



# **Interfor Corporation**

## **Third Quarter Report**

### **For the three and nine months ended September 30, 2015**

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## **Management's Discussion and Analysis**

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and nine months ended September 30, 2015 ("Q3'15" and "YTD'15", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2015, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 4, 2015.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US\$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2014 Annual Report.

### **Forward-Looking Statements**

This MD&A contains forward-looking statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included under the headings "Overview of Third Quarter 2015", "Outlook", "Summary of Third Quarter 2015 Financial Performance", "Summary of Year-to-Date 2015 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including those related to general business and economic conditions in Canada, the U.S., Japan and China, and assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them, if any. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described under the heading "Risks and Uncertainties" and in Interfor's current Annual Information Form available on [www.sedar.com](http://www.sedar.com). Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.

## **Overview of Third Quarter 2015**

### Q3'15 Results

Interfor recorded a net loss of \$6.1 million, or \$0.09 per share, on sales of \$430.8 million in Q3'15 compared with a net loss of \$20.6 million in Q2'15 and net earnings of \$11.0 million in Q3'14.

Included in the Company's results for Q3'15 are several one-time items (after-tax), including \$6.3 million of restructuring and wind-down costs associated with the exit of the Tacoma sawmill and a \$4.0 million loss related to the Castlegar sawmill, which was curtailed for seven weeks in the quarter to accommodate the final stages of equipment installation under the mill's \$50 million modernization project. These one-time items were offset by an after-tax recovery of long-term incentive compensation of \$15.6 million.

Adjusted EBITDA, which excludes the losses and restructuring costs associated with Tacoma and certain other items but includes a \$3.7 million EBITDA loss at Castlegar, was \$11.5 million in Q3'15 versus \$12.7 million in Q2'15 and \$45.4 million in Q3'14.

Monetization of the former Tacoma sawmill assets is well underway with cash proceeds expected to exceed the total of the operating losses, exit costs and asset value associated with the facility.

The Castlegar modernization project is on time and on budget. The mill commenced start-up procedures on October 5<sup>th</sup>, with productivity and product quality running well ahead of expectations through the first month of operations.

Lumber production declined by 54 million board feet to 618 million board feet in Q3'15 compared to the preceding quarter, but was up 51 million board feet or 9.0% compared to Q3'14.

Production from the Company's nine U.S. South sawmills totalled 287 million board feet in Q3'15, relatively flat as compared to 288 million board feet in Q2'15. A full quarter of production from the Monticello mill, acquired on June 19, 2015, was offset by the temporary reduction in operating schedules at five of the Company's sawmills in the region.

Production from the Company's U.S. Northwest operations totalled 150 million board feet in Q3'15, a drop of 21.1% from 190 million board feet in the prior quarter. This decline was due to the closure of the Tacoma sawmill and to fewer hours at one of the Company's stud mills in the region.

Canadian production totaled 181 million board feet in Q3'15 versus 194 million board feet in the immediately preceding quarter. The drop in Canadian production primarily reflects the construction-related curtailment at Castlegar.

In the third quarter, Interfor generated \$35.7 million in cash from operations after considering working capital changes. Capital spending amounted to \$29.9 million during the quarter.

During Q3'15, the Company's net debt position expressed in U.S. Dollars dropped from US\$345.4 million to US\$344.5 million. In Canadian Dollar terms, net debt increased to \$461.5 million from \$430.9 million during the quarter, due to a \$32.1 million translation impact of a lower Canadian Dollar. At September 30, 2015, the Company's net debt to invested capital ratio was 39.1%, and available liquidity was \$103.3 million.

## Markets and Pricing

Each of the key product benchmarks traded down as the quarter progressed as lower shipments to China, seasonal factors and speculation regarding the future of the Softwood Lumber Agreement ("SLA") negatively impacted the market.

Soft pricing was most evident in the U.S. South, with SYP East 2x4 off US\$52 per mfbm versus the second quarter. Western SPF 2x4 and Hem-Fir 2x4 9' studs fell markedly in August and September after rebounding in July, and came in flat and up US\$15 per mfbm respectively quarter-over-quarter.

Beyond the benchmarks, prices for low-grade products weakened even further, with SPF 2x4 #3 off US\$31 per mfbm and SYP 2x4 #3 off US\$67 per mfbm quarter-over-quarter.

On September 3, 2015, the Company announced plans to reduce production across its operating platform in the U.S. South by 20% on a temporary basis in response to weak conditions in that area.

Benchmark prices for SYP East 2x4 and HF Studs 2x4 9' and Western SPF 2x4 have increased by US\$75 per mfbm, US\$20 per mfbm and US\$30 per mfbm respectively, since the end of Q3'15, with other sizes and grades also showing signs of firming.

In Q3'15, Interfor shipped approximately 90.4 million board feet of lumber to U.S. markets from its B.C. sawmills, which represents approximately 14.6% of Interfor's total current quarterly production. Export duties applied pursuant to the SLA expired on October 12, 2015. The SLA includes a standstill provision which precludes the U.S. from bringing trade action against Canadian softwood lumber producers for a 12 month period following expiry of the agreement. Lumber shipments from Canada into the U.S. resulted in \$2.7 million of duties paid in Q3'15 compared with \$2.5 million in Q2'15 and \$0 in Q3'14.

The U.S. Dollar strengthened against the Canadian Dollar during Q3'15, closing up 7.4% compared to June 30, 2015. The U.S. Dollar was 20.2% stronger on average against the Canadian Dollar in Q3'15 versus the same period of 2014, which negatively impacted Interfor's U.S. operating results reported in Canadian Dollars.

## **Outlook**

North American commodity lumber prices are expected to remain volatile in the near term as the market responds to shifts in currency values and adjusts to seasonal factors. Interfor expects demand for lumber to continue to grow over the mid-term as the U.S. housing market recovers and market promotion efforts in North America and offshore take full effect. Demand in China, which has shown signs of firming in recent weeks, is also expected to grow in the years ahead, albeit at a slower pace than in recent years.

