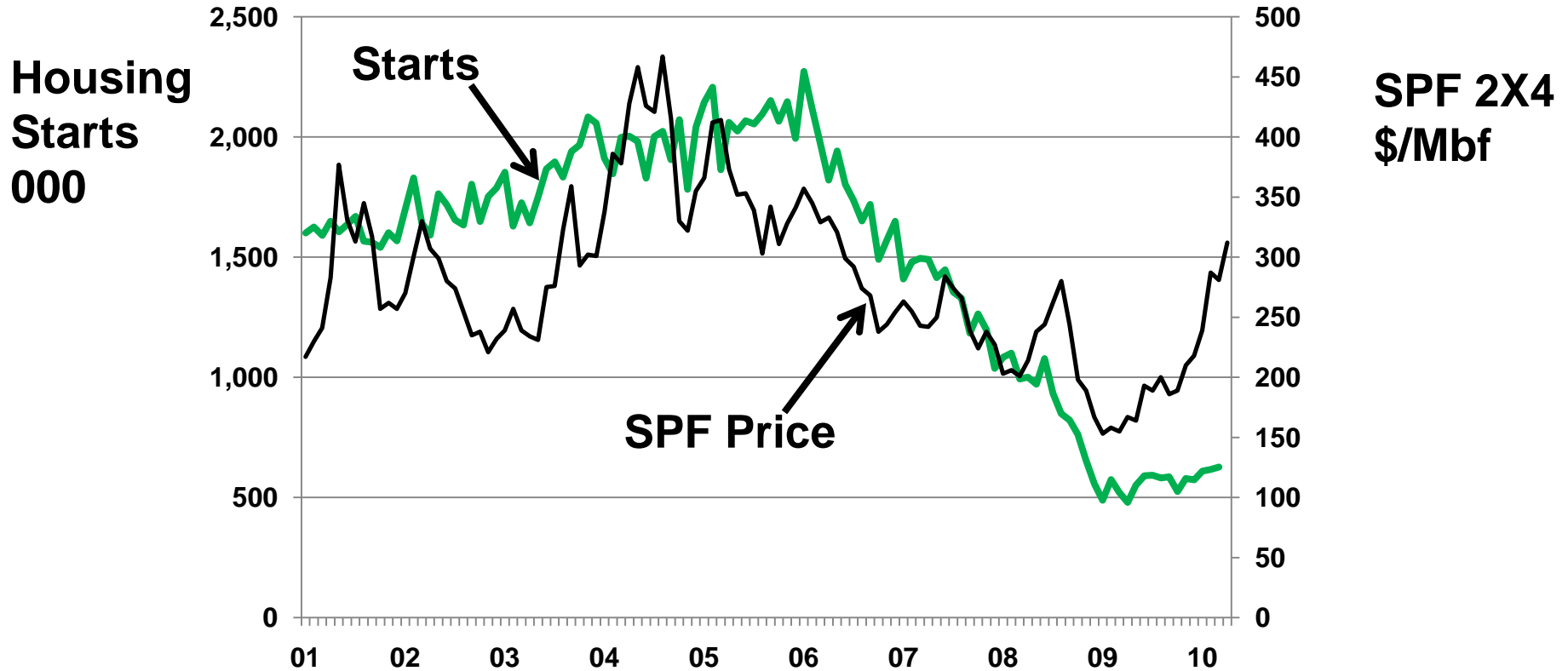


Source: U.S. Census



# And Prices Followed....

## U.S. Housing Starts vs SPF 2X4 Prices Jan'01– Apr'10



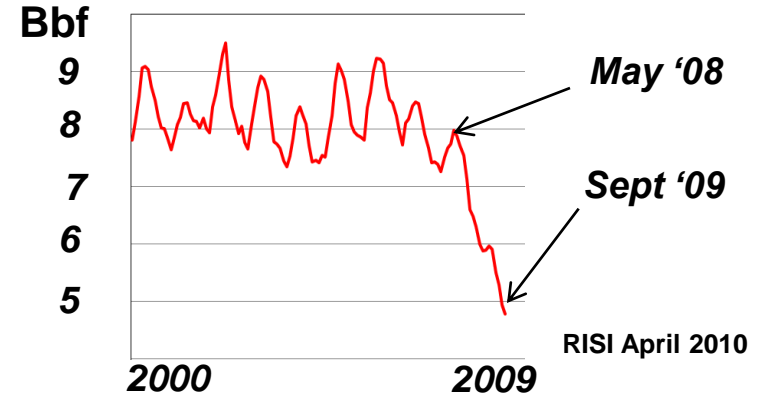
Source: U.S. Census; Random Lengths

# What Happened?

## 2007- 2009

- Producers initially were slow to adjust to declining demand. SPF prices bottomed at \$155/Mbf in Q1 '09 (peak \$437 in Q2'04)
- Inventories were drawn down throughout 2009 as production dropped below production (chart)
- Shipments to China more than doubled in 2009

## Lumber Supply Chain Inventory



## Exports to China <sup>2</sup> Billion Board Feet

	'08	'09
Canada	0.5	1.1

1. Reroofing project in Shijiazhuang, a city of 8.7 million people, 270 kms southwest of Beijing; see Appendix

2. Random Lengths Feb, '10

# ***What Happened?***

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## ***Q1, 2010***

- ***Prices in the NA cash market increased rapidly on modest increases in demand***
  - ***Price recovery is “supply driven”***
  - ***Poor weather and low log inventories added to supply constraints***
  - ***Inventory re-stocking added to demand***
- ***SPF prices averaged \$269 in Q1'10, rising 31% Q/Q; H-F prices were up 22% Q/Q***
- ***Offshore prices increased, but lagged the increase in NA***
- ***Cedar prices remained weak; Japan squares were flat***

# Interfor's Q1, 2010 Results

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## Operating / Financial Activities

- **Production was up 5% to 258 million bf (65% of rated capacity); sales were up 13% to 264 million bf (including wholesale volumes)**
- **Higher log costs, weak cedar market and rising C\$ partially offset NA price gains**
- **EBITDA increased 70% Q/Q to \$9.7 million**
- **Net loss dropped to \$3.4 million or \$0.07 per share (\$2.2 million or \$0.05 per share before accounting for tax valuation allowance)**
- **Net debt increased to \$152 million; Net Debt / Invested Capital at 30%**

## Strategic Activities

- **Acquired AAC from Weyerhaeuser to support Adams Lake**
- **Good progress at Castlegar; mill is scheduled to start-up in July**

# What's Next - Short Term?

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## **Housing**

- *Affordability remains at high levels*
- *The pace of housing sales has improved 11% since early '09*
- *The inventory of unsold homes has dropped 25% since mid 2008*
- *A significant “shadow supply” of housing inventory remains*
- *Housing starts are at 625,000 units (up 28% from early 2009)*

## **The Industry**

- *Production will increase due to higher prices and lower duty rates*
- *Prices will moderate in the 2nd half, but will remain well above '09 levels*
- *The best producers will generate “decent” EBITDA margins in 2010*

***In the face of near-term uncertainty, Interfor will manage for cash and focus on realizing the benefits of recent activities / investments***

# ***What's Next - Mid to Long Term?***

***Fundamental changes in supply / demand will materially improve the industry's prospects:***

- ***Strong demographic fundamentals in the U.S. will drive housing starts to 1.5 - 1.7 million units per year***
- ***Production capacity is down 12-13 Bbf or 15-16% from 82 Bbf in 2005 to 69 Bbf in 2009***
- ***Supply constraints in B.C. and eastern Canada will tighten the supply / demand balance***
- ***Growth in offshore markets (China) will take incremental supply out of NA***
- ***The demand / supply balance will drive significantly higher prices***

***Producers who are well-positioned with timber supply and quality assets should do well***

## Section 3

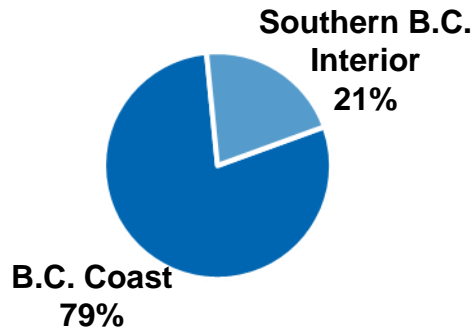
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***Positioned for Success***

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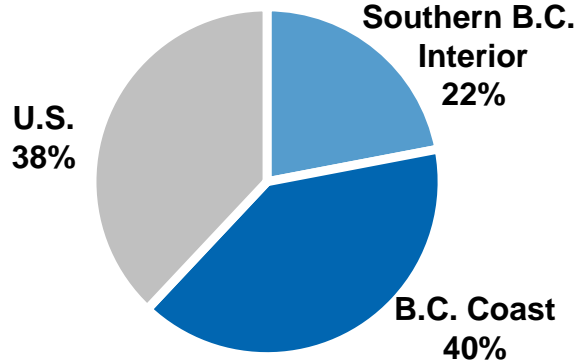
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2002



