



International Forest Products Limited

Second Quarter Report

For the three and six months ended June 30, 2013

Management's Discussion and Analysis

Dated as of August 1, 2013

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and six months ended June 30, 2013 relative to 2012, the Company's financial condition and future prospects. The MD&A should be read in conjunction with the interim Condensed Consolidated Financial Statements for the three and six months ended June 30, 2013 and 2012, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2012 and 2011 filed on SEDAR at www.sedar.com. The financial information contained in this MD&A has been prepared in accordance with IAS 34 *Interim Financial Reporting* and International Financial Reporting Standards ("IFRS") except as noted herein. In this MD&A, reference is made to EBITDA and Adjusted EBITDA. EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and write-downs of property, plant, equipment ("asset write-downs"). Adjusted EBITDA represents EBITDA adjusted for long term incentive compensation expense (recovery), and other income (expense). The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is not a defined term under IFRS, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all financial references in this MD&A are in Canadian dollars.

References in this MD&A to "Interfor" and the "Company" mean International Forest Products Limited, together with its subsidiaries.

Forward-Looking Statements

This report contains forward-looking statements. Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included in the description of areas which are likely to be impacted by the description of future cash flows and liquidity under the headings "Overview", "Income Taxes", "Cash Flow and Financial Position", and "Acquisition of Additional Sawmill in Georgia, U.S.A."; changes in accounting policy under the heading "Accounting Policy Changes"; and in the description of economic conditions under the headings "Sales" and "Outlook". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including assumptions as to general business and economic conditions in the U.S. and Canada, as well as other factors management believes are appropriate in the circumstances including, among others: product selling prices, raw material and operating costs, changes in foreign currency exchange rates, and other factors referenced herein. Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described herein and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstance, except as required by law.

Review of Operating Results

Overview

Interfor recorded net earnings of \$15.8 million, or \$0.28 per share for the second quarter, 2013, as compared to net earnings of \$0.1 million, or \$0.00 per share for the second quarter, 2012. For the first six months, 2013, the Company recorded net earnings of \$30.9 million, or \$0.55 per share as compared to a net loss of \$6.6 million, or \$0.12 per share for the first six months, 2012.

The Company recorded share-based incentive compensation expense of 0.9 million, or \$0.01 per share in the second quarter, 2013, as compared to an expense of \$0.2 million, or \$0.00 per share for the same period, 2012. For the first six months, 2013, the Company recorded share-based incentive compensation expense of \$7.5 million, or \$0.10 per share for the first six months, 2013, as compared to \$1.5 million, or \$0.02 per share for the same period, 2012.

Adjusted EBITDA for the second quarter, 2013, increased to \$36.1 million compared to \$16.6 million for the second quarter, 2012. Adjusted EBITDA for the first half, 2013, was \$73.2 million compared to \$23.5 million for the same period, 2012.

Compared to 2012, sales prices and volumes improved in line with the recovery in the U.S. housing market.

U.S. housing starts strengthened through the first quarter, 2013, but fell off in the second quarter.

The average price reported by Random Lengths for SPF 2x4 #2&Btr was US\$297 per mfbm for June, 2013, as compared to a year-to-date high of US\$406 per mfbm for March, 2013, and US\$370 per mfbm for December, 2012. The Random Lengths average price for SYP East 2x4 #2&Btr for June, 2013, fell to US\$358 per mfbm compared to March, 2013, at US\$457 per mfbm and US\$412 per mfbm for December, 2012.

No export tax was payable in either the first or second quarter under the Softwood Lumber Agreement. However, the Random Lengths Composite average price for June, 2013, fell to US\$329 per mfbm resulting in an export tax rate of 10% starting in August, 2013, for Canadian lumber exports to the U.S. For the first six months, 2013, Canadian mill shipments to the U.S. were approximately 17% of the Company's lumber sales volumes.

Sales

The Company achieved record quarterly sales revenue in the second quarter, 2013, at \$274.7 million, an improvement of \$49.3 million over the same quarter, 2012. For the first half, 2013, sales rose by \$105.1 million or 26% over the first half, 2012.

Lumber shipments reached a record level of 433 million board feet for the second quarter, 2013, and totaled 816 million board feet for the first half, 2013, up almost 20% over 2012. The increases reflect the acquisition of the three U.S. Southeast sawmills on March 1, 2013, together with stronger North American demand.

Higher North American pricing, complemented by higher realizations in China and Japan were reflected in improved average lumber sales prices of \$59 per mfbm for the second quarter, 2013, and \$70 per mfbm for the first half, 2013, compared to the same periods, 2012.

Compared to the same periods, 2012, log sales declined by 8% for the second quarter, 2013, and 6% for the first half, 2013. Log sales volumes in Canada declined just over 20% for 2013, as compared to 2012, but were mitigated by higher average overall log sales prices and a shift in mix to offshore markets.