Interfor's strategy of maintaining a diversified portfolio of lumber operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. Interfor will continue its disciplined approach to production, cost control, inventory management and capital spending. At the same time, Interfor will remain alert to growth opportunities to position the Company for long term success.

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

	Unit	For the 3 months ended September 30,		For the 9 months ended September 30,	
		2015	2014	2015	2014
<b>Financial Highlights<sup>(2)</sup></b>					
Total sales	\$mm	430.8	373.1	1,276.0	1,058.2
Lumber	\$mm	343.3	303.0	1,036.2	858.6
Logs, residual products and other	\$mm	87.5	70.1	239.8	199.6
Operating earnings (loss)	\$mm	(11.6)	20.1	(29.6)	37.2
Net earnings (loss)	\$mm	(6.1)	11.0	(26.9)	45.9
Net earnings (loss) per share, basic and diluted	\$/share	(0.09)	0.16	(0.39)	0.70
Adjusted net earnings (loss) <sup>(3)</sup>	\$mm	(15.4)	16.1	(25.5)	61.7
Adjusted net earnings (loss) per share, basic and diluted <sup>(3)</sup>	\$/share	(0.22)	0.24	(0.37)	0.94
EBITDA <sup>(3)</sup>	\$mm	26.7	40.9	60.0	121.1
Adjusted EBITDA <sup>(3)</sup>	\$mm	11.5	45.4	55.9	131.9
Adjusted EBITDA margin <sup>(3)</sup>	%	2.7%	12.2%	4.4%	12.5%
Total assets	\$mm	1,383.8	1,058.3	1,383.8	1,058.3
Total debt	\$mm	473.4	229.8	473.4	229.8
Pre-tax return on total assets <sup>(3)</sup>	%	-0.4%	7.8%	-2.1%	8.6%
Net debt to invested capital <sup>(3)</sup>	%	39.1%	24.4%	39.1%	24.4%
<b>Operating Highlights</b>					
Lumber production	million fbm	618	568	1,929	1,644
Lumber sales	million fbm	686	595	2,037	1,662
Lumber - average selling price <sup>(4)</sup>	\$/thousand fbm	500	509	509	517

### 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 and 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 Third Quarter 2015 Financial Performance

### Sales

Interfor recorded \$430.8 million of total sales, up 15.5% from \$373.1 million in the third quarter of 2014, driven by the sale of 686 million board feet of lumber at an average price of \$500 per mfbm. Lumber sales volume increased 91 million board feet, or 15.3%, while average selling price declined \$9 per thousand board feet, or 1.8%, 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 130 million board feet or 30.8% over the third quarter of 2014. This growth is mostly attributable to sales from U.S. located sawmills acquired in the first half of 2015. Partially offsetting this growth in U.S. sales was a 38 million board foot, or 52.4%, 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 third quarter of 2014, partially offset by the strengthening of the U.S. Dollar against the Canadian Dollar by 20.2% on average.

Sales generated from logs, residual products and other increased by \$17.4 million or 24.8% compared to the same quarter of 2014. Nearly all of this increase is related to sales of wood chips and other residual products as a result of higher lumber production and the disposal of log inventories at the Tacoma sawmill in Q3'15.

## Operations

Production costs increased by \$86.1 million or 26.9% over the third quarter of 2014, explained primarily by the 15.3% 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 \$18.4 million, up 29.8% from the third quarter of 2014. The majority of this increase is explained by the inclusion of depreciation on sawmills acquired in the first half of 2015.

Depletion and amortization of timber, roads and other was \$9.9 million, up 43.6% 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 \$12.5 million, up \$3.8 million from the third quarter of 2014. This increase reflects the growth of Interfor's operations through the acquisition of five sawmills in first half of 2015.

The \$17.0 million long term incentive compensation recovery mostly reflects the impact of a 54.0% decline in the market price for Interfor Common Shares during the quarter.

Export taxes of \$2.7 million were incurred in Q3'15 in respect of lumber shipments from the Company's Canadian operations to the U.S. under the SLA. The duty rates were set at 15% in July, and 5% in each of August and September. The duty rate was 0% throughout the comparable quarter of 2014.

In the third quarter, 2015, the Company announced a plan to exit the Tacoma sawmill and recorded related restructuring charges of \$10.1 million including severance, an onerous contract, site closure costs and write-downs of inventories. Inventory write-downs reflect extraordinary declines in fair value subsequent to the decision date. Tacoma operating losses of \$1.7 million were included in operating results.

Finance costs increased to \$4.9 million from \$2.3 million in the third quarter of 2014. Financing the acquisition of five sawmills and capital improvements through borrowings in year-to-date 2015 contributed to a higher average level of debt outstanding in Q3'15 as compared to Q3'14.

## Income Taxes

The Company recorded an income tax recovery of \$9.5 million in Q3'15, comprised of a \$0.2 million current tax recovery and a \$9.3 million deferred tax recovery, mainly in respect of its U.S. operations.

## Net Earnings (Loss)

The Company recorded a net loss of \$6.1 million or \$0.09 per share, compared to net earnings of \$11.0 million or \$0.16 per share in the comparable period of 2014. Adjusted Net Earnings were \$(15.4) million or \$(0.22) per share compared with \$16.1 million or \$0.24 per share in Q3'14.

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

### Sales

Interfor recorded \$1.3 billion in total sales, up 20.6% from \$1.1 billion in the first nine months of 2014, driven by the sale of 2.0 billion board feet of lumber at an average price of \$509 per mfbm. Lumber sales volume increased 375 million board feet, or 22.6%, while average selling price declined \$8 per thousand board feet, or 1.6%, as compared to the same period of 2014.