Production Capacity  
772 MMbf

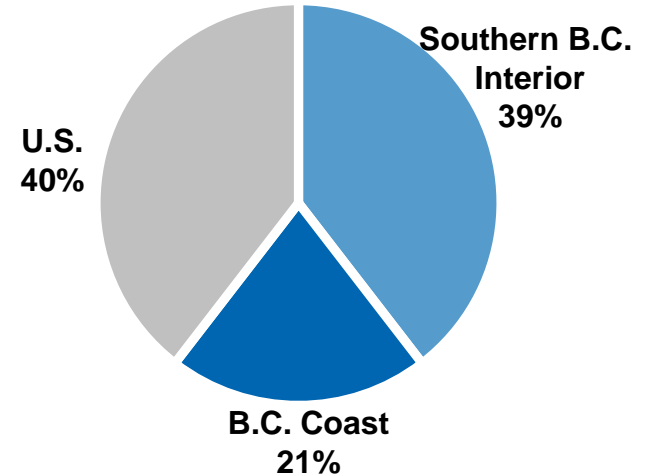
2007



Production Capacity  
1,345 MMbf

*Including Crown Pacific and  
Floragon sawmills*

2009



Production Capacity  
1,600 MMbf

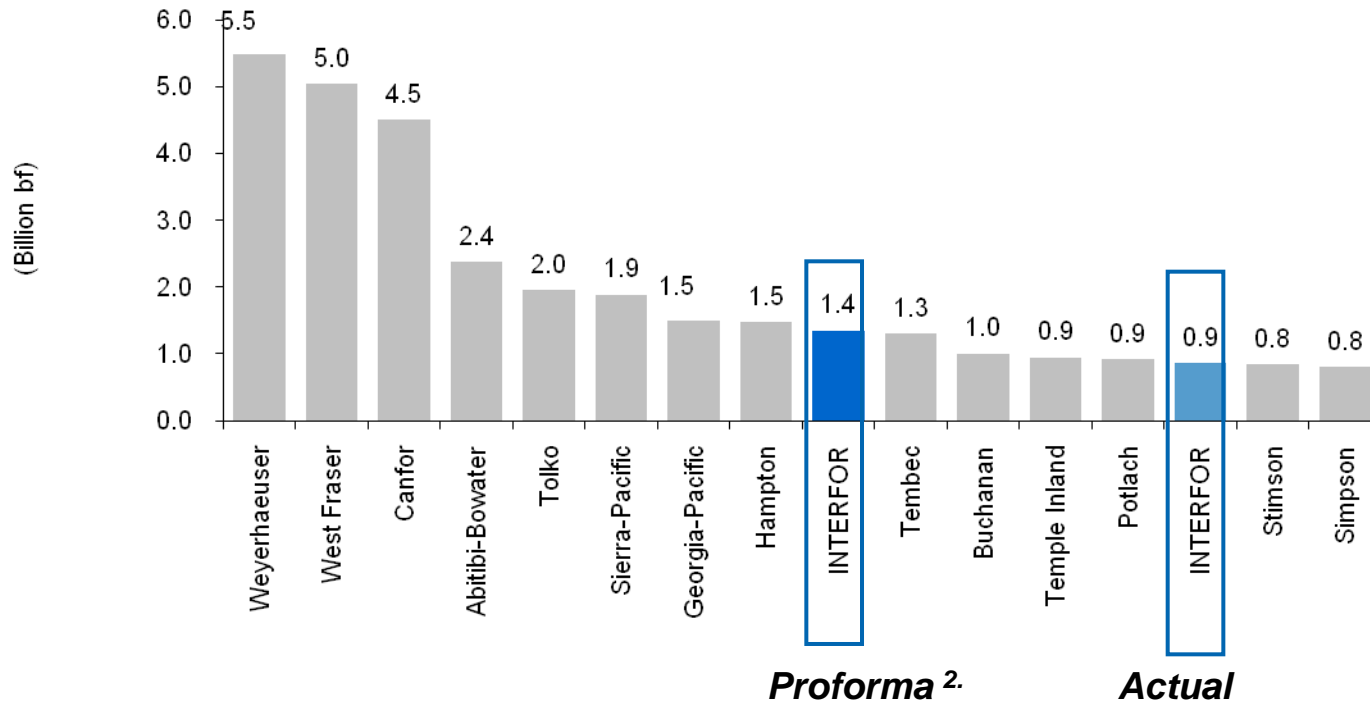
*Including Pope & Talbot and  
Portac sawmills and Adams Lake*

**Over the last 7 years, Interfor has doubled its capacity,  
rationalized its operations and diversified its revenue base**



# Positioned for Success

## North America's Largest Lumber Producers in 2007<sup>1</sup>. (Billion bf)



Source: Wood Markets monthly – March 2008

<sup>1</sup> 2007 was used since the 2008 NA industry production was impacted by the severe economic downturn

<sup>2</sup> Pro forma excludes Interfor's Queensboro production and includes the Pope & Talbot and Portac acquisitions

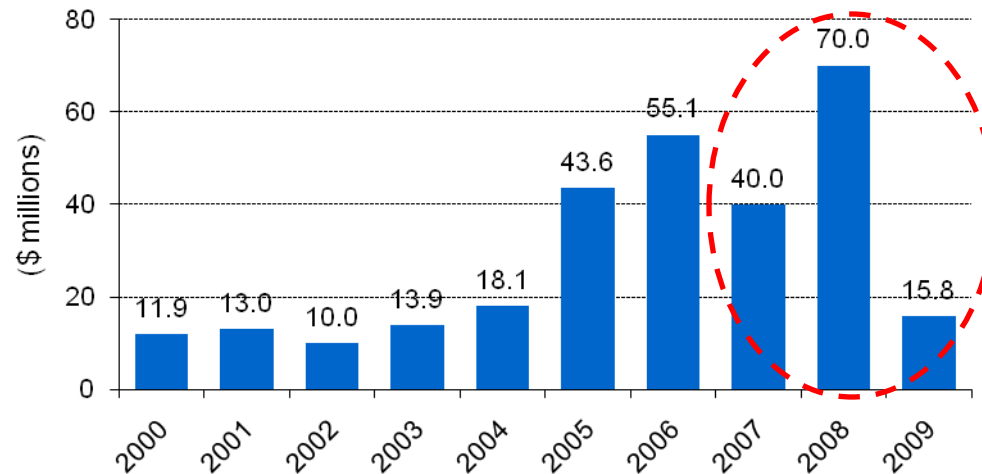
**Interfor is now the 9th largest lumber producer in North America (proforma)**



# Positioned for Success

- Interfor has spent \$250+ million over the last seven years to upgrade its assets. Major projects have been completed at Adams Lake, Molalla and Port Angeles

**Discretionary Capex (excluding acquisitions)**



\$100 million investment in a new sawmill at Adams Lake, completed April '09

In addition, Interfor spends \$20 - \$30 million per year to maintain the efficiency of operations and on logging roads

**Interfor is positioning its mills to achieve top quartile (decile) performance**

# *Positioned for Success*

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*Adams Lake began full startup in April, 2009*

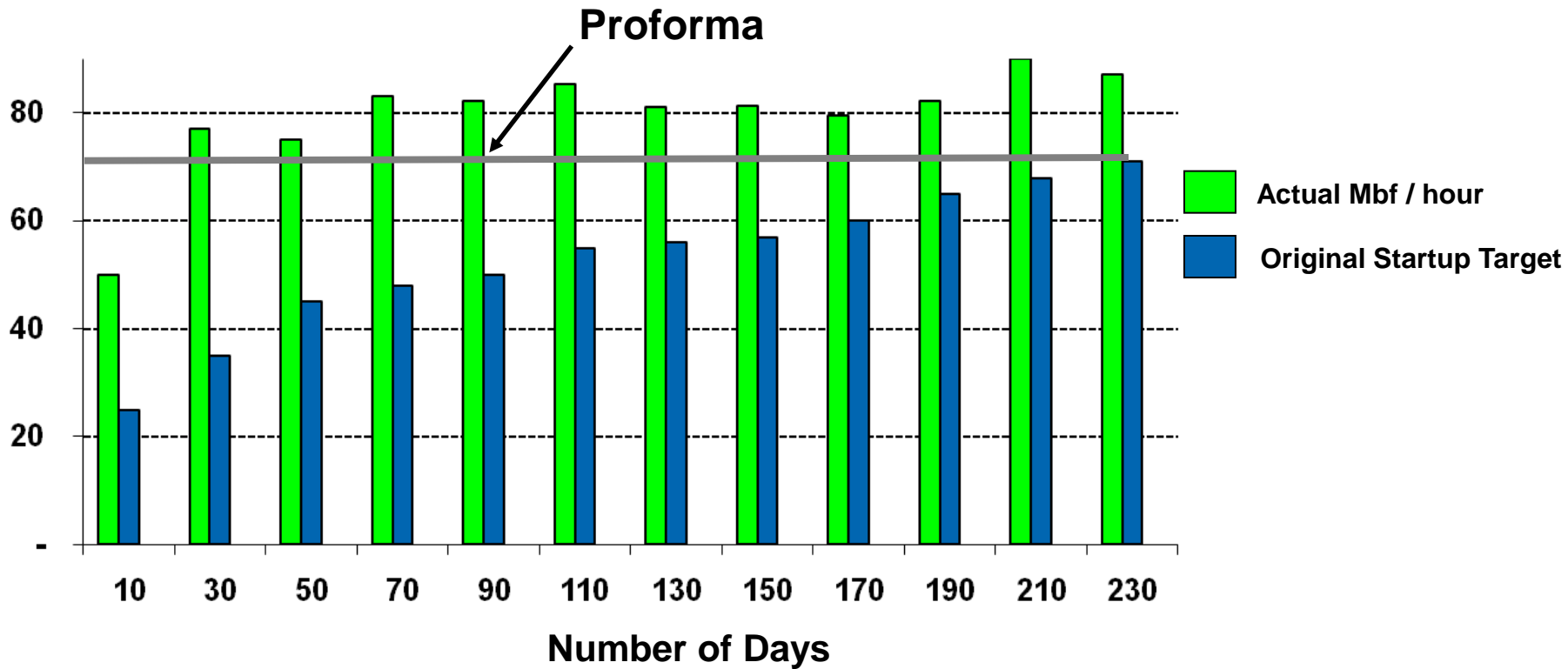
# ***Positioned for Success***

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- ***The new sawmill at Adams Lake is the final stage of the Master Plan which began in 2003***
- ***Capital budget: \$100 million***
- ***Ground broken: August 2007***
- ***Completed: April 2009 on-time and on-budget***
- ***Record start-up (next slide)***
- ***Next task: 400 million bf***

# Positioned for Success

## Adams Lake Sawmill Startup (Mbf / hour)



*Adams Lake exceeded proforma on its 17th shift; the mill is running at 10-15% above proforma*

# Positioned for Success

**Beaver**

## **Portac (Olympic Peninsula, WA)**

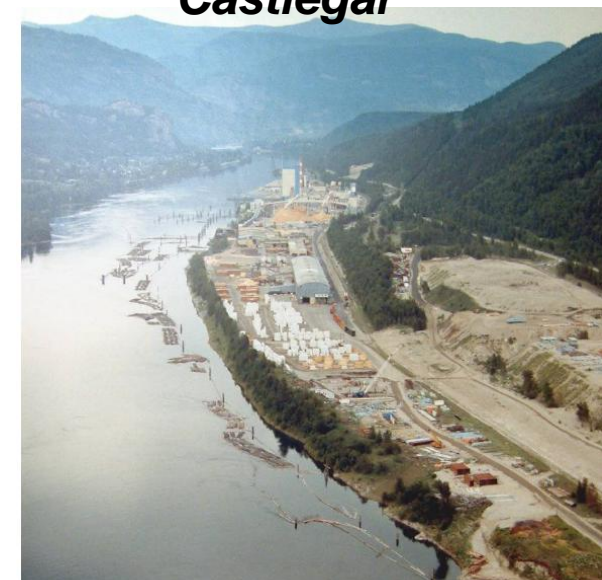
- **Beaver: acquired from Mitsui in September '08; rated capacity 165 MMbf**
- **Purchase price of US\$29 million (plus inventories) equal to 1.7X peak EBITDA (2004/5), \$175 per Mbf**
- **Significant synergies realized with Interfor's Port Angeles mill**



