



## International Forest Products Limited

Vancouver, B.C.

November 2, 2011

### **Interfor's Q3 Results Improve on Higher Sales Revenue \$24 million investment planned for Grand Forks and Castlegar sawmills**

**INTERNATIONAL FOREST PRODUCTS LIMITED** ("Interfor" or the "Company") (TSX: IFP.A) reported net income of \$6,000 or \$0.00 per share in the third quarter of 2011. Included in the Company's accounts in the quarter was the effect of unrecognized tax assets of \$0.6 million and other one-time items of \$1.1 million.

Excluding these items, Interfor recorded a net loss of \$0.5 million or \$0.01 per share compared to a net loss of \$2.9 million or \$0.05 per share in the immediately preceding quarter and a loss of \$1.1 million or \$0.02 per share in the third quarter of 2010.

Also included in the Company's accounts in the third quarter was a recovery of share-based compensation expense of \$0.9 million or \$0.02 per share compared to a recovery of \$3.1 million or \$0.06 per share in the second quarter.

Sales revenue in the third quarter was \$200.2 million, up \$12.0 million or 6.4% versus the second quarter, resulting from higher log and lumber sales volumes and prices.

EBITDA for the quarter (adjusted to exclude one-time items and "other income") was \$14.3 million, up \$2.7 million from the second quarter and up \$3.7 million from the third quarter of 2010.

Lumber production in the third quarter was 313 million board feet, down 12 million board feet or 4 percent versus the second quarter as production rates were adjusted downwards in the face of weak market conditions and high log costs in the Pacific Northwest. Sales volumes, including wholesale activities, increased 2 million board feet to 336 million board feet versus 334 million board feet in the second quarter.

In the quarter, SPF 2x4 in the North American market was US\$246, up US\$6 versus the second quarter, and Hem-Fir studs were down US\$7 to US\$274. Prices and volumes to China softened as high in-market inventories, seasonal factors and tighter credit conditions combined to slow demand. Key Japanese grades were flat in the quarter while the cedar market was mixed with strength in certain products offset by weaker prices on others.

Results have also been impacted by changes in the value of the Canadian dollar which declined by 1% quarter-over-quarter but which closed the quarter at US\$0.954, down 8% compared to the end of the second quarter.

In the quarter, Interfor generated \$14.4 million in cash from operations before changes in working capital and \$9.0 million in cash after working capital changes were considered. Capital spending in the quarter amounted to \$7.6 million, including \$4.9 million on roads.

Net debt closed the quarter at \$94.9 million or 19 percent of invested capital.

Business conditions remain uncertain. Sovereign debt issues in Europe, slow progress in the U.S. and credit conditions in China bear watching. On the positive side, a noticeable reduction in demand from offshore buyers has resulted in some easing of log prices in the Pacific Northwest.

At its meeting today, Interfor's Board of Directors approved a \$24 million capital plan to upgrade the Company's Grand Forks and Castlegar sawmills.

The plan involves the installation of a new small log line at Grand Forks to replace the existing two-line facility, along with funds to complete the installation of an automated lumber grading system. The Grand Forks project is budgeted at \$19 million and will incorporate the same technology recently installed at the Company's Adams Lake sawmill. Construction will commence in the first quarter of 2012 and will be completed in mid 2013.

The investment at Castlegar, which totals \$5 million, consists of a series of high return projects including the installation of an automated lumber grading system focused on increasing productivity and value extraction at that mill.

When completed, the Grand Forks and Castlegar mills will operate with a combined capacity of 375 million board feet on a full two-shift basis.

The Grand Forks and Castlegar sawmills were acquired by Interfor in April 2008. The projects announced are consistent with the Company's philosophy of operating top quartile manufacturing facilities capable of extracting full value from the available timber resource. The investment, which will be funded primarily out of operating cash flow, is made possible by the Company's strong financial position and by the support of the management and crew at the two mills, along with other stakeholders, who have helped create a positive operating and investment climate in the area. The improvements to be made at these mills will help support long term jobs in the local communities.