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

Operating Costs

Production costs increased \$30.3 million and \$56.8 million, for the second quarter and first half, 2013, respectively, compared to the same periods in 2012.

The Company achieved record lumber production in the second quarter, 2013, at 418 million board feet, a 26% rise over the same quarter, 2012, and up 23% to 808 million board feet for the first half, 2013. The Company's increased production was primarily a result of improved productivity from the rebuilt Grand Forks sawmill, increased operating rates in the U.S. Pacific Northwest and the addition of production from the three U.S. Southeast sawmills.

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

Compared to the same period in 2012, B.C. log production remained constant during the second quarter and first half, 2013. Higher stumpage rates contributed to higher unit logging costs vis-à-vis the comparative periods, 2012.

As a result of the lift in commodity lumber prices, the export tax rate under the Softwood Lumber Agreement remained at 0% for the second quarter and first half, 2013, as compared to an average export tax rate of 13% in the second quarter, 2012.

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

Second quarter and first half, 2013, long term incentive compensation expense increased by \$0.7 million and \$6.0 million over the corresponding periods, 2012, reflecting increased participation and changes in the estimated fair value of the share-based compensation plans. The movement in the Company's share price had the greatest impact on this expense, as reflected by an increase in the closing share price of 28% for the first half, 2013 (1st Half, 2012 – 19% increase).

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

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

Second quarter and first half, 2013, finance costs increased compared to the same periods, 2012, primarily as a result of an overall increase in average debt levels compared to the same periods in the prior year.

Other foreign exchange losses are impacted by the volatility of the Canadian dollar and the timing and amount of derivative forward foreign exchange contracts. Over the second quarter and first half, 2013, the Canadian dollar weakened by 4% and 6%, respectively vis-à-vis its U.S. counterpart (Quarter 1, 2012 – weakened by 2% and 1st Half, 2012 – negligible change).

Income Taxes

In the second quarter, 2013, the Company recorded an income tax expense of \$0.4 million (Quarter 2, 2012 - \$0.3 million) and decreased its unrecognized deferred tax asset by \$4.0 million (Quarter 2, 2012 – negligible decrease) in relation to certain unused tax losses that are available to be carried forward against future taxable income. For the six months, 2013, the income tax expense of \$0.1 million (first half, 2012 - \$0.4 million), excluded the drawdown (expense) of \$8.7 million of its unrecognized deferred tax asset (first half, 2012 – \$1.9 million benefit).

As of December 31, 2012, the Company had Canadian non-capital loss carry-forwards and U.S. net operating loss carry-forwards totalling approximately \$292 million. Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years the Company has not recognized the benefit of its deferred tax asset in excess of its deferred tax liabilities, except in limited circumstances.

Cash Flow and Financial Position

The Company generated \$68.4 million from operations, before changes in working capital in the first half, 2013, an improvement of \$46.2 million over the first half, 2012. Higher domestic shipments and North American lumber sales prices, zero export tax, and the positive contributions of the three newly acquired U.S. Southeast sawmills drove higher cash earnings for the first half, 2013, as compared to the first half, 2012.

Increased operating rates, log costs, and lumber prices contributed to a working capital cash utilization of \$19.6 million in the first half, 2013. In contrast, for the first half, 2012 cash utilization of \$13.5 million resulted from increased sales volumes, North American sales values and the shift away from lumber export markets.

Including changes in non-cash working capital, cash generated from operations was \$48.9 million for the first half, 2013, an improvement of \$40.1 million over the same period, 2012.

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

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

On June 28, 2013, the Company paid a deposit of US\$31.5 million held in escrow for the acquisition of the sawmill operations of Keadle Lumber Enterprises, Inc. in Georgia, U.S.A. (see "Acquisition of Additional Sawmill in Georgia, U.S.A."). The acquisition and deposit were funded primarily through drawings on credit facilities.

Capital expenditures for the first half, 2013, totalled \$34.0 million (1st Half, 2012 - \$25.3 million) with \$6.9 million spent on capital upgrades for the Grand Forks and Castlegar sawmills, \$3.2 million on other high-return discretionary projects, \$4.7 million on business maintenance expenditures and \$19.2 million on road construction and timber tenures.

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

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

As at June 30, 2013, the Operating Line of \$65.0 million was drawn by \$3.4 million and by \$5.4 million in outstanding letters of credit, leaving an unused available line of \$56.2 million. The Revolving Term Line of \$200.0 million was drawn by US\$113.2 million (revalued at the quarter-end exchange rate to \$119.1 million) and \$50.0 million for total drawings of \$169.1 million, leaving an unused available line of \$30.9 million.

The Senior Secured Notes outstanding totalled US\$50.0 million and the U.S. Operating Line was drawn by US\$12.8 million, revalued at the quarter-end exchange rate to \$52.6 million and \$13.5 million respectively, and leaving an unused available line of \$7.6 million for the U.S. Operating Line.