## **Kootenays**

- **Castlegar and Grand Forks acquired from Pope & Talbot in April 2008; rated capacity 330 MMbf; AAC of 1 million m<sup>3</sup>**
- **Purchase price of C\$62 million (plus inventories) equal to 1.9 X peak EBITDA (2004), \$188 per Mbf or \$62 per m<sup>3</sup> AAC**
- **Mills were 3<sup>rd</sup> / 4<sup>th</sup> quartile at time of purchase**
- **Interfor strategy: establish constructive working environment**

**Castlegar**



# Positioned for Success

## Kootenays (con't)

- **Grand Forks resumed operations in October '09 (labour productivity up 75%; conversion costs down 33%)**
- **Castlegar scheduled to restart in July (similar gains expected)**
- **Attractive investment opportunity at Grand Forks; too early to tell at Castlegar**
- **Positioning the Kootenays for success is a priority**

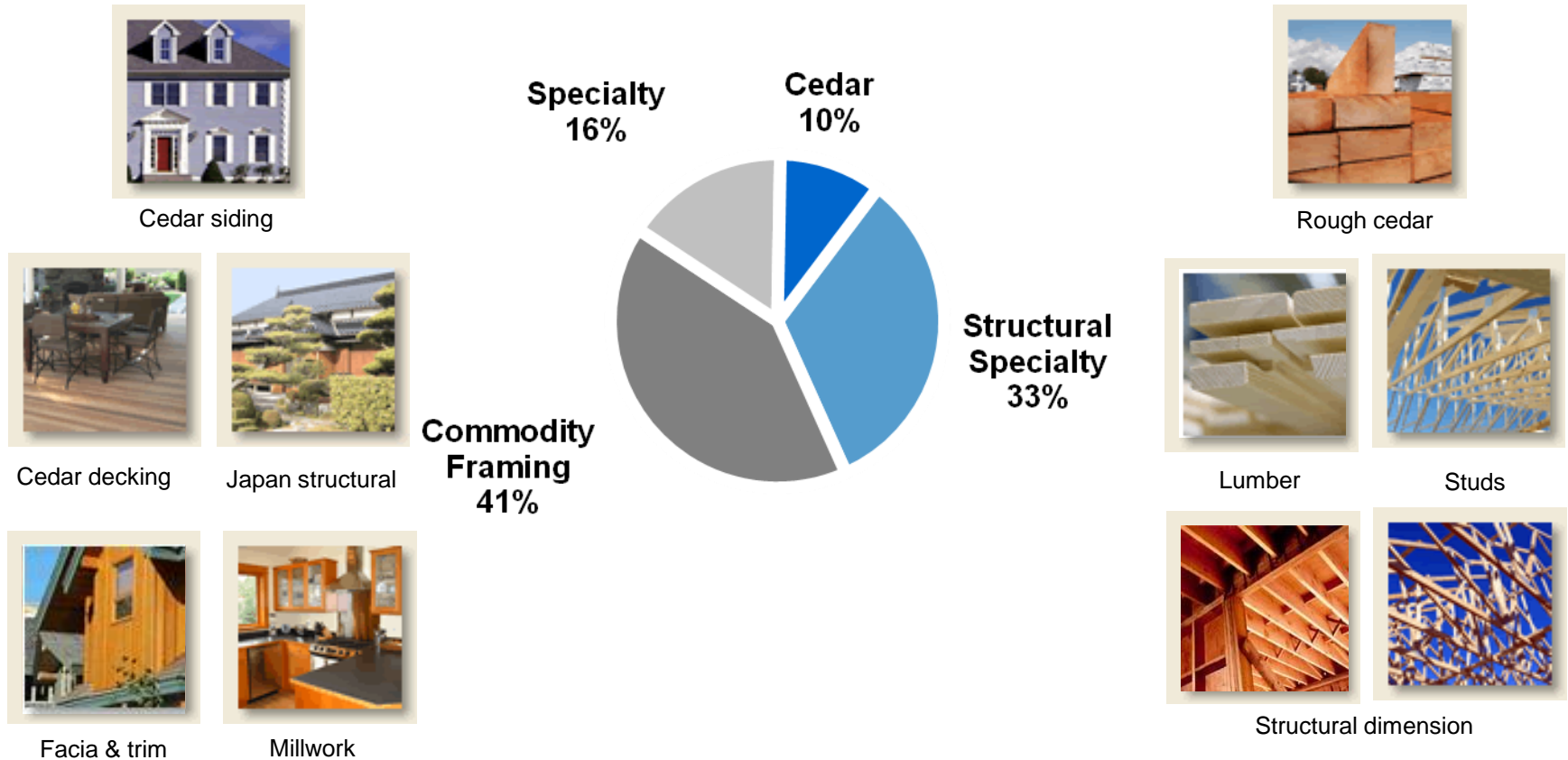
**Grand Forks**



**Interfor took advantage of the downturn to acquire assets at attractive prices. Portac has been a great fit; good progress has been made restructuring the Kootenay operations**

# Positioned for Success

- Interfor's strengths' include a diversified product mix of both commodity and specialty products

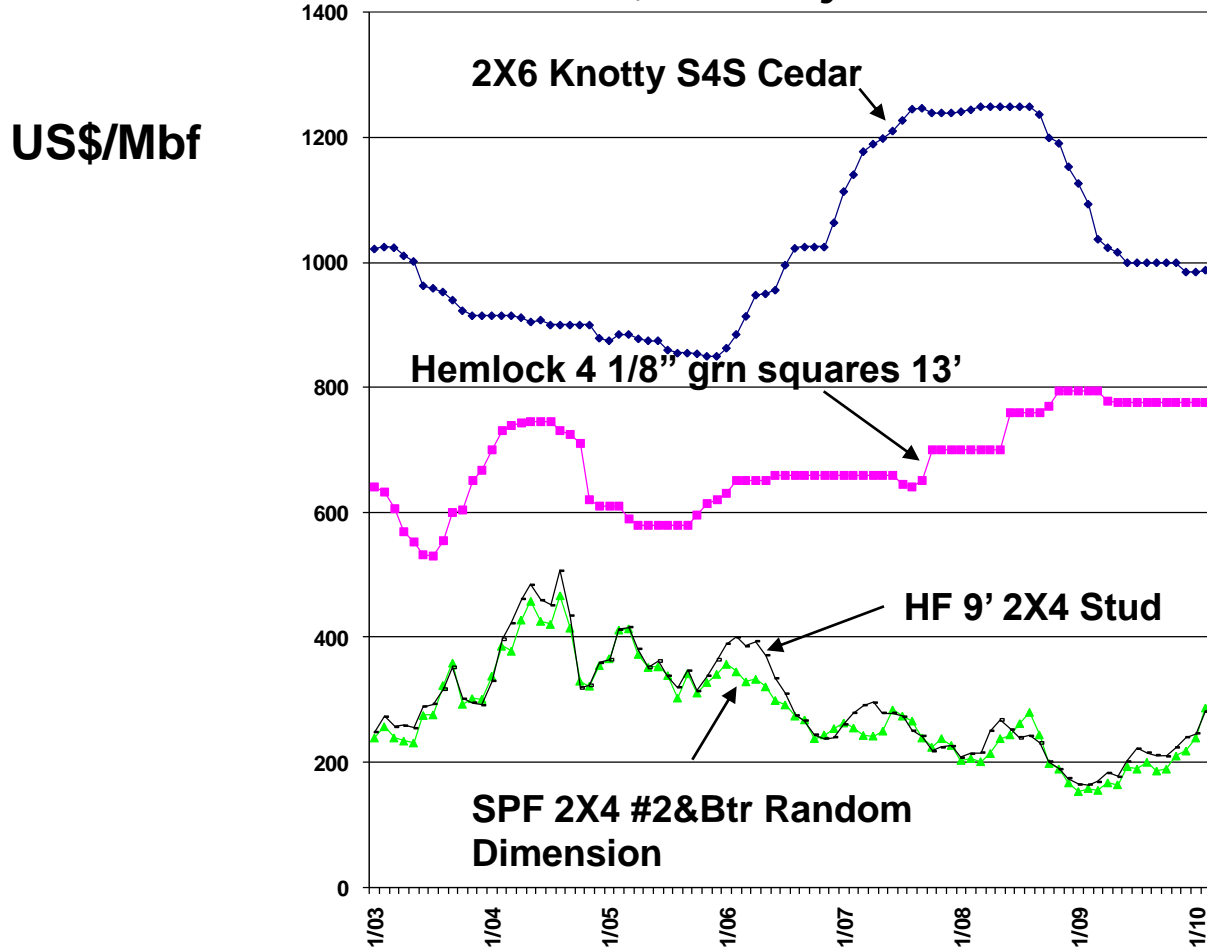


Higher % of specialty items → greater stability of prices & profitability



# Positioned for Success

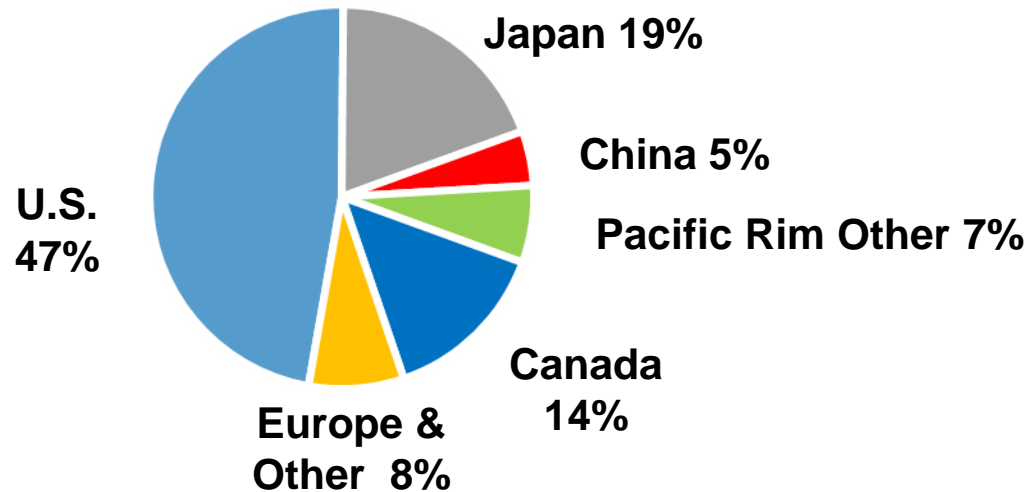
## Benchmark Prices, January '03 to March '10



Source: Random Lengths Publications Inc.