### **FORWARD-LOOKING STATEMENTS**

This release contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words "will" and "is expected" and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among others: general economic and business conditions, product selling prices, raw material and operating costs, changes in foreign-currency exchange rates, and other factors referenced herein and in Interfor's 2010 Annual Report and Management Information Circular available on [www.sedar.com](http://www.sedar.com). The forward-looking information and statements contained in this report are based on Interfor's current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

### **ABOUT INTERFOR**

Interfor is a leading global supplier, with one of the most diverse lines of lumber products in the world. The Company has operations in British Columbia, Washington and Oregon, including two sawmills in the Coastal region of British Columbia, three in the B.C. Interior, two in Washington and two in Oregon. For more information about Interfor, visit our website at [www.interfor.com](http://www.interfor.com).

There will be a conference call on Thursday, November 3, 2011 at 8:00 AM (Pacific Time) hosted by **INTERNATIONAL FOREST PRODUCTS LIMITED** for the purpose of reviewing the Company's release of its Third Quarter, 2011 Financial Results.

The dial-in number is **1-866-323-8540**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until November 17, 2011. The number to call is **1-866-245-6755 Passcode 502667**.

For further information:

John A. Horning

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# International Forest Products Limited

## Third quarter Report

### For the three and nine months ended September 30, 2011

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## Management's Discussion and Analysis

Dated as of November 2, 2011

This Management's Discussion and Analysis ("MD&A") provides a review of Interfor's financial performance for the three and nine months ended September 30, 2011 relative to 2010, 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 nine months ended September 30, 2011 and 2010 and for the three months ended March 31, 2011 and 2010, and Interfor's Annual Information Form, Consolidated Financial Statements and Annual MD&A for the years ended December 31, 2010 and 2009 filed on SEDAR at [www.sedar.com](http://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 other income (expense) and other income of an associate company. 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" and "Cash Flow and Financial Position"; 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](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 circumstance, except as required by law.

### Review of Operating Results

#### Overview

The Company recorded net earnings of \$6,000 or \$0.00 per share for the third quarter of 2011 as compared to net earnings of \$1.4 million, or \$0.03 per share for the third quarter of 2010. For the first nine months, 2011, Interfor recorded a net loss of \$7.0 million, or \$0.13 per share as compared to a net loss of \$5.9 million, or \$0.13 per share

for the first nine months, 2010.

EBITDA and Adjusted EBITDA for the third quarter of 2011 were \$14.7 million and \$14.3 million, respectively, compared to \$15.3 million and \$10.6 million for the third quarter, 2010. EBITDA and Adjusted EBITDA for the first nine months of 2011 were \$39.1 million and \$38.6 million, respectively, compared to \$39.0 million and \$33.9 million for the same period in 2010.

Before restructuring costs, foreign exchange gains (losses), certain other one-time items and the effect of unrecognized tax assets, the Company's net loss was \$0.5 million, or \$0.01 per share for the third quarter, 2011 as compared to \$1.1 million, or \$0.02 per share for the third quarter of 2010. The Company recorded a recovery of share-based incentive compensation of \$0.9 million, or \$0.02 per share in the third quarter, 2011 as compared to an expense of \$0.1 million, or \$0.00 per share for the same period, 2010.

For the first nine months, 2011 Interfor's net loss before restructuring costs, foreign exchange gains (losses), certain other one-time items and the effect of unrecognized tax assets was \$4.0 million, or \$0.07 per share as compared to \$3.9 million, or \$0.08 per share for the first nine months, 2010. The Company recorded a recovery of share-based incentive compensation of \$0.5 million, or \$0.01 per share for the first nine months, 2011 as compared to a recovery of \$0.5 million, or \$0.01 per share for the same period, 2010.

North American lumber demand continued to be weak through the first nine months of 2011 as U.S. housing starts languished in the face of weak economic conditions and a glut of distressed and foreclosed properties on the market. In addition, difficult weather conditions in the first half of 2011 hampered building starts, transportation and seasonal buying for home improvement projects and resulted in lower sales volumes through the first nine months.