Including cash of \$4.5 million, the Company had available liquidity of \$99.2 million as at June 30, 2013.

This liquidity, together with cash generated from operations, will be used to support our working capital requirements, capital expenditures and debt servicing commitments.

The Company ended the second quarter, 2013, with net debt of \$200.8¹ million or 33% of invested capital as compared to 24% as at June 30, 2012 and 24% as at December 31, 2012.

Based on current pricing, cash flow projections and existing credit lines the Company believes it has sufficient liquidity to meet all of its financial obligations.

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

Selected Quarterly Financial Information¹

Quarterly Earnings Summary	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(millions of dollars except share and per share amounts)							
Sales – Lumber	219.5	191.4	173.3	161.9	162.4	133.6	133.6	139.6
– Logs	32.6	26.1	24.5	26.8	35.6	27.0	22.9	36.0
– Wood chips and other residual products	17.4	16.6	15.9	17.5	17.8	18.2	17.5	17.6
– Other	5.2	8.4	8.7	8.5	9.6	7.9	14.6	9.9
Total Sales	274.7	242.5	222.4	214.7	225.4	186.7	188.7	203.1
Operating earnings (loss) before restructuring costs and asset impairments ²	19.5	17.3	(2.1)	2.4	2.8	(5.6)	(6.4)	3.8
Operating earnings (loss) ²	19.3	17.2	(2.4)	2.3	2.6	(5.6)	(6.3)	4.1
Net earnings (loss) ²	15.8	15.2	(3.8)	0.9	0.1	(6.7)	(6.6)	(0.1)
Net earnings (loss) per share – basic and diluted ²	0.28	0.27	(0.07)	0.02	0.00	(0.12)	(0.12)	0.00
EBITDA ⁶	35.3	30.6	13.0	15.0	16.4	5.8	6.5	17.5
Adjusted EBITDA ^{2,6}	36.1	37.1	19.3	17.1	16.6	7.0	7.5	16.2
Cash flow from operations per share ³	0.64	0.59	0.24	0.20	0.24	0.15	0.08	0.26
Shares outstanding – end of period (millions) ⁴	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9
– weighted average (millions)	55.9	55.9	55.9	55.9	55.9	55.9	55.9	55.9
Average foreign exchange rate per US\$1.00 ⁵	1.0233	1.0080	0.9914	0.9954	1.0104	1.0010	1.0230	0.9808
Closing foreign exchange rate per US\$1.00 ⁵	1.0518	1.0160	0.9949	0.9832	1.0181	0.9975	1.0170	1.0482

- 1 Tables may not add due to rounding.
- 2 Effective January 1, 2013, IAS 19, *Employee Benefits*, was revised (see "Accounting Policy Changes"). Previously, the impact of defined benefit plans on Net earnings included an interest cost on the obligation using the discount rate (based on current bond yields), and a credit on the plan assets using the expected rate of return (based on long term expected bond and equity returns). Under the new standard, the credit on plan assets no longer recognized the equity risk premium and is based on the discount rate only. The resulting impact of the changes in the standard is an increase to Production expense and Finance costs in the Statement of earnings, which is fully offset by an increase (decrease) in Defined benefit plan actuarial gains (losses) in the Statement of comprehensive income.
- The policy has been applied on a retrospective basis and comparative information has been restated.
- 3 Cash generated from operations before taking account of changes in operating working capital.
- 4 As at August 1, 2013, the numbers of shares outstanding by class are: Class A Subordinate Voting shares – 54,847,176 Class B Common shares – 1,015,779, Total – 55,862,955.
- 5 Rates are based on Bank of Canada closing foreign exchange rates per US\$1.00.
- 6 The Company discloses EBITDA as it is a measure used by analysts and Interfor's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance. Adjusted EBITDA represents EBITDA adjusted for long-term incentive compensation expense (recovery) and other income (expense). EBITDA and Adjusted EBITDA can be calculated from the statements of operations as follows:

	2013		2012				2011	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
	(millions of dollars)							
Net earnings (loss)	15.8	15.2	(3.8)	0.9	0.1	(6.7)	(6.6)	(0.1)
Add: Income taxes (recovery)	0.4	(0.4)	0.0	0.0	0.3	-	0.2	0.5
Finance costs	2.4	1.8	1.5	1.6	1.7	1.6	1.3	1.7
Depreciation, depletion and amortization	15.7	13.2	15.1	12.4	13.6	11.3	13.0	13.3
Other foreign exchange (gains) losses	0.8	0.7	(0.2)	(0.1)	0.5	(0.4)	(1.1)	2.5
Restructuring costs, asset write-downs and other (recovery)	0.2	0.1	0.3	0.1	0.1	0.0	(0.1)	(0.3)
EBITDA	35.3	30.6	13.0	15.0	16.4	5.8	6.5	17.5
Add (deduct):								
Long-term incentive compensation expense (recovery)	0.9	6.6	6.2	2.3	0.2	1.3	0.9	(0.9)
Other income (expense)	(0.1)	(0.1)	0.0	(0.2)	0.0	(0.1)	0.0	(0.4)
Adjusted EBITDA	36.1	37.1	19.3	17.1	16.6	7.0	7.5	16.2