# Positioned for Success

2009

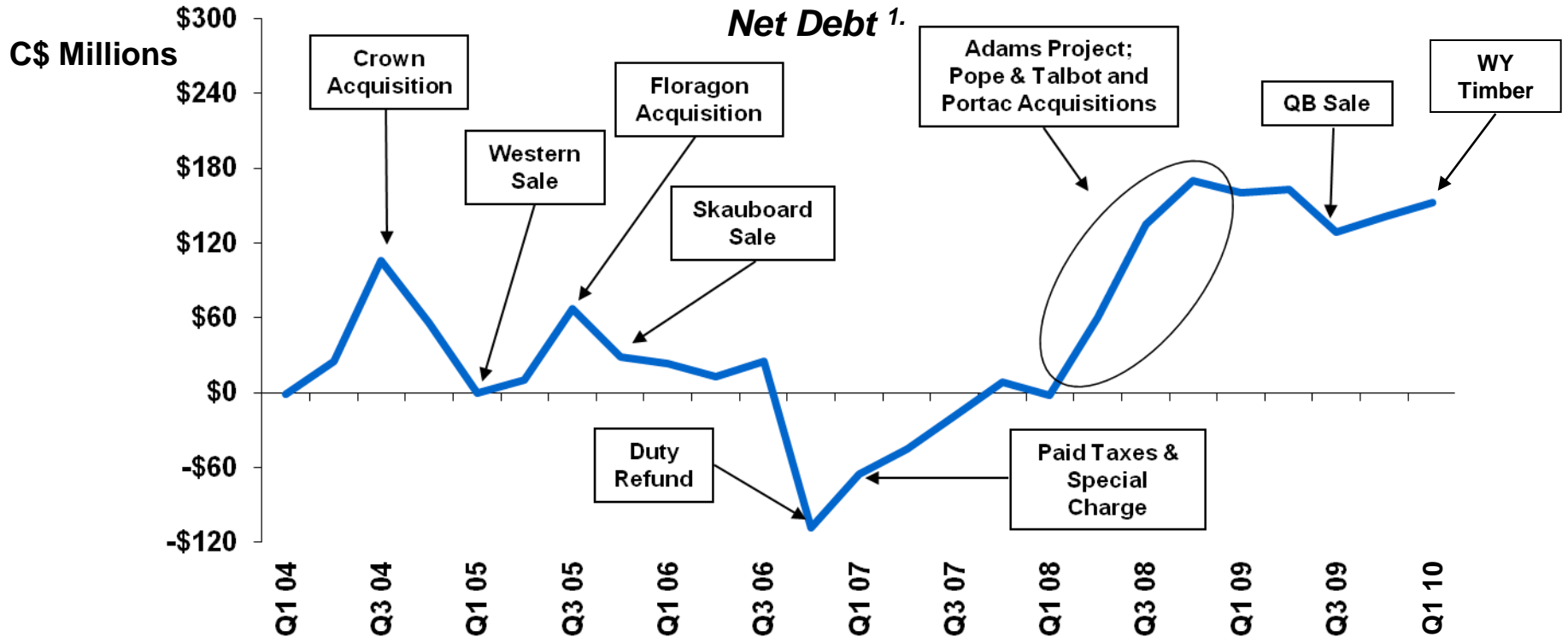


Total Lumber Sales \$289 million

*Interfor's diversified geographic sales mix is designed to provide greater sales and earnings stability*

# Positioned for Success

- *Interfor has a track record of deleveraging following major investments or acquisitions*
- *Net debt at March 31, 2010 was \$152 million, or 30% of invested capital*



<sup>1</sup> Short and long-term debt net of cash

**Interfor has a strong balance sheet**

## Positioned for Success

- Interfor's bank facilities have been modified and extended, effective Jan '10*

Tranche	Prior		Revised	
	Amount	Maturity	Amount	Maturity
A	C\$ 65	April '10	C\$ 65	Feb '11
B	C\$ 150	April '11	C\$ 200	Feb '12
C	US\$ 35	Sept '10		
Total	C\$ 251		C\$ 265	

*Interfor currently has more than \$100 million in unused credit available*

## Section 4

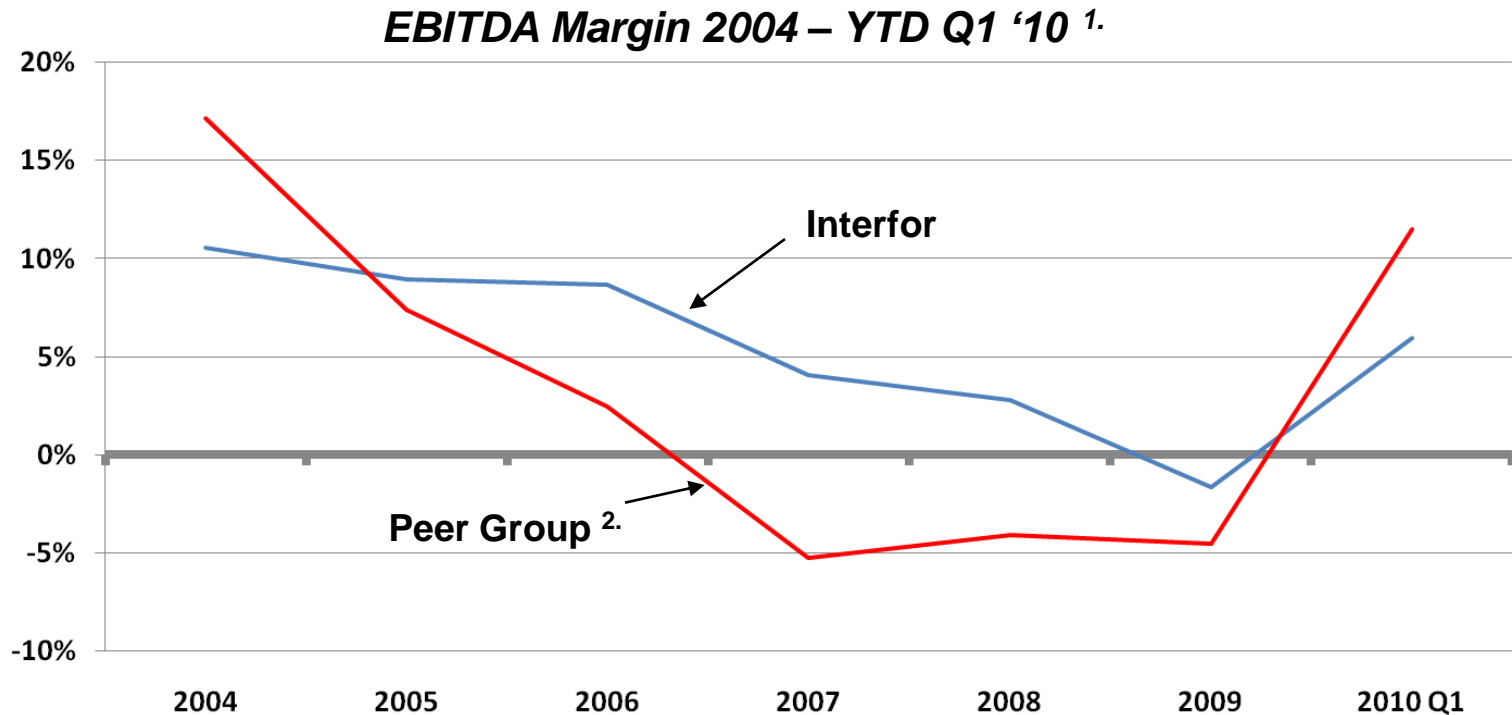
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# *Peer Comparison*

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# Peer Comparison – EBITDA Margins

- Interfor's EBITDA margin exceeded its peer group during the 2005-9 period
- Interfor's results in Q1'10 reflect lower exposure to NA cash markets



<b>Interfor Rank</b>	<b>5</b>	<b>2</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>2</b>	<b>3</b>
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<sup>1</sup> Excludes impact of lumber duty refunds

<sup>2</sup> Peer group includes Canfor, West Fraser, Western Forest, Pope & Talbot (lumber or solid wood segments only); peer group excludes P&T effective Q3'07 (no longer reporting)



# Peer Comparison – Share Price Performance




- *Interfor's share price has increased by 13% since year-end while Canfor and West Fraser have increased by 19% and 17% respectively*

*Share Prices Indexed from Jan '07 to May 7, '10*



# Peer Comparison – Trading Metrics

- IFP.A currently trades at a 28% discount to BV compared with CFP and WFT (which trade at (3%) and 3%, respectively)

	Share Price Performance <sup>1.</sup>	Leverage <sup>2.</sup>	Lumber EBITDA Margin			Price Relative to BV <sup>3.</sup>	
			2008	2009	Q1, 2010	Dec 31'09	May 7'10
 INTERFOR	13%	30.3%	2.8%	(1.6%)	6.0%	(38%)	(28%)
 CANFOR	17%	14.2%	(3.7%)	(5.2%)	11.6%	(16%)	(3%)
	19%	21.7%	(3.1%)	(2.4%)	17.1%	(13%)	3%

1. Dec. 31'09 – May 7'10

2. Net Debt/Invested Capital, Mar. 31'10

3. Book Value as of Dec. 31'09 and Mar. 31'10 for respective columns

**The P/BV gap between IFP.A, CFP and WFT doesn't reflect past performance or future prospects**



## Section 5

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### *Key Takeaways*

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# Key Takeaways

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- *Interfor has been radically transformed over the last 5 - 7 years*
- *Interfor has a balanced geographic manufacturing base and diversified product lines and market exposure*
- *Interfor has taken advantage of the downturn to acquire assets at attractive prices*
- *Interfor is positioning its assets to be top quartile (top decile)*
- *Interfor has outperformed its peers in recent years*
- *Interfor has a strong balance sheet*
- *Interfor trades at a significant discount to its peers and well below inherent value*