Increased export market demand in 2011, particularly from China, helped to offset weak domestic demand and provided some stability for pricing. In the first quarter, 2011 North American prices were buoyed by strong export demand but increased production in the second quarter created a supply-demand imbalance which resulted in lower domestic prices and negatively impacted export pricing, particularly as China's consumption slowed toward the end of the quarter. In the third quarter, 2011 Chinese demand cooled as measures introduced by the Chinese government to address inflation and an overheated housing market impacted credit availability.

Results have also been impacted by a stronger Canadian dollar which, relative to its U.S. counterpart, appreciated by 6% on average for both the third quarter, 2011 and for the nine months, 2011 as compared to the same periods of 2010. Concerns over the global economy and the European debt crisis in late summer caused a significant drop in interest rates and a sharp weakening of the Canadian dollar, which closed the third quarter, 2011 9% lower than the previous quarter's closing rate.

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for gross proceeds of \$57.6 million. For full details of the Offering see the short form prospectus filed on March 31, 2011 on [www.sedar.com](http://www.sedar.com).

The Company's results are now being prepared in accordance with International Financial Reporting Standards ("IFRS"). Several of the Company's accounting policies have changed and the presentation, financial statement captions and terminology used in this discussion and the accompanying unaudited financial statements may differ from that used in previously issued financial statements and quarterly and annual reports. The new policies have been consistently applied to all of the quarters presented and comparative information has been restated or reclassified unless otherwise noted. Further details on the conversion to IFRS are provided in the First Quarter Report for the three months ended March 31, 2011 in the Management's Discussion and Analysis under "Accounting Policy Changes" and in the notes to the Condensed Consolidated Unaudited Financial Statements as at and for the three months ended March 31, 2011 filed on [www.sedar.com](http://www.sedar.com).

## Sales

Lumber shipments improved by 59 million board feet for the third quarter, 2011 and by 173 million board feet for the first nine months, 2011, up 21% over the comparative periods, 2010. Increases reflect the impact of strong export demand with China driving the majority of growth in lumber sales volume.

Shipments to China slowed in the third quarter, 2011 relative to the previous two quarters, 2011, but still outweighed shipments in the same quarter, 2010 by almost 20%. For the first nine months, 2011 shipments to China more than doubled those for the same period, 2010. Shipments to North American markets were flat for the first nine months, 2011 as compared to 2010, as the protracted downturn continued to impact demand.

Unit lumber sales values were virtually unchanged for the third quarter, 2011 and declined by \$15 per mfbm, or 4% for the first nine months, 2011 relative to the same periods in 2010.

In the first quarter, 2011 high export demand helped bolster North American prices. In the second quarter, with U.S. housing starts returning to the lowest levels since the downturn began in 2008, demand faded and prices dropped. The decline in domestic prices impacted prices in China as well. The third quarter, 2011 saw softened demand in China due to normal seasonal factors along with specific actions taken to cool the housing market and reduce inflation.

Average unit sales values were further negatively impacted, though to a lesser extent, by a decline in cedar prices in 2011 as compared to 2010, a change in sales mix away from higher value cedar products, and a stronger average Canadian dollar.

Compared to the same periods of 2010, pulp chip and other by-product revenues improved by \$3.6 million for the third quarter of 2011 and \$10.3 million for the first nine months, 2011 corresponding to higher lumber production levels. Chip prices, boosted by strong global demand for pulp, improved by 21% in the third quarter, 2011 and 13% in the first nine months, 2011 as compared to the same periods, 2010.

Log sales improved by 64% or \$14.0 million and by 44% or \$26.3 million for the third quarter and first nine months, 2011 respectively in comparison to the same periods, 2010. Canadian log sales volume increased by 49% in the third quarter, 2011 and by 33% year-to-date relative to the same periods, 2010 reflecting increased domestic demand for fibre, but driven primarily by increased demand for logs from export markets. On the B.C. Coast, export log sales volume more than doubled in the third quarter, 2011 and for the first nine months, 2011 as compared to 2010.