Volume and Price Statistics

		2013		2012				2011	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Lumber sales	(million fbm)	433	383	384	366	363	320	318	336
Lumber production	(million fbm)	418	390	347	350	333	323	294	313
Log sales ¹	(thousand cubic metres)	301	289	267	345	379	361	310	430
Log production ¹	(thousand cubic metres)	854	902	748	817	840	892	795	1,002
Average selling price – lumber ²	(\$/thousand fbm)	\$507	\$500	\$452	\$442	\$448	\$418	\$420	\$415
Average selling price – logs ¹	(\$/cubic metre)	\$90	\$76	\$76	\$75	\$75	\$64	\$69	\$74
Average selling price – pulp chips	(\$/thousand fbm)	\$36	\$36	\$39	\$43	\$46	\$48	\$51	\$48

1 B.C. operations

2 Gross sales before export taxes

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, the Company's B.C. Coastal logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring thaw and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

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

positive net earnings in the first quarter, 2013. In addition, the acquisition of three sawmills in Georgia, U.S.A. towards the end of the first quarter, 2013, was immediately accretive to net earnings. Mid-way through the second quarter, 2013, as supply outstripped demand, lumber prices dropped, ending the quarter at levels close to those in the first quarter, 2012.

With one minor exception, no deferred tax assets arising from loss carry-forwards were recognized over the last eight quarters.

Acquisition of Additional Sawmill in Georgia, U.S.A.

On July 1, 2013, the Company acquired the sawmill operations of Keadle Lumber Enterprises, Inc. in Thomaston, Georgia, for US\$30.0 million, plus working capital of US\$1.5 million. As at June 30, 2013, the Company had paid a deposit of US\$31.5 million (revalued at the quarter-end foreign exchange rate to \$33.2 million). The Company will pay an additional US\$7.0 million, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift. This approval is expected in the fourth quarter, 2013, with the payment to be made in 2014. Following an upgrade of the mill's drying capacity, the newly named Thomaston Division will have an annual capacity in excess of 160 million board feet on a two-shift basis. When combined with the Rayonier mills purchased earlier this year, this will give the Company a total annual lumber capacity of over 520 million board feet in the U.S. Southeast.

U.S.W. Union Agreement

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

Accounting Policy Changes

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

The standard-setting bodies that set IFRS have significant ongoing projects that could impact the IFRS accounting policies selected. Specifically, it is anticipated that there will be additional new or revised IFRS or IFRIC standards in relation to financial instruments and leases currently on the International Accounting Standards Board agenda.

Controls and Procedures

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

Critical Accounting Estimates

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

Outlook

The U.S. housing market is projected to continue a gradual recovery through the balance of 2013. Lumber prices have firmed in recent weeks and are expected to increase with a recovering U.S. housing market. Export tax rates will increase to 10% in August as lumber prices in June fell below the relevant threshold.

Building activity in Japan is expected to continue to grow through the latter part of 2013. Demand and pricing in China is expected to remain stable.

Stumpage fees for Canadian operations are expected to be higher through the balance of 2013.

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

Additional Information

Additional information relating to the Company and its operations can be found on its website at www.interfor.com, in the Annual Information Form and on SEDAR at www.sedar.com. Interfor's trading symbol on the Toronto Stock Exchange is IFP.A.



Lawrence Sauder
Chairman



Duncan K. Davies
President and Chief Executive Officer



CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three and six months ended June 30, 2013 and 2012 (unaudited)

(thousands of Canadian dollars except loss per share)

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
		Re-stated (note 3(a))		Re-stated (note 3(a))
Sales	\$ 274,698	\$ 225,424	\$ 517,197	\$ 412,084
Costs and expenses:				
Production (note 3(a))	231,368	201,051	429,670	372,880
Selling and administration	7,256	5,327	14,331	10,632
Long term incentive compensation expense	877	205	7,497	1,522
Export taxes (recovery)	1	2,491	(1)	5,024
Depreciation of plant and equipment (note 9)	9,382	6,923	17,946	13,715
Depletion and amortization of timber, roads and other (note 9)	6,279	6,663	10,878	11,188
	255,163	222,660	480,321	414,961
Operating earnings (loss) before restructuring costs	19,535	2,764	36,876	(2,877)
Restructuring costs	(219)	(146)	(322)	(146)
Operating earnings (loss)	19,316	2,618	36,554	(3,023)
Finance costs (notes 3(a) and 8)	(2,422)	(1,701)	(4,210)	(3,274)
Other foreign exchange loss	(848)	(493)	(1,563)	(61)
Other income	119	6	208	128
	(3,151)	(2,188)	(5,565)	(3,207)
Earnings (loss) before income taxes	16,165	430	30,989	(6,230)
Income tax expense (recovery):				
Current	148	243	(121)	357
Deferred	258	78	172	4
	406	321	51	361
Net earnings (loss)	\$ 15,759	\$ 109	\$ 30,938	\$ (6,591)
Net earnings (loss) per share, basic and diluted (note 10)	\$ 0.28	\$ 0.00	\$ 0.55	\$ (0.12)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2013 and 2012 (unaudited)