*Interfor is positioned to take advantage of the recovery*

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# *APPENDIX*

## *Financials*

# Financial Position

	<i>Mar 10</i>	<i>Dec 09</i>	<i>Dec 08</i>
<i>(\$millions except ratios)</i>			
<b>Total Debt</b>	<b>\$161.6</b>	<b>\$144.5</b>	<b>\$168.0</b>
<b>Less Cash &amp; Deposits</b>	<b>\$(9.6)</b>	<b>\$(3.8)</b>	<b>\$(0.2)</b>
<b>Net Debt</b>	<b>\$152.0</b>	<b>\$140.7</b>	<b>\$167.8</b>
<b>Equity</b>	<b>\$349.6</b>	<b>\$358.0</b>	<b>\$406.2</b>
<b>Net Debt / IC</b>	<b>30.3%</b>	<b>28.2%</b>	<b>29.2%</b>
<b>Book Value / Share</b>	<b>\$7.42</b>	<b>\$7.60</b>	<b>\$8.62</b>
<b>Period-end Share Price</b>	<b>\$5.30</b>	<b>\$4.69</b>	<b>\$1.70</b>
<b>Ratio of Share Price / BV</b>	<b>71%</b>	<b>62%</b>	<b>20%</b>

# Operating Results

<i>(C\$ millions, except per share amounts)</i>	<b>Q1 10</b>	<b>2009</b>	<b>2008</b>
<b>Total sales</b>	<b>139.9</b>	<b>389.8</b>	<b>437.2</b>
<b>Operating earnings (loss) before US duty refunds, restructuring costs and asset write-downs</b>	<b>(3.1)</b>	<b>(46.5)</b>	<b>(33.5)</b>
<b>Operating earnings (loss)</b>	<b>(3.1)</b>	<b>(50.8)</b>	<b>(68.4)</b>
<b>Net earnings (loss) per share - basic</b>	<b>(0.07)</b>	<b>(0.51)</b>	<b>(1.18)</b>
<b>Cash flow from operations per share<sup>1</sup></b>	<b>0.17</b>	<b>(0.46)</b>	<b>0.28</b>
<b>Shares outstanding - weighted average (millions)</b>	<b>47.1</b>	<b>47.1</b>	<b>47.1</b>
<b>Adjusted EBITDA<sup>2</sup></b>	<b>9.7</b>	<b>(6.4)</b>	<b>12.3</b>

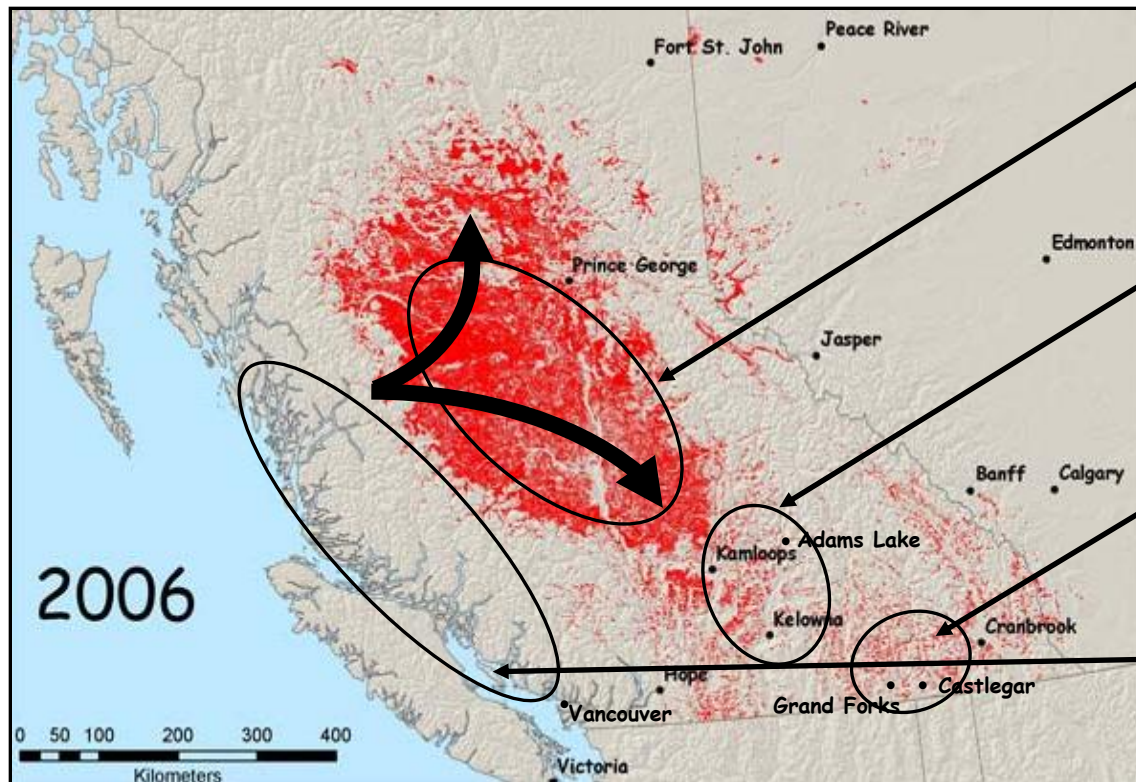
Notes:

- 1 Cash generated from operations before taking account of changes in operating working capital
- 2 Adjusted EBITDA represents EBITDA adjusted for other income

## *Peer Comparison*

# Positioned for Success

## Mountain Pine Beetle (MPB) – Area Affected



**Central and Northern B.C.**  
**50 – 75% Pine**

**AAC<sup>1</sup>  
 MMm<sup>3</sup>**

**0.0**

**Adams Lake in Southern B.C.**  
**28 – 30% Pine**

**0.5**

**Castlegar & Grand Forks in Southern B.C.**  
**17% Pine**

**1.0**

**Coastal B.C. Woodlands**  
**No Pine**

**2.0**

**3.5**

Source: Ministry of Forests, COFI

<sup>1</sup> Annual Allowable Cut (million m<sup>3</sup>)

**Interfor's southern B.C. Interior wood baskets are less exposed to the MPB than B.C.'s central and northern interior regions; the Coast is not exposed**



# Peer Comparison – Regional Operating Base

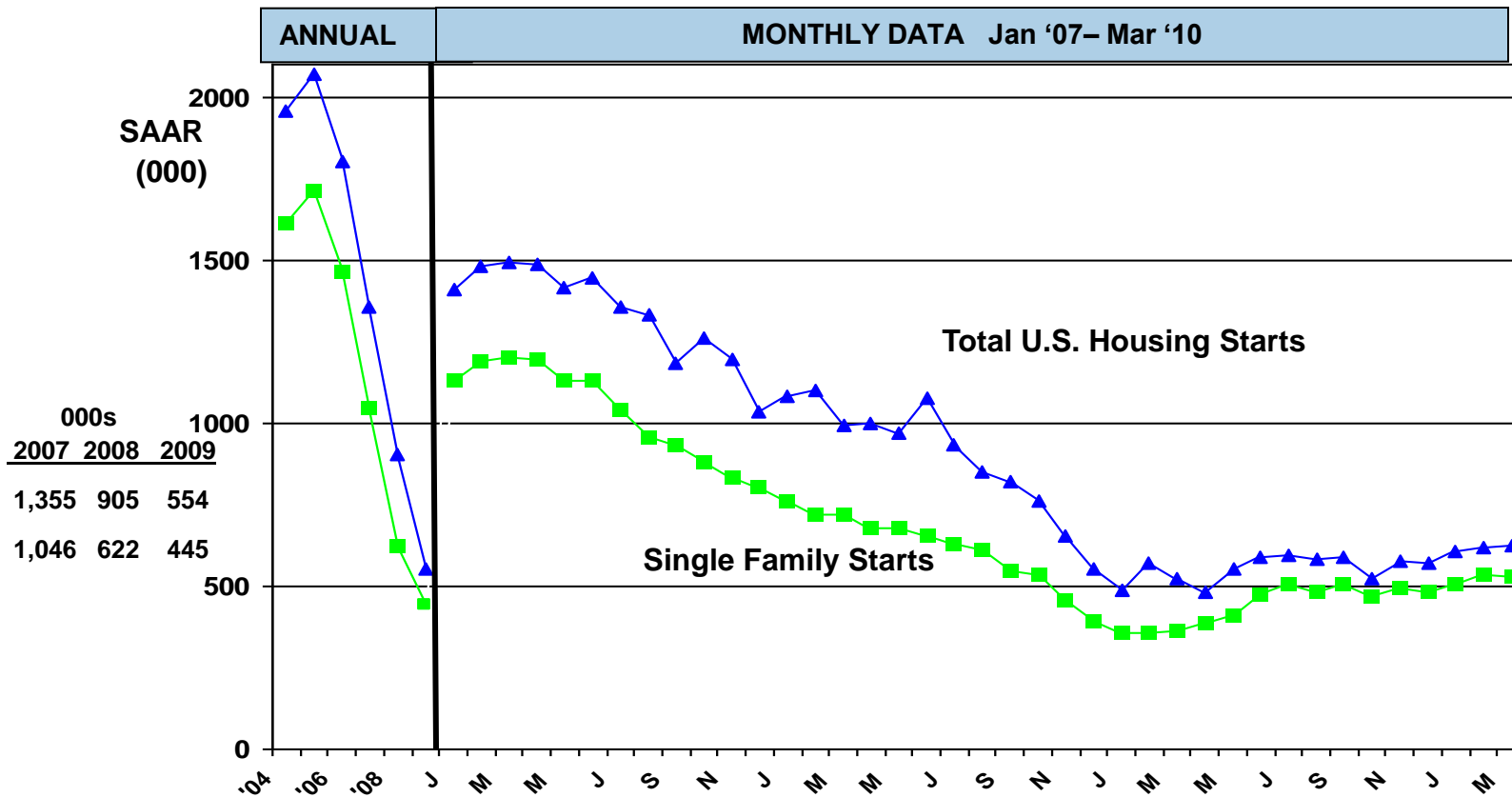
	Productive Capacity (%)		
	Interfor	West Fraser	Canfor
B.C. Interior - Central & Northern	0%	43%	79%
B.C. Interior - Southern	39%	0%	0%
B.C. Coast	21%	0%	0%
Prairies	0%	28%	5%
U.S. Pacific N.W.	40%	0%	0%
U.S. South	0%	28%	12%
Other	0%	0%	3%
	100%	100%	100%