The impact on average unit sales values of the increase in export log shipments and shift in sales mix towards higher value export logs in the third quarter, 2011 and first nine months, 2011 was tempered by sales of smaller, lower value logs in the B.C. Interior.

Unrealized foreign exchange gains (losses) on changes in the fair value of forward exchange contracts are classified as a component of sales revenue. The significant weakening of the Canadian dollar at the end of September, 2011 resulted in a charge against net earnings (loss) of \$2.4 million for the third quarter, 2011 and \$2.6 million for the nine months, 2011. As the Canadian dollar recovered much of its strength, moving close to parity again in late October, 2011, a portion of unrealized foreign exchange losses are likely to reverse in the fourth quarter, 2011.

For the third quarter, 2010, the Company recognized an unrealized foreign exchange gain of \$0.6 million, and a loss of \$0.3 million for the first nine months, 2010 relating to changes in the fair value of forward exchange contracts.

### Operating Costs

Production costs for the third quarter of 2011 increased \$43.2 million, or 32%, and \$105.2 million, or 26%, for the first nine months of 2011, compared to the same periods in 2010.

Lumber production increased by 41 million board feet, or 15% in the third quarter, 2011 and by 163 million board feet, or 20% in the first nine months, 2011 vis-à-vis the same periods of 2010. The increase was driven by higher operating rates in the U.S. Pacific Northwest and B.C. Interior divisions, particularly the Castlegar sawmill, which had been curtailed in the first nine months, 2010 but operated throughout the first nine months, 2011. Lumber production on the B.C. Coast was impeded in the first half of 2011 by the availability of logs as a result of reduced logging activity on the B.C. Coast in the first quarter, 2011 due in part to access issues caused by storm damage in late 2010.

In June, 2011 the Company finalized an insurance claim as compensation for lost profits and reimbursement of costs resulting from storm damage on the B.C. Coast which occurred in the late fall, 2010. The Company recorded \$2.7 million of business interruption recoveries for the first nine months, 2011. The diminished ability to log in storm damaged areas reduced the logs available for external sales and resulted in downtime for the B.C. Coastal sawmills and consequently, the insurance proceeds were netted against production costs.

Compared to the same period in 2010, B.C. log production in the third quarter, 2011 grew by 68% to 1.0 million cubic metres from 595,000 cubic metres and by 40% to 2.6 million cubic metres from 1.9 million cubic metres for the first nine months, 2011. Increased logging activity in B.C. was driven by increased fibre demands resulting from higher operating rates in the B.C. Interior, little downtime due to a short fire season, and strong export demand.

The Company's overall per unit cost of conversion declined as increases in per unit lumber conversion costs on the

B.C. Coast caused by reduced activity were more than offset by improved unit costs in the U.S. and the B.C. Interior sawmills. Unit cash conversion costs fell by 5%, for the third quarter, 2011 and 8% for the first nine months, 2011 vis-à-vis the same periods, 2010.

Log supply in the U.S. Pacific Northwest remains tight as a result of strong export markets for logs causing increases in log costs for the U.S. sawmills who source their logs through purchase and timber sale agreements. Competition for logs has increased their U.S.\$ log costs by 13% for the third quarter and first nine months, 2011 as compared to the same periods, 2010.

Production costs were also impacted by the sharp decline in interest rates in the latter part of September, 2011 driving increases in the fair value of reforestation and other decommissioning obligations of \$1.2 million in the third quarter, 2011 and for the first nine months, 2011 (Quarter 3, 2010 - \$0.3 million; first nine months, 2010 - \$0.6 million).

Export taxes for the third quarter, 2011 increased by \$0.9 million, or 49% over the third quarter, 2010 with an increase in Canadian shipment volumes to the U.S. of almost 12% over the same period. For the first nine months, 2011, export taxes increased \$1.8 million, or 37% as compared to the same period, 2010 although year-over-year Canadian shipment volumes to the U.S. remained flat.