The growth in lumber sales volume was primarily in the U.S., where sales increased by 453 million board feet or 39.8% over the first nine months 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 81 million board foot, or 37.1%, 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 nine months of 2014, partially offset by the strengthening of the U.S. Dollar against the Canadian Dollar by 15.2% on average.

Sales generated from logs, residual products and other increased by \$40.2 million or 20.1% compared to the first nine months of 2014. Nearly all of this increase is related to wood chips and other residual products as a result of higher lumber production and the disposal of log inventories at the exited Tacoma sawmill.

### Operations

Production costs increased by \$288.5 million or 32.0% as compared to the first nine months of 2014, explained primarily by the 22.6% 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 \$53.0 million, up 31.0% from the first nine 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 \$26.7 million, up 32.3% as compared with the first nine months 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 \$36.5 million, up \$9.9 million from the first nine months of 2014. This increase reflects the growth of Interfor's operations with the acquisition of seven sawmills since March 14, 2014. The Company incurred \$2.1 million of non-recurring acquisition and integration costs, which represents an increase of \$0.7 million over similar costs incurred in the same period of 2014.

The \$14.8 million long term incentive compensation recovery in the first nine months of 2015 mainly reflects a 57.1% decrease in the market price of Interfor Common Shares over the same period, partially offset by the impact of incentive awards maturing.

Export taxes of \$5.2 million were incurred in respect of lumber shipments from the Company's Canadian operations to the U.S. under the SLA. The duty rates averaged 5% for the first nine months of 2015. The duty rate was 0% throughout the first nine months of 2014.

In the first quarter, 2015, Interfor sold substantially all of the assets of its Beaver-Forks operation, located on the Olympic Peninsula in Washington, resulting in a reversal of a \$1.1 million impairment previously recorded.

In the third quarter, 2015, the Company announced a plan to exit the Tacoma sawmill and recorded related restructuring charges of \$10.1 million, including severance, an onerous contract, site closure costs and write-downs of inventories. Inventory write-downs reflect extraordinary declines in fair value subsequent to the decision date. Tacoma operating losses of \$10.3 million were included in operating results.

Finance costs increased to \$12.1 million from \$6.6 million in the 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 \$2.1 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 \$17.1 million in the first nine months of 2015, comprised of \$0.3 million of current taxes net of a \$17.4 million deferred tax recovery, mainly in respect of its U.S. operations.

## Net Earnings (Loss)

The Company recorded a net loss of \$26.9 million or \$0.39 per share, compared to net earnings of \$45.9 million or \$0.70 per share in the comparable period of 2014. Adjusted Net Earnings were \$(25.5) million or \$(0.37) per share compared with \$61.7 million or \$0.94 per share in the first nine months of 2014.

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

Unit	2015			2014			2013		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
<b>Financial Performance (Unaudited)</b>									
Total sales	\$mm	430.8	429.7	415.4	389.0	373.1	390.2	294.8	315.3
Lumber	\$mm	343.3	352.2	340.7	318.6	303.0	325.2	230.4	249.2
Logs, residual products and other	\$mm	87.5	77.5	74.7	70.4	70.1	65.0	64.4	66.2
Operating earnings (loss)	\$mm	(11.6)	(25.8)	7.8	(1.1)	20.1	3.8	13.3	13.7
Net earnings (loss)	\$mm	(6.1)	(20.6)	(0.2)	(5.2)	11.0	7.4	27.5	11.4
Net earnings (loss) per share, basic and diluted	\$/share	(0.09)	(0.29)	(0.00)	(0.08)	0.16	0.11	0.43	0.18
Adjusted net earnings (loss) <sup>(2)</sup>	\$mm	(15.4)	(14.7)	4.5	10.2	16.1	21.1	15.0	16.5
Adjusted net earnings (loss) per share, basic and diluted <sup>(2)</sup>	\$/share	(0.22)	(0.21)	0.07	0.15	0.24	0.32	0.24	0.26
EBITDA <sup>(2)</sup>	\$mm	26.7	1.0	32.3	23.2	40.9	47.8	32.3	31.4
Adjusted EBITDA <sup>(2)</sup>	\$mm	11.5	12.7	31.8	37.4	45.4	47.3	39.2	36.2
Shares outstanding - end of period	million	70.0	70.0	70.0	66.7	66.7	66.7	66.7	63.1
Shares outstanding - weighted average	million	70.0	70.0	67.8	66.7	66.7	66.7	63.8	63.1
<b>Operating Performance</b>									
Lumber production	million fbm	618	672	639	578	567	582	495	470
Lumber sales	million fbm	686	719	632	620	595	628	439	500
Lumber - average selling price <sup>(3)</sup>	\$/thousand fbm	500	490	539	514	509	518	525	498
Average USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.3089	1.2297	1.2412	1.1350	1.0890	1.0905	1.1033	1.0491
Closing USD/CAD exchange rate <sup>(4)</sup>	1 USD in CAD	1.3394	1.2474	1.2683	1.1601	1.1208	1.0676	1.1053	1.0636

### Notes:

- (1) Figures in this table may not add due to rounding.
- (2) 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.
- (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 or losses of U.S. operations when translated to Canadian Dollars.

## **Liquidity**

### **Balance Sheet**

Net debt at September 30, 2015 was \$461.5 million, or 39.1% of invested capital, representing an increase of \$258.9 million over the level at December 31, 2014. This increase includes \$151.3 million of borrowings for the Simpson and Monticello acquisitions and \$31.9 million of cash invested to date for the Castlegar sawmill upgrade. Revaluation of U.S. Dollar denominated debt into Canadian Dollars resulted in an increase of \$50.8 million in year-to-date 2015 due to a 15.5% decline in the Canadian Dollar against the U.S. Dollar. In Q3'15, the 7.4% decline in the Canadian Dollar against the U.S. Dollar resulted in an increase of \$32.1 million in net debt, despite a decline of US\$9.2 million in U.S. Dollar denominated borrowings.