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
		Re-stated (note 3(a))		Re-stated (note 3(a))
Net earnings (loss)	\$ 15,759	\$ 109	\$ 30,938	\$ (6,591)
Other comprehensive income (loss):				
Foreign currency translation differences – foreign operations	3,678	2,563	6,430	105
Defined benefit plan actuarial gains (losses) (note 3(a))	2,901	(2,619)	2,507	(3,038)
Gain (loss) in fair value of interest rate swaps (note 12)	955	(353)	580	213
Income tax recovery on other comprehensive income	267	78	212	4
	7,801	(331)	9,729	(2,716)
Total comprehensive income (loss) for the period	\$ 23,560	\$ (222)	\$ 40,667	\$ (9,307)

See accompanying notes to consolidated financial statements



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2013 and 2012 (unaudited)

(thousands of Canadian dollars)

	6 Months June 30, 2013	6 Months June 30, 2012
		Re-stated (note 3(a))
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$ 30,938	\$ (6,591)
Items not involving cash:		
Depreciation of plant and equipment	17,946	13,715
Depletion and amortization of timber, roads and other	10,878	11,188
Income tax expense	51	361
Finance costs (note 3(a) and 8)	4,210	3,274
Reforestation liability	2,778	1,109
Other assets	45	-
Other liabilities and provisions	710	(914)
Write-down of plant and equipment	-	128
Foreign exchange losses	977	85
Other	(117)	(102)
	68,416	22,253
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(6,927)	(14,754)
Inventories	(27,817)	983
Prepayments	(2,404)	(3,558)
Trade accounts payable and accrued liabilities	18,004	4,740
Income taxes paid	(419)	(924)
	48,853	8,740
Investing activities:		
Additions to property, plant and equipment	(14,194)	(14,862)
Additions to logging roads	(7,175)	(10,408)
Additions to timber and other intangible assets	(12,643)	-
Proceeds on disposal of property, plant, and equipment	152	179
Acquisition (note 4)	(86,641)	-
Deposit held in escrow for acquisition (note 13)	(33,150)	-
Investments and other assets	(244)	(122)
	(153,895)	(25,213)
Financing activities:		
Interest payments	(3,237)	(2,687)
Financing transaction costs	(1,394)	-
Additions to long-term debt (notes 4 and 7)	199,104	50,000
Repayments of long-term debt (note 7)	(100,334)	(30,000)
	94,139	17,313
Foreign exchange gain on cash and cash equivalents held in a foreign currency	435	25
Increase (decrease) in cash	(10,468)	865
Cash and cash equivalents, beginning of period	14,994	10,435
Cash and cash equivalents, end of period	\$ 4,526	\$ 11,300

See accompanying notes to consolidated financial statements



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

(thousands of Canadian dollars)

	Jun. 30, 2013	Dec. 31, 2012
		Re-stated (note 3(a))
Assets		
Current assets:		
Cash and cash equivalents	\$ 4,526	\$ 14,994
Deposit (note 13)	33,150	-
Trade accounts receivable and other	59,347	47,392
Inventories (note 6)	133,297	98,024
Prepayments	14,360	11,749
	<u>244,680</u>	<u>172,159</u>
Employee future benefits	754	878
Other investments and assets	5,157	4,198
Property, plant and equipment	429,653	349,779
Logging roads and bridges	15,226	17,316
Timber licences	84,593	73,796
Other intangible assets	1,037	738
Goodwill	13,078	13,078
Deferred income taxes	138	98
	<u>\$ 794,316</u>	<u>\$ 632,040</u>
Liabilities and Equity		
Current liabilities:		
Trade accounts payable and accrued liabilities	\$ 87,225	\$ 70,597
Reforestation liability	12,019	10,864
Income taxes payable	59	593
	<u>99,303</u>	<u>82,054</u>
Reforestation liability	20,568	17,621
Long-term debt (note 7)	238,507	135,046
Employee future benefits	6,917	9,631
Other liabilities and provisions	12,324	11,658
Equity:		
Share capital		
Class A subordinate voting shares	342,285	342,285
Class B common shares	4,080	4,080
Contributed surplus	7,476	7,476
Reserves	(728)	(7,950)
Retained earnings	63,584	30,139
	<u>416,697</u>	<u>376,030</u>
	<u>\$ 794,316</u>	<u>\$ 632,040</u>