Higher commodity lumber prices in the third quarter, 2010 caused export tax rates to drop from 15% to 10% on May 1, 2010, and from 10% to 0% on June 1, 2010. The decline in export tax rates prompted a surge in Canadian shipments to the U.S. in the second quarter, 2010 to take advantage of the lower taxes. As lumber prices dropped in the third quarter, 2010, export taxes rose to 10% for July, 2010 and to 15% on August 1, 2010 for the balance of the year. Export tax rates for 2011 remained constant at 15%.

Relative to the same periods of 2010, selling and administrative costs increased by \$0.3 million and \$2.1 million for the third quarter and first nine months, 2011 respectively. In response to higher sales and customer service levels, additional selling and export market administration resulted in increased costs.

Long-term incentive compensation ("LTIC") expense, which reflects changes in the estimated fair value of the share-based compensation plans was a recovery of \$0.9 million for the third quarter, 2011 (Quarter 3, 2010 - \$0.1 million expense) and a recovery of \$0.5 million for the first nine months, 2011 (first nine months, 2010 - \$0.5 million recovery). Fair value is estimated based on a number of contributors including current market price of the underlying shares, strike price, expected volatility, vesting periods and the expected life of the awards. The decline in the Company's share price over the third quarter and the first nine months, 2011 and 2010 is the most significant component of the change in fair value of the LTIC liability.

Depreciation of plant and equipment for the third quarter, 2011 declined by \$0.5 million as compared to the same quarter, 2010. In reviewing its strategic capital plans in the third quarter, 2010 the useful lives of certain assets were adjusted resulting in accelerated depreciation charges. For the first nine months, 2011 depreciation of plant and equipment was essentially unchanged over the corresponding periods in 2010.

Road amortization and depletion expense increased \$2.8 million and \$3.9 million for the third quarter and first nine months, 2011 as compared to the same periods in 2010, corresponding to 68% and 40% respective increases in logging activity in B.C.

During the third quarter, 2011 the Company reversed an amount of \$0.4 million for a write-down of an asset previously considered impaired. This, partially offset with severance costs for early retirement of hourly workers resulted in the recognition of a \$0.3 million recovery of restructuring costs. For the first nine months, 2011 payments in relation to the buyout of logging contractor's Bill 13 entitlements together with severance costs, primarily for early retirement of hourly workers, and partially offset by the impairment reversal resulted in the recognition of \$0.7 million expense.

Restructuring costs in the comparative periods of 2010 totalled \$0.5 million for the third quarter and \$1.6 million for the first nine months as the Company accrued severance costs as it restructured certain of its manufacturing operations and impaired an asset by \$0.5 million.

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

Net proceeds of \$54.9 million received from a public offering of Class A Subordinate Voting shares on April 8, 2011 reduced the Company's debt levels in the second quarter, 2011. This, together with a decrease in the Company's overall lending rates and the impact of a stronger average Canadian dollar on interest on U.S. denominated debt,

resulted in a decline of 44% and 30% in interest expenses for the third quarter and first nine months, 2011 respectively vis-à-vis the same periods, 2010.

Under IFRS finance costs also include accretion expense on decommissioning liabilities and amortization of prepaid financing costs. Prior year figures have been retroactively restated to conform to this presentation.

The Company reported a \$0.4 million gain in Other income (expense) for the third quarter and first nine months, 2011 arising from the minor disposals of surplus equipment and gains from lumber futures trading. This compares to a loss of \$0.1 million for the third quarter, 2010 and a gain of \$0.3 million for the first nine months, 2010 arising primarily from the final settlement of compensation under the *Forest Act* for timber and other assets resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast.

The significant weakening of the Canadian dollar at the end of September, 2011 resulted in a foreign exchange gain of \$0.5 million in the third quarter, 2011 and \$0.3 million for the first nine months, 2011. Other foreign exchange gain (loss) was impacted by the strengthening Canadian dollar for the comparable periods in 2010 and amounts were negligible.