Thousands of dollars	For the 3 months ended September 30,		For the 9 months ended September 30,	
	2015	2014	2015	2014
<b>Net debt</b>				
Net debt, period opening	\$ 430,870	\$ 237,290	\$ 202,553	\$ 140,762
Net drawing (repayment) on credit facilities	(3,656)	(30,492)	202,156	76,373
Impact on USD denominated debt from weakening CAD	32,079	11,327	50,799	7,912
(Increase) decrease in cash and equivalents	2,181	(14,555)	5,966	(21,477)
Net debt, period ending	<u>\$ 461,474</u>	<u>\$ 203,570</u>	<u>\$ 461,474</u>	<u>\$ 203,570</u>
US Dollar debt, period opening in USD	\$ 355,123	\$ 220,000	\$ 190,000	\$ 135,900
Net drawing (repayment) on credit facilities, USD	(9,166)	(15,000)	155,957	69,100
US Dollar debt, period ending, USD	<u>\$ 345,957</u>	<u>\$ 205,000</u>	<u>345,957</u>	<u>205,000</u>
Spot rate, period end			1.3394	1.1208
Canadian Dollar equivalent, US Dollar debt, CAD			463,374	229,764
Canadian Dollar debt, including bank indebtedness, CAD			10,000	-
Total debt			<u>473,374</u>	<u>229,764</u>
Cash			(11,900)	(26,194)
Net debt			<u>\$ 461,474</u>	<u>\$ 203,570</u>

As at September 30, 2015, the Company had net working capital of \$175.1 million and available capacity on operating and term facilities of \$103.3 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 \$34.8 million of cash flow from operations before changes in working capital in the first nine months of 2015, down \$83.2 million over the same period of 2014. Incremental cash flow generated from increased sales was offset by reduced sales margin and increases of \$9.9 million and \$5.2 million to selling and administration costs and export taxes, respectively.

There was a net cash inflow from operations after changes in working capital of \$55.2 million in YTD'15, with \$20.4 million of cash generated from operating working capital. In the first nine months of 2014, \$8.7 million of cash was generated from operating working capital, leading to \$126.7 million of total cash generated from operations.

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

Investing activities totaled \$314.3 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., \$75.1 million for property, plant and equipment and \$20.9 million for development of logging roads. Discretionary mill improvements of \$62.9 million during the period were focused primarily on the Castlegar sawmill rebuild.



In the first nine months of 2014, total investing activities of \$176.4 million included \$124.4 million for the acquisition of Tolleson Ilim Lumber Company and \$53.7 million of capital expenditures.

### Cash Flow from Financing Activities

Net drawings on the Company's credit facilities were \$202.2 million and net proceeds from issuance of 3.3 million shares were \$63.2 million, leading to total cash from financing activities of \$253.8 million in the first nine months of 2015. This includes \$151.3 million drawn on the Company's credit facilities to fund the Simpson and Monticello acquisitions.

In the first nine months of 2014, net drawings on the Company's credit facilities were \$76.4 million with total cash from financing activities of \$70.5 million.

### Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2015:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	\$ 65,000	\$ 200,000	\$ 267,880	\$ 66,970	\$ 599,850
Maximum borrowing available	\$ 62,140	\$ 191,201	\$ 267,880	\$ 66,970	\$ 588,191
Less:					
Drawings	10,000	174,122	267,880	21,372	473,374
Outstanding letters of credit included in line utilization	9,267	-	-	2,224	11,491
Unused portion of facility	\$ 42,873	\$ 17,079	-	\$ 43,374	\$ 103,326

As at September 30, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied pro-rata to the Operating Line and Revolving Term Line limits.

As of September 30, 2015, the Company had commitments for capital expenditures totaling \$8.9 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 nine months ended September 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 September 30, 2015, such instruments aggregated \$42.7 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 September 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 September 30, 2015, that have materially affected, or are reasonably likely to materially affect, its ICFR.

## **Critical Accounting Estimates**

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2015. 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 September 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 and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet completed an assessment of the impact, if any, of this standard on its financial statements.

## **Non-GAAP Measures**

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings (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 September 30,		For the 9 months ended September 30,	
	2015	2014	2015	2014
<b>Adjusted Net Earnings</b>				
Net earnings (loss)	(6,133)	10,994	(26,879)	45,877
Add:				
Restructuring (recovery) costs, capital asset and timber write-downs	10,097	26	9,963	23,272
Other foreign exchange loss (gain)	(986)	1,015	2,124	1,005
Long term incentive compensation expense (recovery)	(16,965)	3,579	(14,766)	10,069
Other (income) expense	77	213	106	40
Beaver sawmill post-closure wind-down costs	7	716	359	712
Tacoma sawmill post-acquisition losses	1,652	-	10,311	-
Income tax effect of above adjustments	(3,100)	(456)	(6,747)	-
Recognition of previously unrecognized deferred tax assets	-	-	-	(19,253)
Adjusted net earnings (loss) <sup>(1)</sup>	(15,351)	16,087	(25,529)	61,722
Weighted average number of shares - basic and diluted ('000)	70,030	66,730	69,305	65,760
Adjusted net earnings (loss) per share <sup>(1)</sup>	(0.22)	0.24	(0.37)	0.94
<b>Adjusted EBITDA</b>				
Net earnings (loss)	(6,133)	10,994	(26,879)	45,877
Add:				
Depreciation of plant and equipment	18,365	14,151	53,010	40,460
Depletion and amortization of timber, roads and other	9,891	6,888	26,744	20,213
Restructuring (recovery) costs, capital asset and timber write-downs	10,097	26	9,963	23,272
Finance costs	4,948	2,347	12,110	6,647
Other foreign exchange loss (gain)	(986)	1,015	2,124	1,005
Income tax recovery	(9,492)	5,524	(17,074)	(16,390)
EBITDA	26,690	40,945	59,998	121,084
Add:				
Long term incentive compensation expense (recovery)	(16,965)	3,579	(14,766)	10,069
Other (income) expense	77	213	106	40
Beaver sawmill post-closure wind-down costs	7	712	357	712
Tacoma sawmill post-acquisition losses	1,645	-	10,230	-
Adjusted EBITDA	11,454	45,449	55,925	131,905
<b>Pre-tax return on total assets</b>				
Operating earnings (loss) before restructuring and capital asset write-downs	(1,489)	20,119	(19,650)	60,451
Total assets <sup>(2)</sup>	1,364,560	1,036,343	1,226,137	941,298
Pre-tax return on total assets <sup>(3)</sup>	-0.4%	7.8%	-2.1%	8.6%
<b>Net debt to invested capital</b>				
Net debt				
Total debt	473,374	229,764	473,374	229,764
Cash and cash equivalents	(11,900)	(26,194)	(11,900)	(26,194)
Current bank indebtedness	-	-	-	-
Total net debt	461,474	203,570	461,474	203,570
Invested capital				
Net debt	461,474	203,570	461,474	203,570
Shareholders' equity	718,540	629,874	718,540	629,874
Total invested capital	1,180,014	833,444	1,180,014	833,444
Net debt to invested capital <sup>(4)</sup>	39.1%	24.4%	39.1%	24.4%