***Interfor has substantially less exposure to Mountain Pine Beetle than Canfor or West Fraser***

## *Housing*

# U.S. Housing Starts Jan. '07 – Mar '10

- **New house construction is the largest driver of lumber consumption in the U.S.**
- **Starts peaked at 2.1 million units in 2005 and dropped to 480,000 units in early 2009**
- **Starts are currently in the 625,000 unit range**

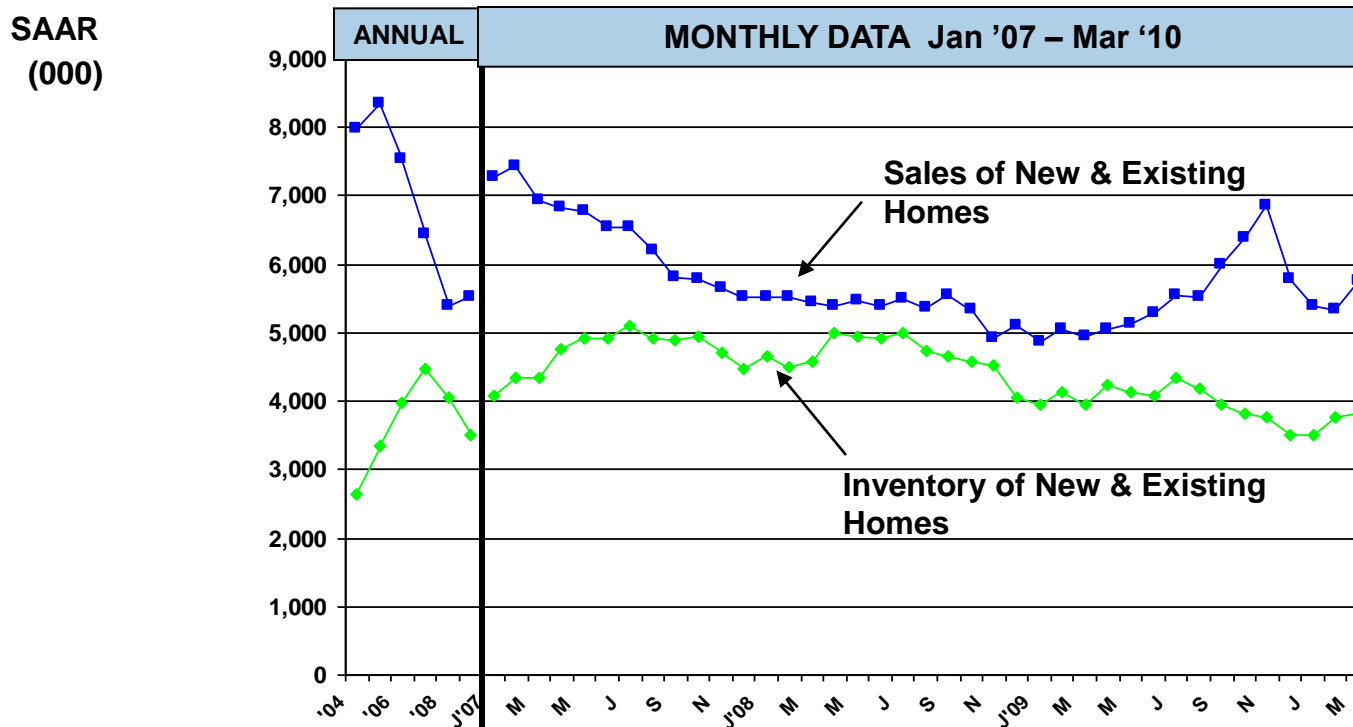


Source: U.S. Census Bureau, April 16'10



# Sales and Inventories of Total New and Existing Homes

- Sales of new and existing homes are beginning to show signs of improvement
- The inventory of unsold homes peaked in mid-2008 and has since dropped by 25%

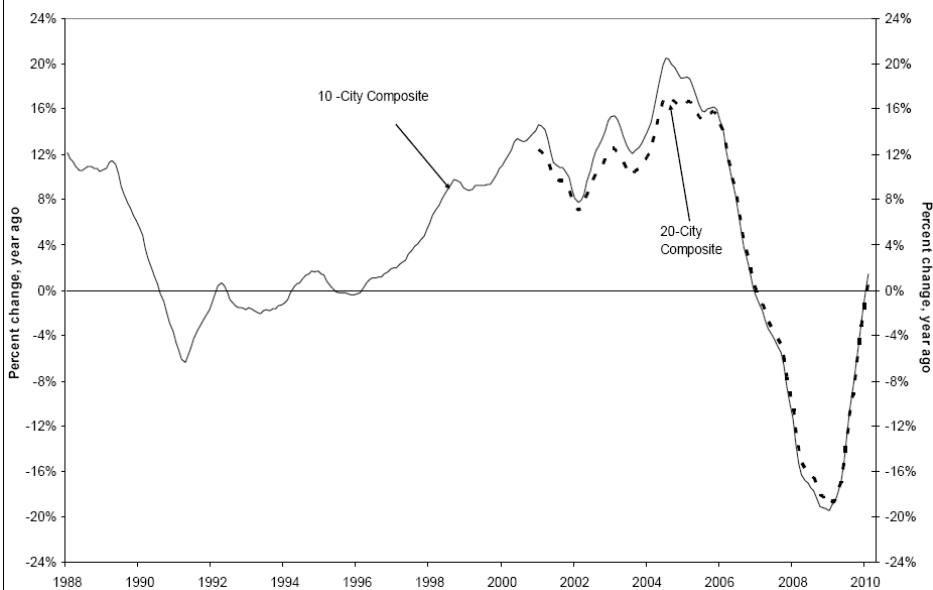


Source: NAR (National Association of Realtors) April 22 for existing homes; U.S. Census Bureau April 23 for new homes

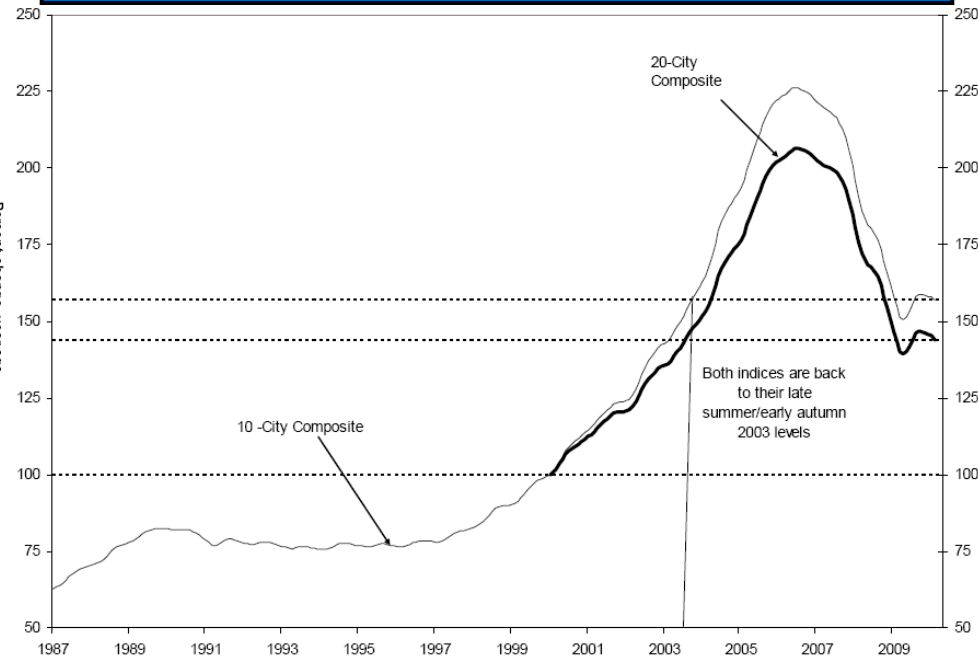
# U.S. Home Price Trend – S&P's Case-Shiller Indices

- **The annual change in house prices was positive in February for the first month since December '06 (left chart)**
- **Month/month prices declined in January/ February after increasing for several months late last year (right chart). The market is stabilizing.**

## Home Price Index Year/Year Percent Change



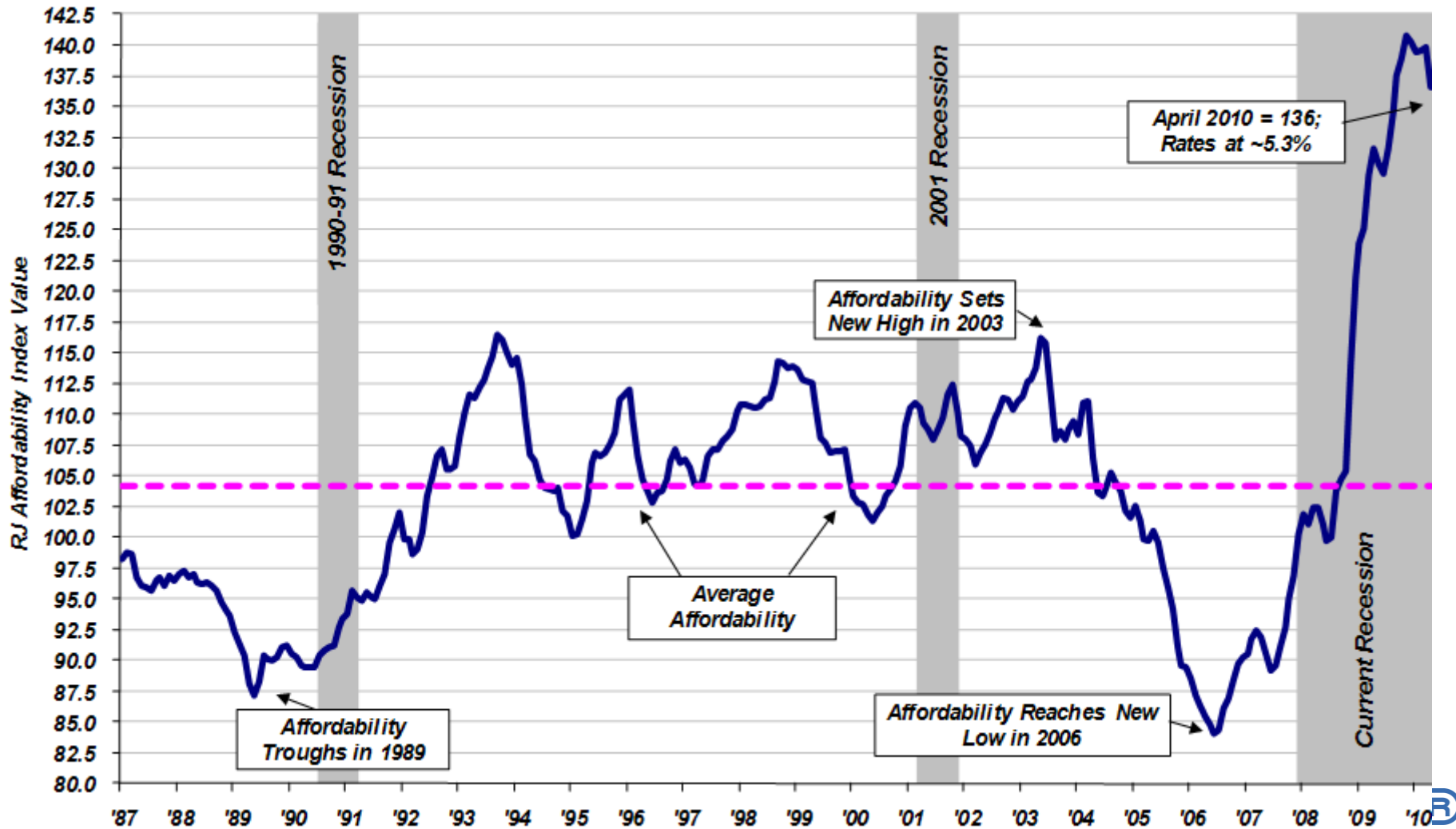
## Home Price Index: base value of 100 Jan, '00