Subsequent event and commitment (note 13)

See accompanying notes to consolidated financial statements

On behalf of the Board:

L. Sauder
Director

D. Whitehead
Director



CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2013 and 2012 (unaudited)

(thousands of Canadian dollars)

	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2012	\$ 342,285	\$ 4,080	\$ 7,476	\$ (7,818)	\$ (132)	\$ 30,139	\$ 376,030
Net earnings (loss) for the period:	-	-	-	-	-	30,938	30,938
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	6,642	-	-	6,642
Defined benefit plan actuarial gains (losses)	-	-	-	-	-	2,507	2,507
Gain in fair value of interest rate swaps	-	-	-	-	580	-	580
Balance at June 30, 2013	\$ 342,285	\$ 4,080	\$ 7,476	\$ (1,176)	\$ 448	\$ 63,584	\$ 416,697
Balance at December 31, 2011	\$ 342,285	\$ 4,080	\$ 7,476	\$ (4,929)	\$ (503)	\$ 42,413	\$ 390,822
Net earnings (loss) for the period (note 3(a)):	-	-	-	-	-	(6,591)	(6,591)
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	109	-	-	109
Defined benefit plan actuarial gain (losses) (note 3(a))	-	-	-	-	-	(3,038)	(3,038)
Gain in fair value of interest rate swaps	-	-	-	-	213	-	213
Balance at June 30, 2012	\$ 342,285	\$ 4,080	\$ 7,476	\$ (4,820)	\$ (290)	\$ 32,784	\$ 381,515

See accompanying notes to consolidated financial statements

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

1. Nature of operations:

International Forest Products Limited and its subsidiaries (the "Company" or "Interfor") is a producer of wood products in British Columbia, the U.S. Pacific Northwest and the U.S. Southeast for sale to markets around the world.

The Company is a publicly listed company incorporated under the Business Corporations Act (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office is located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

The condensed consolidated interim financial statements of the Company as at and for the three and six months ended June 30, 2013 comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2012 are available on www.sedar.com.

2. Statement of Compliance:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements were approved by the Board of Directors on August 1, 2013.

(b) Basis of measurement:

The condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following material items in the Statement of Financial Position:

- (i) Derivative financial instruments are measured at fair value;
- (ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (iii) The employee benefit assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

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

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2012 annual consolidated financial statements, except for the accounting policy adopted subsequent to that date, as discussed below.

(a) Change in accounting policy:

Effective January 1, 2013, IAS 19, *Employee Benefits*, was revised to eliminate the option to defer recognition of gains and losses, known as the "corridor method", and to enhance disclosure requirements for defined benefit plans. As the Company did not choose the corridor method in accounting for its defined benefit plans, there is no impact on its financial statements as a result of the elimination of this option.

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

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

	As previously reported	Adjustment	Restated
For the three months ended June 30, 2012			
Statement of Earnings (Loss)			
Production	\$ 200,893	\$ 158	\$ 201,051
Finance costs	1,668	33	1,701
Net earnings (loss)	300	(191)	109
Statement of Comprehensive Income (Loss)			
Defined benefit plan actuarial losses	(2,810)	191	(2,619)
Other comprehensive income (loss)	(522)	191	(331)
For the six months ended June 30, 2012			
Statement of Earnings (Loss)			
Production	372,563	317	372,880
Finance costs	3,210	64	3,274
Net earnings (loss)	(6,210)	(381)	(6,591)
Statement of Comprehensive Income (Loss)			
Defined benefit plan actuarial losses	(3,419)	381	(3,038)
Other comprehensive income (loss)	(3,097)	381	(2,716)

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

3. Significant accounting policies (continued):

(a) Change in accounting policy (continued):

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

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

(b) New standards and interpretations not yet adopted:

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

IFRS 9, *Financial Instruments*, replaces the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. This standard is in effect for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company does not expect this standard to have a significant effect on its financial statements.

4. Acquisitions:

On March 1, 2013, the Company concluded the acquisition of Rayonier Inc.'s Wood Products Business in Georgia, U.S.A. ("U.S. Southeast"). The total consideration and purchase price allocation are preliminary and subject to adjustment in accordance with the Rayonier Asset Purchase Agreement. The purchase price has been allocated on a preliminary basis to the fair value of assets acquired and related liabilities arising from the transaction, based on management's best estimates and taking into account all available information to June 30, 2013. As updated information is available, further analysis may result in a refinement to the values attributable to assets and liabilities arising on the acquisition. Transaction costs of \$1,139,000 related to the acquisition have been expensed in Selling and administration for the six months ended June 30, 2013 and \$356,000 for the second quarter, 2013.