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 nine 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).

Until October 12, 2015, Canadian softwood lumber exports to the United States were subject to export

taxes under the Softwood Lumber Agreement ("SLA") which had been in place since 2006.

The SLA expired on October 12, 2015, allowing B.C. lumber producers to ship softwood lumber products to the United States without incurring an export tax or duty. The agreement provides that no trade actions may be imposed against Canadian lumber producers for the export of softwood lumber from Canada to the U.S. for a period of twelve months from expiry of the agreement.

Other than the expiry of the SLA, there have been no significant changes to the Company's risks and uncertainties during the nine month period ended September 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 nine months ended September 30, 2015 and 2014 (unaudited)**

(thousands of Canadian dollars except earnings per share)

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
<b>Sales (note 14)</b>	\$ 430,835	\$ 373,124	\$ 1,275,964	\$ 1,058,183
<b>Costs and expenses:</b>				
Production	405,847	319,706	1,188,892	900,391
Selling and administration	12,451	8,681	36,520	26,599
Long term incentive compensation (recovery) expense	(16,965)	3,579	(14,766)	10,069
Export taxes	2,735	-	5,214	-
Depreciation of plant and equipment (note 10)	18,365	14,151	53,010	40,460
Depletion and amortization of timber, roads and other (note 10)	9,891	6,888	26,744	20,213
	432,324	353,005	1,295,614	997,732
<b>Operating earnings (loss) before restructuring costs</b>	(1,489)	20,119	(19,650)	60,451
Restructuring costs (note 11)	(10,097)	(26)	(9,963)	(23,272)
<b>Operating earnings (loss)</b>	(11,586)	20,093	(29,613)	37,179
Finance costs (note 12)	(4,948)	(2,347)	(12,110)	(6,647)
Other foreign exchange gain (loss)	986	(1,015)	(2,124)	(1,005)
Other expense	(77)	(213)	(106)	(40)
	(4,039)	(3,575)	(14,340)	(7,692)
<b>Earnings (loss) before income taxes</b>	(15,625)	16,518	(43,953)	29,487
Income tax expense (recovery)				
Current	(162)	272	310	1,208
Deferred	(9,330)	5,252	(17,384)	(17,598)
	(9,492)	5,524	(17,074)	(16,390)
<b>Net earnings (loss)</b>	\$ (6,133)	\$ 10,994	\$ (26,879)	\$ 45,877
<b>Net earnings (loss) per share, basic and diluted (note 13)</b>	\$ (0.09)	\$ 0.16	\$ (0.39)	\$ 0.70

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

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
<b>Net earnings (loss)</b>	\$ (6,133)	\$ 10,994	\$ (26,879)	\$ 45,877
<b>Other comprehensive income:</b>				
<b>Items that will not be recycled to Net earnings (loss):</b>				
Defined benefit plan actuarial loss	(1,834)	(2,223)	(394)	(2,532)
Income tax recovery	-	-	376	-
<b>Total items that will not be recycled to Net earnings (loss)</b>	(1,834)	(2,223)	(18)	(2,532)
<b>Items that are or may be recycled to Net earnings (loss):</b>				
Foreign currency translation differences - foreign operations	22,886	13,062	46,024	9,641
Gain (loss) in fair value of interest rate swaps (note 15)	(130)	328	(418)	111
<b>Total items that are or may be recycled to Net earnings (loss)</b>	22,756	13,390	45,606	9,752
<b>Total other comprehensive income, net of tax</b>	20,922	11,167	45,588	7,220
<b>Total comprehensive income</b>	\$ 14,789	\$ 22,161	\$ 18,709	\$ 53,097

**Subsequent event (note 16)**

See accompanying notes to consolidated financial statements



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

(thousands of Canadian dollars)