Source: Standard & Poors, April 27, 2010

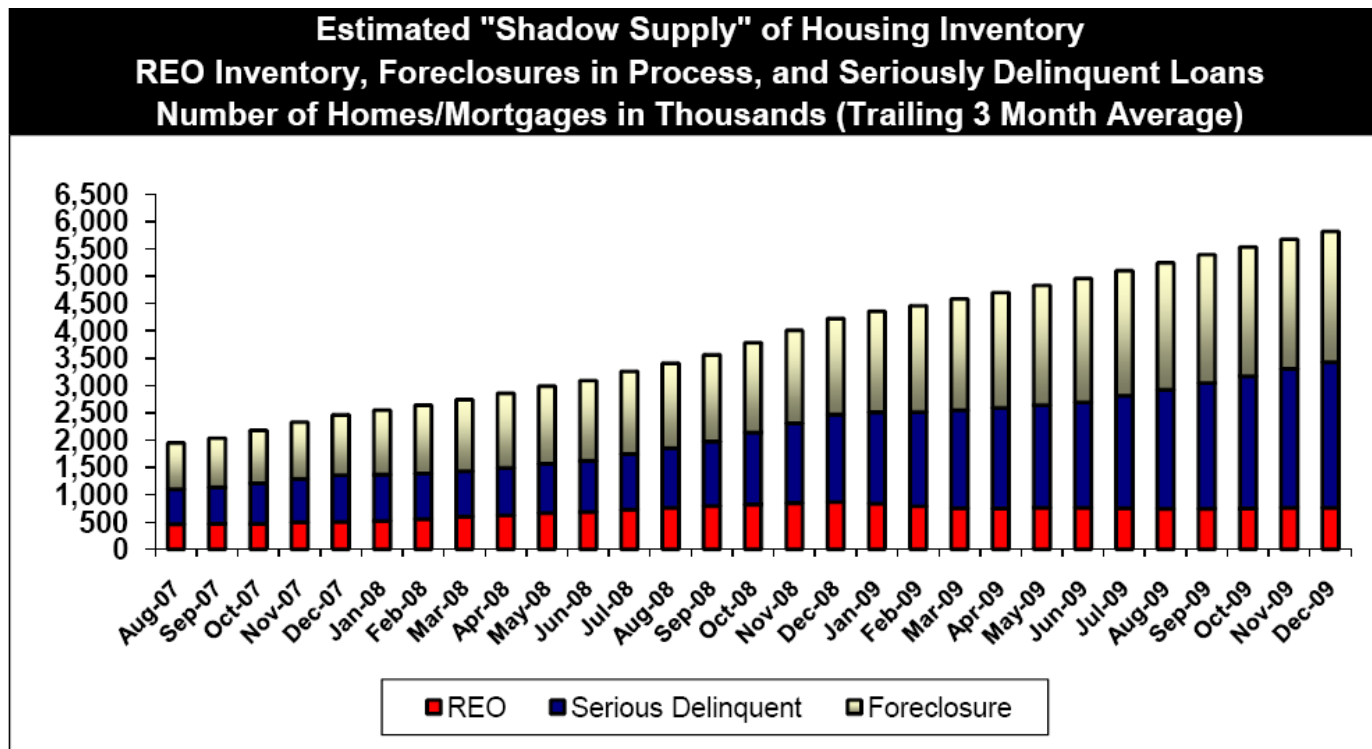
# U.S. Home Affordability is High

- Affordability rose to record highs in 2009; the index dropped slightly in recent months as the recession impacted unemployment and disposable income



# Uncertainty Around the U.S. Housing Recovery

- The estimated “Shadow Supply” of housing inventory (distressed homes) increased from 1.8 million in August ‘07 to 5.4 million by December ‘09 <sup>1</sup>**  
**Additional mortgages (ALT A, Option ARM) will reset in the next 12-18 months**

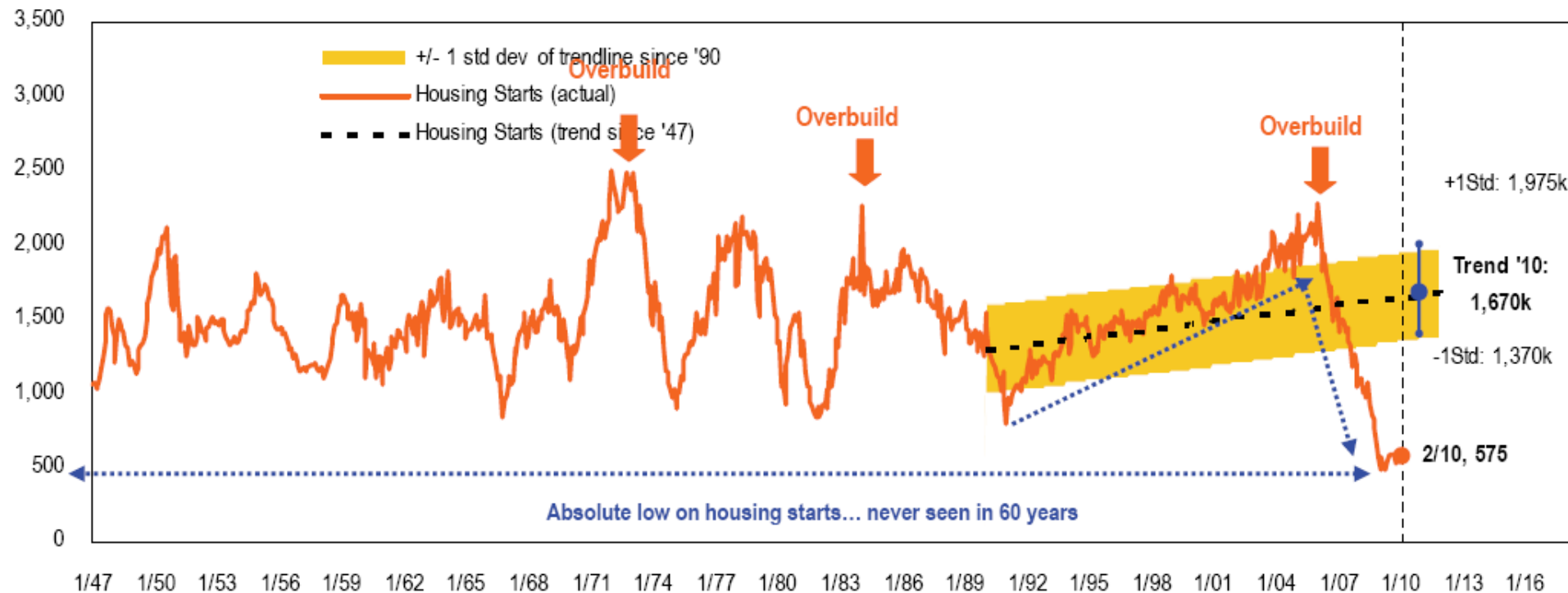


- The vast majority of the 5.8 million are not reflected in the traditional inventory metrics currently at 3.6 million homes**

# U.S. Housing Starts 1947-2010 ...ready for upturn?

- Housing starts have fallen to levels marginally above “scrap rates” of 3-400,000 per year (= 0.033%)
- How different than previous cycles will this recovery be?