Equity income at \$6.5 million for the third quarter, 2010 and \$9.8 million for the first nine months, 2010 represented equity participation in the earnings and gains on the disposals of vessels of the Seaboard General Partnership ("the SGP"). The SGP was wound-up on January 7, 2011 and continues operations as Seaboard Shipping Company Limited ("Seaboard") which became a wholly owned subsidiary of Interfor. Seaboard's accounts are included in the consolidated financial statements of the Company from the date of change in control.

#### Income Taxes

In the third quarter of 2011, the Company recorded an income tax expense of \$0.5 million (Quarter 3, 2010 - \$0.2 million recovery) which excludes the benefit of \$0.6 million of certain deferred income tax assets arising from loss carry-forwards available to reduce future taxable income which were not recognized (Quarter 3, 2010 - \$1.6 million). For the first nine months, 2011, the income tax expense of \$1.3 million (first nine months, 2010 - \$1.0 million) excluded the benefit of \$3.1 million of deferred tax assets (first nine months, 2010 - \$5.4 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 assets in excess of its deferred tax liabilities.

#### Cash Flow and Financial Position

The Company generated cash from operating activities, before changes in non-cash working capital, of \$39.0 million for the first nine months, 2011 as compared to \$30.1 million for the first nine months, 2010. Higher export sales volumes drove cash earnings in 2011 while a short-lived spike in North American sales values in the second quarter, 2010 impacted year-to-date results in 2010. Year-over-year, the increase in cash flow was due to higher export sales volumes partially offset by lower overall sales realizations and a stronger average Canadian dollar.

Cash generated by the Company from operations, after changes in working capital, was \$24.5 million for the nine months ended September 30, 2011 compared to cash generated of \$24.4 million in the first nine months, 2010. Significant increases in lumber production for export markets resulted in an inventory build-up in lumber and logs of \$17.8 million. The increase in accounts receivable of \$4.7 million, offset by a \$10.9 million rise in accounts payable was the result of the higher manufacturing and logging operating rates and the increase in export shipments through the first nine months of 2011.

Capital expenditures for the first nine months of 2011 totalled \$27.3 million (first nine months, 2010 - \$33.1 million). For the first nine months, 2011 spending was \$14.6 million on road construction, \$7.4 million on high-return discretionary projects with the balance spent on business maintenance. Capital expenditures in the first nine months, 2010 include the acquisition of a timber tenure in the Kamloops region in the first quarter, 2010.

On January 3, 2011 the SGP declared an income distribution to its partners. Interfor's share was \$15.7 million and was paid to the Company by way of setoff against the promissory note payable to the SGP. On January 5, 2011 by virtue of the withdrawal of all other partners in the SGP, Interfor acquired control of its net assets. Cash generated from investments includes cash received on acquisition of the SGP of \$4.8 million.

In the second quarter, 2011 the Company also settled an insurance claim in respect of severe storm damage to logging roads and bridges in the fall, 2010. Net cash proceeds of \$4.8 million were received in June 2011, with \$2.7

million reflected in net earnings, \$0.5 million applied against receivables, and the remainder set up as provisions for future remediation.

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net proceeds of \$54.9 million. The closing of the Offering included the exercise in full of the overallotment option of 1,072,500 shares by the Underwriters. In addition, in the first nine months, 2011 several stock option holders exercised their options generating \$1.4 million in cash.

Funds received from the issuance of shares enabled the Company to reduce its drawings under its Revolving Term Line by \$56.0 million over the first nine months, 2011.

On August 25, 2011, the Company entered into two interest rate swaps, each with notional value of \$25.0 million 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 plus a margin which is recalculated at set interval dates. 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 September 30, 2011 being a liability of \$500,000 (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts payable and accrued liabilities and a charge of \$500,000 has been recognized in Other comprehensive income.

As at September 30, 2011, the Revolving Term Line was drawn by US\$30.2 million (revalued at the quarter-end exchange rate to \$31.7 million) and \$75.0 million for total drawings of \$106.7 million, leaving an unused available line of \$93.3 million. The Company's Operating Line had an unused available line of \$60.1 million, after including outstanding letters of credit of \$4.9 million in the line utilization. Including unrestricted cash of \$11.6 million, the Company had available resources of \$165.0 million as at September 30, 2011.