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
<b>Cash provided by (used in):</b>				
<b>Operating activities:</b>				
<b>Net earnings (loss)</b>	\$ (6,133)	\$ 10,994	\$ (26,879)	\$ 45,877
<b>Items not involving cash:</b>				
Depreciation of plant and equipment (note 10)	18,365	14,151	53,010	40,460
Depletion and amortization of timber, roads and other (note 10)	9,891	6,888	26,744	20,213
Income tax expense (recovery)	(9,492)	5,524	(17,074)	(16,390)
Finance costs (note 12)	4,948	2,347	12,110	6,647
Other assets	155	112	527	577
Reforestation liability	832	(1,834)	140	20
Provisions and other liabilities	(9,170)	1,384	(12,640)	(244)
Stock options (note 9)	56	-	155	-
Reversal of write-down of plant and equipment (note 11)	-	-	(1,195)	-
Write-down of plant and equipment (note 11)	140	-	140	20,468
Unrealized foreign exchange loss (gain)	(13)	365	(341)	331
Other	76	213	105	50
	<b>9,655</b>	<b>40,144</b>	<b>34,802</b>	<b>118,009</b>
<b>Cash generated from (used in) operating working capital:</b>				
Trade accounts receivable and other	14,595	6,514	5,174	(801)
Inventories	35,176	14,042	44,748	11,245
Prepayments	4,838	174	1,990	(3,303)
Trade accounts payable and provisions	(28,368)	8,371	(30,851)	4,509
Income taxes paid	(180)	(237)	(635)	(2,945)
	<b>35,716</b>	<b>69,008</b>	<b>55,228</b>	<b>126,714</b>
<b>Investing activities:</b>				
Additions to property, plant and equipment	(21,600)	(13,778)	(73,718)	(31,470)
Additions to logging roads	(8,015)	(8,178)	(20,918)	(19,781)
Additions to timber and other intangible assets	(240)	(474)	(1,377)	(2,440)
Proceeds on disposal of property, plant and equipment	852	(447)	4,642	1,640
Acquisitions (note 4)	98	-	(223,263)	(124,421)
Investments and other assets	132	154	312	98
	<b>(28,773)</b>	<b>(22,723)</b>	<b>(314,322)</b>	<b>(176,374)</b>
<b>Financing activities:</b>				
Issuance of capital stock, net of share issue expenses (notes 4 and 9)	-	-	63,196	-
Bank indebtedness	-	(4,400)	-	-
Interest payments	(4,685)	(1,870)	(11,315)	(5,134)
Financing transaction costs	(24)	-	(278)	(736)
Change in operating line components of long-term debt (note 8)	(3,656)	(4,655)	29,265	(1,789)
Additions to long term debt (notes 4 and 8)	-	25,000	362,582	169,706
Repayments of long term debt (note 8)	-	(46,436)	(189,691)	(91,544)
	<b>(8,365)</b>	<b>(32,361)</b>	<b>253,759</b>	<b>70,503</b>
<b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b>	<b>(759)</b>	<b>631</b>	<b>(631)</b>	<b>634</b>
<b>Increase (decrease) in cash</b>	<b>(2,181)</b>	<b>14,555</b>	<b>(5,966)</b>	<b>21,477</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>14,081</b>	<b>11,639</b>	<b>17,866</b>	<b>4,717</b>
<b>Cash and cash equivalents, end of period</b>	<b>\$ 11,900</b>	<b>\$ 26,194</b>	<b>\$ 11,900</b>	<b>\$ 26,194</b>

See accompanying notes to consolidated financial statements



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

(thousands of Canadian dollars)

	Sept. 30, 2015	Dec. 31, 2014
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 11,900	\$ 17,866
Trade accounts receivable and other	98,983	80,283
Income taxes receivable	394	-
Inventories (note 7)	160,439	148,668
Prepayments	16,648	12,175
Assets held for sale (note 5)	30,621	-
	<b>318,985</b>	<b>258,992</b>
<b>Employee future benefits</b>	<b>1,959</b>	<b>2,520</b>
<b>Other investments and assets</b>	<b>2,122</b>	<b>2,972</b>
<b>Property, plant and equipment (notes 4 and 11)</b>	<b>769,026</b>	<b>541,378</b>
<b>Logging roads and bridges</b>	<b>23,536</b>	<b>22,244</b>
<b>Timber licences</b>	<b>76,647</b>	<b>79,024</b>
<b>Other intangible assets</b>	<b>24,478</b>	<b>24,397</b>
<b>Goodwill</b>	<b>156,150</b>	<b>136,996</b>
<b>Deferred income taxes</b>	<b>10,848</b>	<b>-</b>
	<b>\$ 1,383,751</b>	<b>\$ 1,068,523</b>
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities:</b>		
Trade accounts payable and provisions	\$ 131,278	\$ 139,153
Reforestation liability	12,325	9,797
Income taxes payable	285	365
	<b>143,888</b>	<b>149,315</b>
<b>Reforestation liability</b>	<b>23,521</b>	<b>23,099</b>
<b>Long term debt (note 8)</b>	<b>473,374</b>	<b>220,419</b>
<b>Employee future benefits</b>	<b>7,914</b>	<b>7,361</b>
<b>Provisions and other liabilities</b>	<b>16,514</b>	<b>25,190</b>
<b>Deferred income taxes</b>	<b>-</b>	<b>6,659</b>
<b>Equity:</b>		
Share capital (note 9)	553,559	490,363
Contributed surplus (note 9)	7,631	7,476
Translation reserve	66,974	20,950
Hedge reserve	(285)	133
Retained earnings	90,661	117,558
	<b>718,540</b>	<b>636,480</b>
	<b>\$ 1,383,751</b>	<b>\$ 1,068,523</b>

**See accompanying notes to consolidated financial statements**

Approved on behalf of the Board:

"L. Sauder"  
Director

"D.W.G. Whitehead"  
Director



**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the nine months ended September 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>	-	-	-	-	(26,879)	(26,879)
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	46,024	-	-	46,024
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(18)	(18)
Loss in fair value of interest rate swaps (note 15)	-	-	-	(418)	-	(418)
<b>Contributions:</b>						
Share issuance, net of share issue expenses (notes 4 and 9(a))	63,196	-	-	-	-	63,196
Stock options (note 9(b))	-	155	-	-	-	155
<b>Balance at September 30, 2015</b>	\$ 553,559	\$ 7,631	\$ 66,974	\$ (285)	\$ 90,661	\$ 718,540
<b>Balance at December 31, 2013</b>	\$ 428,723	\$ 7,476	\$ 561	\$ 167	\$ 78,210	\$ 515,137
<b>Net earnings:</b>	-	-	-	-	45,877	45,877
<b>Other comprehensive earnings (loss):</b>						
Foreign currency translation differences, net of tax	-	-	9,641	-	-	9,641
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(2,532)	(2,532)
Gain in fair value of interest rate swaps (note 15)	-	-	-	111	-	111
<b>Contributions:</b>						
Shares issued in business combination (notes 4 and 9(a))	61,640	-	-	-	-	61,640
<b>Balance at September 30, 2014</b>	\$ 490,363	\$ 7,476	\$ 10,202	\$ 278	\$ 121,555	\$ 629,874

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 nine months ended September 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. South 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 nine months ended September 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 November 4, 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 Interfor Corporation 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).

#### 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 September 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 and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption 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.

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. On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington (see note 5). A sale of substantially all assets of the Tacoma sawmill would accelerate the payment due date of the contingent liability to within 45 days of disposal, with the payout expected to equal the US\$10,000,000 minimum.

**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 nine months ended September 30, 2015 and 2014 (unaudited)

**4. Acquisitions (continued):**

As at September 30, 2015, the provision was revalued at the quarter-end exchange rate to \$12,676,000 and recorded in Trade accounts payable and provisions in the Consolidated Statement of Financial Position.

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\$35,627,000 (\$43,699,000).

These acquisitions have been accounted for as business combinations 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	\$ 2,900	\$ 60,561
Property, plant and equipment	129,227	40,846	170,073
Current liabilities assumed:	186,888	43,746	230,634
	(4,234)	(47)	(4,281)
	\$ 182,654	\$ 43,699	\$ 226,353
Cash consideration funded by:			
Revolving Term Loan	\$ 107,625	\$ 43,675	\$ 151,300
Current liabilities for settlement of working capital	-	24	24
Contingent future payments	11,833	-	11,833
Cash consideration from common share issuance	63,196	-	63,196
	\$ 182,654	\$ 43,699	\$ 226,353

The Company incurred acquisition related costs of approximately \$148,000 and \$2,093,000 for the third quarter and nine months ended September 30, 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. Assets held for sale:**

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 September 30, 2015, the Company has classified \$30,621,000 of the Tacoma sawmill property, plant and equipment as assets held for sale, and, in accordance with IFRS, these assets are no longer amortized.

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, other than \$140,000 recognized for a building which is expected to be demolished. See note 11 for a discussion of provisions and inventory write-downs associated with the closure.

A sale of substantially all assets of the Tacoma sawmill could accelerate the due date of contingent future payments, as described in note 4.

Monetization of these Tacoma sawmill assets is expected in the second half of 2016.

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**6. 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 winter months due to reduced construction and renovation and repair activity, which increases during spring, summer and fall.

**7. Inventories:**

	Sept. 30, 2015	Dec. 31, 2014
Logs	\$ 71,025	\$ 71,841
Lumber	71,328	66,798
Other	18,086	10,029
	<u>\$ 160,439</u>	<u>\$ 148,668</u>

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 September 30, 2015 was \$21,171,000 (December 31, 2014 - \$9,774,000).

**8. Cash and borrowings:**

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
<b>September 30, 2015</b>					
Available line of credit	\$ 65,000	\$ 200,000	\$ 267,880	\$ 66,970	\$ 599,850
Maximum borrowing available	\$ 62,140	\$ 191,201	\$ 267,880	\$ 66,970	\$ 588,191
Drawings	10,000	174,122	267,880	21,372	473,374
Outstanding letters of credit included in line utilization	9,267	-	-	2,224	11,491
Unused portion of line	<u>\$ 42,873</u>	<u>\$ 17,079</u>	<u>\$ -</u>	<u>\$ 43,374</u>	<u>\$ 103,326</u>
<b>December 31, 2014</b>					
Available line of credit	\$ 65,000	\$ 250,000	\$ 116,010	\$ 34,803	\$ 465,813
Maximum borrowing available	\$ 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	<u>\$ 56,363</u>	<u>\$ 145,591</u>	<u>\$ -</u>	<u>\$ 33,620</u>	<u>\$ 235,574</u>

**(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 September 30, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied pro-rata to the Operating Line and Revolving Term Line limits.

As at September 30, 2015, the Operating Line was drawn by \$19,267,000 (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>.

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

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**8. Cash and borrowings (continued):****(b) Revolving Term Line (continued):**

The Revolving Term Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on 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 September 30, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied pro-rata to the Operating Line and Revolving Term Line limits.

As at September 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 \$174,122,000 (December 31, 2014 - \$104,409,000). As at September 30, 2015, \$17,079,000 of the Revolving Term Line was unused (December 31, 2014 - \$145,591,000).

All outstanding U.S. dollar drawings under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and foreign exchange losses of \$24,852,000 for the nine months ended September 30, 2015 (nine months, 2014 - \$4,943,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income. For the third quarter, 2015, a foreign exchange loss of \$11,960,000 (Quarter 3, 2014 - \$8,668,000 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 September 30, 2015 (December 31, 2014 – US\$100,000,000) and revalued at the quarter-end exchange rate to \$267,880,000 (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. Total payments of US\$33,333,000 (US\$16,667,000 for each of the Series A and Series B Senior Secured Notes) 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 \$23,840,000 (nine months, 2014 - \$2,860,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the nine months ended September 30, 2015. For the third quarter, 2015, an unrealized foreign exchange loss of \$18,400,000 (Quarter 3, 2014 - \$2,660,000 loss) was recognized in Other comprehensive income.