The assets acquired include manufacturing facilities and working capital. The acquisition has been accounted for using the acquisition method and the purchase price is allocated as follows:

Net assets acquired:	
Current assets	\$ 10,730
Property, plant and equipment	76,516
	87,246
Current liabilities assumed	(605)
	\$ 86,641
Consideration financed as follows:	
Cash on hand	\$ 7,223
Operating Line	27,848
Revolving Term Line	51,570
	\$ 86,641

5. Seasonality of operating results:

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's B.C. Coastal logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring thaw and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs from logging operations, including those from suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

6. Inventories:

	June 30, 2013	Dec. 31, 2012
Logs	\$ 78,517	\$ 59,772
Lumber	44,430	31,833
Other	10,350	6,419
	\$ 133,297	\$ 98,024

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at June 30, 2013 was \$10,492,000 (December 31, 2012 - \$7,050,000).

7. Cash and borrowings:

	Canadian Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
June 30, 2013					
Available line of credit	\$ 65,000	\$ 200,000	\$ 52,590	\$ 21,036	\$ 338,626
Maximum borrowing available	65,000	200,000	52,590	21,036	338,626
Drawings	3,379	169,064	52,590	13,474	238,507
Outstanding letters of credit included in line utilization	5,438	-	-	-	5,438
Unused portion of line	\$ 56,183	\$ 30,936	\$ -	\$ 7,562	\$ 94,681
December 31, 2012					
Available line of credit	\$ 65,000	\$ 200,000	\$ -	\$ -	\$ 265,000
Maximum borrowing available	65,000	200,000	-	-	265,000
Drawings	-	135,046	-	-	135,046
Outstanding letters of credit included in line utilization	5,190	-	-	-	5,190
Unused portion of line	\$ 59,810	\$ 69,954	\$ -	\$ -	\$ 124,764

(a) Canadian Operating Line:

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

The Operating Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The Operating Line is subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

As at June 30, 2013 the Operating Line was drawn by US\$463,000 revalued at the quarter-end exchange rate to \$487,000 and \$2,892,000 for a total of \$3,379,000 plus outstanding letters of credit (December 31, 2012 - \$nil).

(b) Revolving Term Line:

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

The Revolving Term Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹. The Revolving Term Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on sawmills. The line is subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

As at June 30, 2013, the Revolving Term Line was drawn by US\$113,200,000 (December 31, 2012 - US\$30,200,000) revalued at the quarter-end exchange rate to \$119,064,000 (December 31, 2012 - \$30,046,000), and \$50,000,000 (December 31, 2012 - \$105,000,000) for total drawings of \$169,064,000 (December 31, 2012 - \$135,046,000).

Drawings of US\$100,200,000 under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$4,641,000 for the six months ended June 30, 2013 (June 30, 2012 - \$33,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign exchange translation differences in Other comprehensive income. For the second quarter, 2013 the unrealized foreign exchange loss of \$5,082,000 (Quarter 2, 2012 - \$622,000 loss) was recognized in Other comprehensive income.

¹EBITDA represents earnings before interest, taxes, depreciation, depletion and amortization.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

7. Cash and borrowings (continued):

(c) Senior Secured Notes:

On June 26, 2013, the Company issued US\$50,000,000 of Series A Senior Secured Notes ("Senior Secured Notes"), bearing interest at 4.33%. The notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Payments of US\$16,667,000 are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023.

As at June 30, 2013, the Senior Secured Notes were revalued at the quarter-end exchange rate to \$52,590,000. The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$45,000 arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the six months and second quarter ended June 30, 2013.

(d) U.S. Operating Line

On May 24, 2013, the Company entered into an agreement with a U.S. lender for a US\$20,000,000 operating line ("U.S. Operating Line"). The U.S. Operating Line is secured by accounts receivable and inventories of Interfor U.S. Inc., and matures on April 28, 2015. As at June 30, 2013, the U.S. Operating Line was drawn by US\$12,810,000 revalued at the quarter-end exchange rate to \$13,474,000.

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

Twelve months ending	
June 30, 2014	\$ -
June 30, 2015	13,474
June 30, 2016	-
June 30, 2017	172,443
June 30, 2018	-
	\$ 185,917

(e) Cash and cash equivalents:

At June 30, 2013 the Company's cash balances were restricted by \$100,000 for contractor holdbacks (December 31, 2012 - \$652,000).