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

On July 11, 2011 the Company extended and modified its syndicated credit facilities. The maturity date of the Operating Line was extended from July 28, 2012 to July 28, 2015 and the maturity date of the Revolving Term Line was extended from July 28, 2013 to July 28, 2015. All other terms and conditions of the lines remain substantially unchanged except for a reduction in pricing.

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

At September 30, 2011, the Company had cash of \$11.7 million. After deducting the Company's drawings under its Operating Line and Revolving Term Line, the Company ended the third quarter, 2011 with net debt of \$94.9 million or 19% of invested capital down from 30% of invested capital at December 31, 2010.



## Selected Quarterly Financial Information<sup>1</sup>

| Quarterly Earnings Summary   | International Financial Reporting Standards              |        |        |        |        |        |                   | Previous Canadian GAAP |
|--|--|--------|--------|--------|--------|--------|-------------------|------------------------|
|  | 2011   |        |        | 2010   |        |        | 2009 <sup>2</sup> |                        |
|  | Q3   | Q2     | Q1     | Q4     | Q3     | Q2     | Q1                | Q4                     |
|  | (millions of dollars except share and per share amounts) |        |        |        |        |        |                   |                        |
| Sales – Lumber   | 136.7  | 134.0  | 132.5  | 137.5  | 113.1  | 123.7  | 107.6             | 93.1                   |
| – Logs   | 36.0   | 28.6   | 20.8   | 20.6   | 21.9   | 19.8   | 17.4              | 17.3                   |
| – Wood chips and other by-products   | 17.6   | 16.8   | 16.4   | 15.7   | 14.0   | 13.3   | 13.2              | 12.2                   |
| – Ocean freight and other <sup>3</sup>                                     | 9.9  | 8.7    | 10.0   | 2.4    | 2.4    | 1.0    | 1.7               | 2.9                    |
| Total Sales  | 200.2  | 188.2  | 179.7  | 176.3  | 151.5  | 157.9  | 139.9             | 125.5                  |
| Operating earnings (loss) before restructuring costs and asset impairments | 1.0  | (2.0)  | 1.0    | 1.5    | (2.0)  | (0.9)  | (2.4)             | (7.8)                  |
| Operating earnings (loss)  | 1.3  | (2.1)  | 0.2    | 1.5    | (2.5)  | (2.0)  | (2.5)             | (7.8)                  |
| Net earnings (loss)  | 0.0  | (5.3)  | (1.7)  | 0.8    | 1.4    | (3.5)  | (3.8)             | (5.0)                  |
| Net earnings (loss) per share – basic and diluted                          | 0.00   | (0.10) | (0.04) | 0.02   | 0.03   | (0.07) | (0.08)            | (0.11)                 |
| Net earnings (loss), adjusted for one-time items <sup>4</sup>              | (0.5)  | (2.9)  | (0.5)  | 0.5    | (1.1)  | (0.6)  | (2.2)             | (4.4)                  |
| Net earnings (loss), adjusted for one-time items – per share <sup>4</sup>  | (0.01)   | (0.05) | (0.01) | 0.01   | (0.02) | (0.01) | (0.05)            | (0.09)                 |
| EBITDA <sup>8</sup>  | 14.7   | 11.6   | 12.8   | 14.6   | 15.3   | 13.7   | 10.0              | 6.3                    |
| Adjusted EBITDA <sup>8</sup>   | 14.3   | 11.6   | 12.7   | 14.5   | 10.6   | 13.3   | 10.0              | 5.7                    |
| Cash flow from operations per share <sup>5</sup>                           | 0.26   | 0.22   | 0.27   | 0.22   | 0.18   | 0.25   | 0.21              | 0.06                   |
| Shares outstanding – end of period (millions) <sup>6</sup>                 | 55.9   | 55.9   | 47.5   | 47.4   | 47.1   | 47.1   | 47.1              | 47.1                   |
| – weighted average (millions)  | 55.9   | 55.2   | 47.4   | 47.2   | 47.1   | 47.1   | 47.1              | 47.1                   |
| Average foreign exchange rate per US\$1.00 <sup>7</sup>                    | 0.9808   | 0.9680 | 0.9856 | 1.0131 | 1.0395 | 1.0283 | 1.0401            | 1.0571                 |
| Closing foreign exchange rate per US\$1.00 <sup>7</sup>                    | 1.0482   | 0.9645 | 0.9696 | 0.9946 | 1.0290 | 1.0646 | 1.0158            | 1.0510                 |