## Housing Starts 000

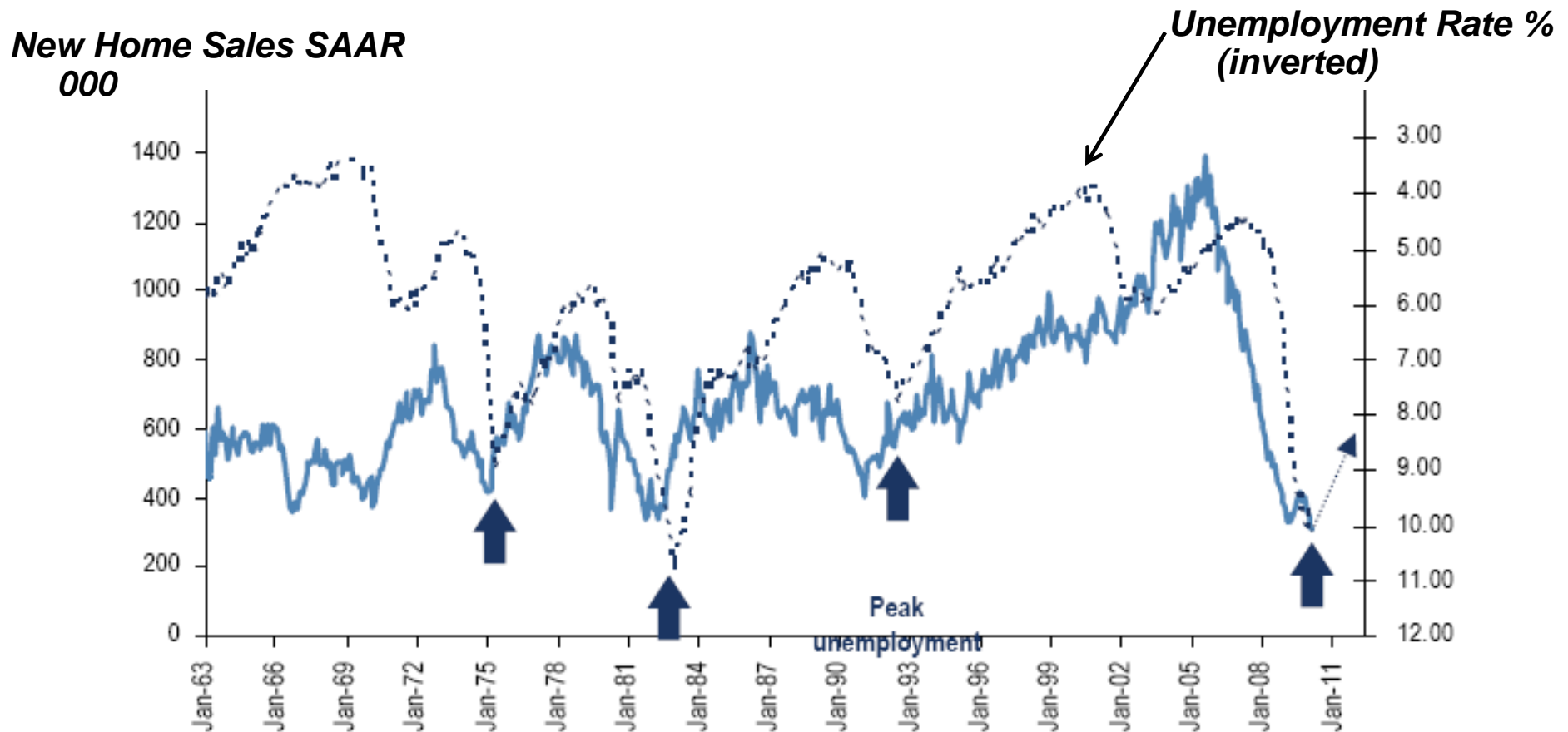


Source: J.P. Morgan, April 2010



# U.S. Housing Start Outlook ... ready for upturn?

- **New home sales typically trough when unemployment peaks. Sales were at record lows in February (rising in March) while unemployment appears to be at or close to peak**

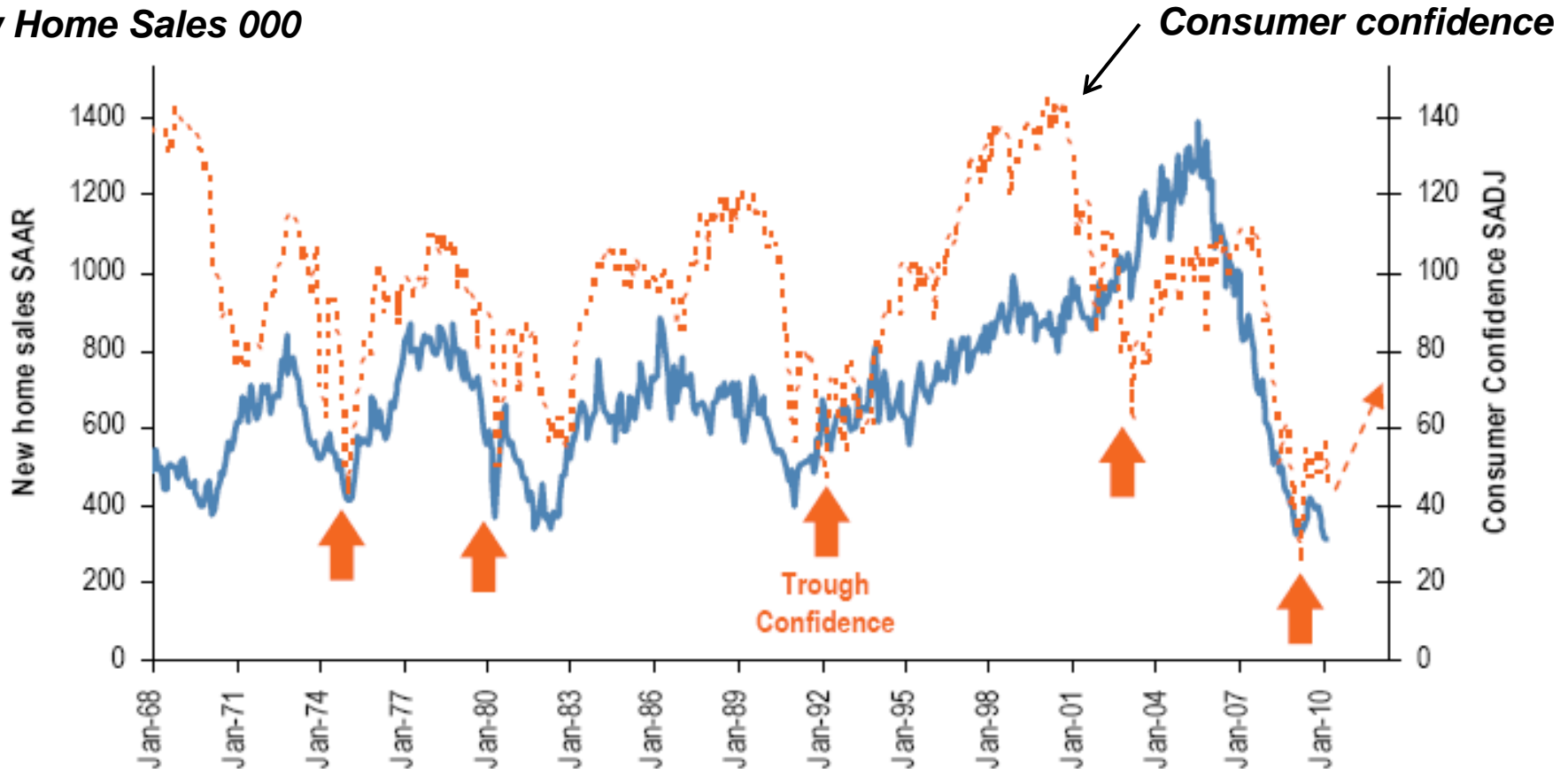


Source: J.P. Morgan, April 2010

# U.S. Housing Start Outlook... ready for upturn?

- ***New home sales and consumer confidence typically trough at the same point in the cycle. New home sales were recently at record lows and consumer confidence appears to be at or close to the bottom***

**New Home Sales 000**

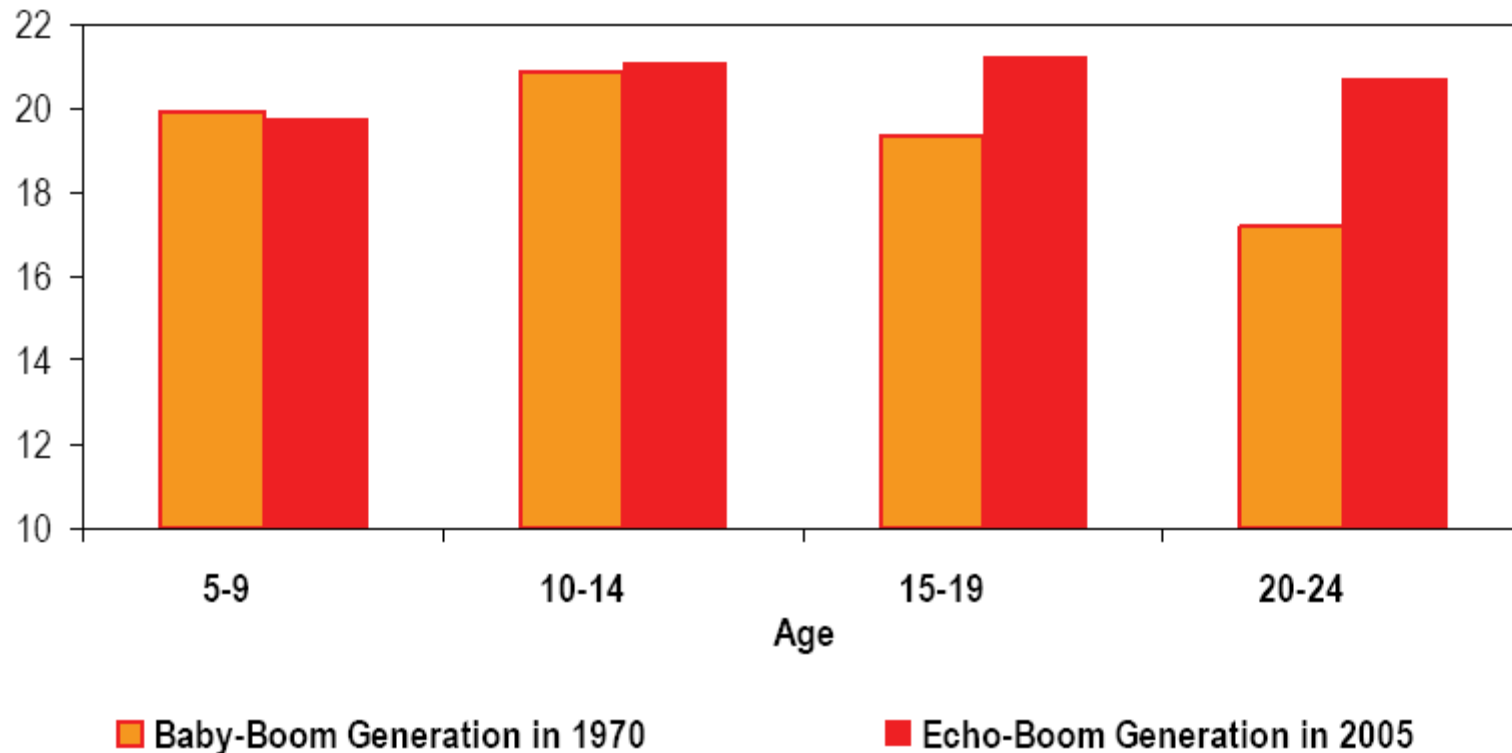


Source: J.P. Morgan, April 2010; data is SAAR

# U.S. Housing Start Outlook ....strong demographic

- *The Echo Boom (children born 1981-2000) is larger than the Baby Boom (2005 data)*

Millions of Persons



Source: J.P. Morgan, April 2010

Source: From Harvard University: Joint Center for Housing Studies. Notes: Members of the baby-boom generation were born 1946-1964. Members of the echo-boom generation were born 1981-2000. US Census Bureau, Population Estimates.

# China Potential

## Reroofing in Shijiazhuang

*Shijiazhuang is a city of 8.7 million people, 270 kms south west of Beijing*