8. Finance costs:

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
Interest on borrowing	\$ 1,903	\$ 1,377	\$ 3,416	\$ 2,653
Interest on defined benefit obligations	48	33	96	64
Accretion expense	107	138	203	251
Amortization of prepaid finance costs	364	153	495	306
	\$ 2,422	\$ 1,701	\$ 4,210	\$ 3,274

9. Depreciation, depletion and amortization:

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

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
Production	\$ 15,400	\$ 13,359	\$ 28,303	\$ 24,468
Selling and administration	261	227	521	435
	\$ 15,661	\$ 13,586	\$ 28,824	\$ 24,903

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

10. Net earnings (loss) per share:

	3 Months June 30, 2013			3 Months June 30, 2012		
	Weighted Average		Per share	Weighted Average		Per share
	Net earnings (loss)	Number of Shares		Net earnings (loss)	Number of Shares	
Basic and diluted earnings (loss) per share	\$ 15,759	55,863	\$ 0.28	\$ 109	55,863	\$ 0.00

	6 Months June 30, 2013			6 Months June 30, 2012		
	Weighted Average		Per share	Weighted Average		Per share
	Net earnings (loss)	Number of Shares		Net earnings (loss)	Number of Shares	
Basic and diluted earnings (loss) per share	\$ 30,938	55,863	\$ 0.55	\$ (6,591)	55,863	\$ (0.12)

The Company has no dilutive securities.

11. Segmented information:

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

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

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
Canada	\$ 55,763	\$ 64,550	\$ 110,915	\$ 124,966
United States	137,862	91,756	263,654	162,321
China/Taiwan	30,776	31,280	54,336	51,827
Japan	32,424	27,276	58,592	53,064
Other export	17,873	10,562	29,700	19,906
	\$ 274,698	\$ 225,424	\$ 517,197	\$ 412,084

Sales by product line are as follows:

	3 Months June 30, 2013	3 Months June 30, 2012	6 Months June 30, 2013	6 Months June 30, 2012
Lumber	\$ 219,479	\$ 162,369	\$ 410,885	\$ 295,991
Logs	32,625	35,650	58,753	62,600
Wood chips and other by products	17,421	17,845	34,018	36,008
Ocean freight and other	5,173	9,560	13,541	17,485
	\$ 274,698	\$ 225,424	\$ 517,197	\$ 412,084

12. Financial instruments:

At June 30, 2013, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of \$238,507,000 (December 31, 2012 - \$135,046,000) measured based on Level 2 of the fair value hierarchy.

As at June 30, 2013, the Company has outstanding obligations to sell a maximum of US\$21,900,000 at an average rate of CAD\$1.04207 to the US\$1.00, call option obligations to sell a maximum of US\$6,000,000 at a rate of CAD\$1.01 to the US\$1.00 and put option obligations to buy a maximum of US\$6,000,000 at a rate of CAD\$1.01 to the US\$1.00 during 2013. The Company also had outstanding obligations to sell a maximum of ¥150,700,000 at an average rate of ¥100.48 to the US\$1.00 during 2013. All foreign currency gains or losses to June 30, 2013 have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of these foreign currency contracts, being a liability of \$733,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts payable and accrued liabilities (December 31, 2012 - \$134,000 asset recorded in Trade accounts receivable and other measured based on Level 2 of the fair value hierarchy).

On August 25, 2011, the Company entered into two interest rate swaps, each with notional value of \$25,000,000 and maturing July 28, 2015. Under the terms of the swaps the Company pays an amount based on a fixed annual interest rate of 1.56% and receives a 90 day BA CDOR which is recalculated at set interval dates. On March 25, 2013, the Company entered into two additional interest rate swaps, each with notional value of US\$25,000,000 and maturing February 17, 2017. Under the terms of these additional swaps the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates.

INTERNATIONAL FOREST PRODUCTS LIMITED

Notes to Unaudited Condensed Consolidated Interim Financial Statements

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

Three and six months ended June 30, 2013 and 2012 (unaudited)

12. Financial instruments (continued):

The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. As these interest rate swaps have been designated as cash flow hedges the fair value of these interest rate swaps at June 30, 2013, being an asset of \$447,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2012 - \$133,000 liability recorded in Trade accounts payable and accrued liabilities measured based on Level 2 of the fair value hierarchy) and a gain of \$580,000 (June 30, 2012 - \$213,000 gain) has been recognized in Other comprehensive income for the six months ending June 30, 2013. For the second quarter, 2013 a gain of \$955,000 (Quarter 2, 2012 - \$353,000 loss) was recognized in Other comprehensive income.

The Company also traded lumber futures to manage price risk and which were designated as held for trading with changes in fair value recorded in Other income (expense) in net earnings. At June 30, 2013 there were no outstanding lumber futures contracts and a gain of \$91,000 was recognized in Other income (expense) on completed contracts for the six months ended June 30, 2013 (June 30, 2012 - \$26,000 gain) and a gain of \$50,000 for the second quarter, 2013 (Quarter 2, 2012 - \$nil).

13. Subsequent event and commitment:

On July 1, 2013, the Company acquired the sawmill operations of Keadle Lumber Enterprises, Inc. in Thomaston, Georgia for US\$30,000,000, plus working capital of US\$1,518,000. As at June 30, 2013, the Company had paid a deposit of US\$31,518,000 (revalued at the quarter-end foreign exchange rate to \$33,150,000). The Company will pay an additional US\$7,000,000, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift. This approval is expected in the fourth quarter, 2013, with the payment to be made in 2014.



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