**(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 September 30, 2015, the U.S. Operating Line was drawn by US\$17,616,000, including outstanding letters of credit, revalued at the quarter-end exchange rate to \$23,596,000 (December 31, 2014 – US\$1,020,000 revalued at the year-end exchange rate to \$1,183,000), with cumulative foreign exchange losses of \$2,183,000 (nine months, 2014 - \$115,000 loss) recognized in Foreign currency translation differences in Other comprehensive income for the nine months ended September 30, 2015. For the third quarter, 2015, a cumulative foreign exchange loss of \$1,730,000 (Quarter 3, 2014 - \$nil) was recognized in Other comprehensive income.

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

Twelve months ending	
September 30, 2016	\$ -
September 30, 2017	205,494
September 30, 2018	-
September 30, 2019	-
September 30, 2020	-
Thereafter	267,880
	<u>\$ 473,374</u>

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**9. 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, September 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 nine months ended September 30, 2015, the Company granted 78,926 options, of which 75,412 remained outstanding at September 30, 2015 (December 31, 2014 - no options outstanding). The Company issued 5,878 options during the third quarter, 2015 (Quarter 3, 2014 - nil). The Company recognized an expense of \$155,000 for the nine months ended September 30, 2015 (nine months, 2014 - \$nil) and \$56,000 for the third quarter, 2015 (Quarter 3, 2014 - \$nil) in Contributed surplus.

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

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

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
Production	\$ 26,200	\$ 19,555	\$ 73,926	\$ 57,579
Selling and administration	2,056	1,484	5,828	3,094
	\$ 28,256	\$ 21,039	\$ 79,754	\$ 60,673

**11. Restructuring costs:**

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
Tacoma sawmill:				
Write-down of inventories	\$ 6,643	-	\$ 6,643	-
Write-down of plant and equipment	140	-	140	-
Severance	2,988	-	2,988	-
Onerous contract	162	-	162	-
Site closure costs	143	-	143	-
Beaver-Forks operation:				
Write-down (reversal of write-down) of plant and equipment	-	-	(1,195)	20,468
Severance	-	26	5	1,131
Onerous contract	-	-	175	1,673
Other				
Severance	(7)	-	874	-
Other	28	-	28	-
	\$ 10,097	\$ 26	\$ 9,963	\$ 23,272

During the second quarter, 2014, the Company curtailed its Beaver-Forks operation, located on the Olympic Peninsula in Washington, and sold substantially all of its assets in the first quarter, 2015.

In the third quarter, 2015, the Company announced a plan to exit the Tacoma sawmill (see note 5) and recorded related restructuring charges. Inventory write-downs reflect extraordinary declines in fair value of inventory subsequent to the decision date.

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**12. Finance costs:**

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
Interest on borrowings	\$ 4,609	\$ 1,975	\$ 11,125	\$ 5,604
Interest (income) expense on defined benefit obligations	10	(10)	13	(44)
Accretion expense	114	151	331	490
Amortization of deferred finance costs	215	231	641	597
	\$ 4,948	\$ 2,347	\$ 12,110	\$ 6,647

**13. 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 Sept. 30, 2015			3 Months Sept. 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	\$ (6,133)	70,030*	\$ (0.09)	\$ 10,994	66,730	\$ 0.16

	9 Months Sept. 30, 2015			9 Months Sept. 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		-			2,710	
Effect of shares issued on March 2, 2015		2,575			-	
Basic and diluted earnings (loss) per share	\$ (26,879)	69,305*	\$ (0.39)	\$ 45,877	65,760	\$ 0.70

\*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.

**14. 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 Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
United States	\$ 301,320	\$ 229,196	\$ 867,609	\$ 617,608
Canada	59,734	64,989	179,357	175,955
China/Taiwan	29,811	47,037	84,739	130,622
Japan	31,657	27,533	103,357	95,891
Other export	8,313	4,369	40,902	38,107
	\$ 430,835	\$ 373,124	\$ 1,275,964	\$ 1,058,183

Sales by product line are as follows:

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
Lumber	\$ 343,327	\$ 303,020	\$ 1,036,194	\$ 858,636
Logs	48,390	34,380	124,430	107,375
Wood chips and other by-products	36,177	28,262	107,082	76,441
Ocean freight and other	2,941	7,462	8,258	15,731
	\$ 430,835	\$ 373,124	\$ 1,275,964	\$ 1,058,183

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### 15. Financial instruments:

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.

At September 30, 2015, the fair value of the Company's long term debt approximated its carrying value of \$473,374,000 (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 September 30, 2015, the Company has no outstanding obligations under foreign currency contracts.

The Company 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 27, 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:

	Sept. 30, 2015	Dec. 31, 2014
Foreign exchange forward contracts	\$ -	\$ (177)
Interest rate swaps, designated as cash flow hedges	(286)	132
Total liability, net	\$ (286)	\$ (45)

The following table summarizes the gain (loss) on derivative financial instruments:

	3 Months Sept. 30, 2015	3 Months Sept. 30, 2014	9 Months Sept. 30, 2015	9 Months Sept. 30, 2014
Foreign exchange forward contracts <sup>1</sup>	\$ 261	\$ (366)	\$ (1,460)	\$ 330
Interest rate swaps <sup>2</sup>	(130)	328	(418)	111
Total gain (loss), net	\$ 131	\$ (38)	\$ (1,878)	\$ 441

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

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

### 16. Subsequent event:

Until October 12, 2015, Canadian softwood lumber exports to the United States were subject to export taxes under the Softwood Lumber Agreement ("SLA") which had been in place since 2006.

The SLA expired on October 12, 2015, allowing B.C. lumber producers to ship softwood lumber products to the United States without incurring an export tax or duty. The agreement provides that no trade actions may be imposed against Canadian lumber producers for the export of softwood lumber from Canada to the U.S. for a period of twelve months from expiry of the agreement.



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