1 Tables may not add due to rounding.

2 Quarter is not restated for conversion to IFRS.

3 Other revenues include ocean freight revenues of Seaboard which are included in the consolidated results from the date of change in control on January 5, 2011. The Company's share of Seaboard results were previously recognized in equity income.

4 Net earnings (loss), adjusted for one-time items represents net earnings (loss) before restructuring costs, foreign exchange gains and losses, other income (expense), other one-time items and the effect of unrecognized tax assets.

5 Cash generated from operations before taking account of changes in operating working capital.

6 As at November 2, 2011, the number 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.

7 Accounting quarter-end dates may differ slightly from the reporting date. As such, the foreign exchange rate used to revalue quarter-end balances may differ from those calculated using the Bank of Canada closing foreign exchange rate per US\$1.00.

8 EBITDA represents earnings before finance costs, taxes, depreciation, depletion, amortization, restructuring costs, other foreign exchange gains and losses, and asset write-downs. 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. Adjusted EBITDA represents EBITDA adjusted for other income and other income of the associate company. EBITDA and Adjusted EBITDA can be calculated from the Statements of Operations as follows<sup>4</sup>:

|   | International Financial Reporting Standards |       |       |       |       |                   |       | Previous Canadian GAAP |
|---|---|-------|-------|-------|-------|-------------------|-------|------------------------|
|   | 2011  |       | 2010  |       |       | 2009 <sup>3</sup> |       |                        |
|   | Q3  | Q2    | Q1    | Q4    | Q3    | Q2                | Q1    | Q4 <sup>3</sup>        |
|   | (millions of dollars)                       |       |       |       |       |                   |       |                        |
| Net earnings (loss)   | 0.0   | (5.3) | (1.7) | 0.8   | 1.4   | (3.5)             | (3.8) | (5.0)                  |
| Add: Income taxes (recovery)  | 0.5   | 1.2   | (0.4) | (0.5) | (0.2) | 1.0               | 0.2   | (3.3)                  |
| Finance costs   | 1.7   | 1.9   | 2.3   | 2.5   | 2.6   | 2.8               | 2.6   | 2.0                    |
| Depreciation, depletion and amortization                            | 13.3  | 13.6  | 11.7  | 11.7  | 11.0  | 12.3              | 11.1  | 12.5                   |
| Other foreign exchange (gains) losses                               | (0.5)                                       | 0.1   | 0.1   | 0.2   | 0.1   | 0.1               | -     | 0.1                    |
| Restructuring costs, asset impairments and other costs (recoveries) | (0.3)                                       | 0.1   | 0.8   | -     | 0.5   | 1.1               | -     | 0.1                    |
| EBITDA  | 14.7  | 11.6  | 12.8  | 14.6  | 15.3  | 13.7              | 10.0  | 6.3                    |
| Deduct:   |   |       |       |       |       |                   |       |                        |
| Other income (expense)  | 0.4   | -     | -     | (0.3) | (0.1) | 0.4               | -     | 0.6                    |
| Other income of associate company                                   | -   | -     | -     | 0.4   | 4.8   | -                 | -     | -                      |
| Adjusted EBITDA   | 14.3  | 11.6  | 12.7  | 14.5  | 10.6  | 13.3              | 10.0  | 5.7                    |

### Volume and Price Statistics

|   |                         | 2011  |       | 2010  |       |       | 2009  |       |       |
|---|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|
|   |                         | Q3    | Q2    | Q1    | Q4    | Q3    | Q2    | Q1    | Q4    |
| Lumber sales                                | (million fbm)           | 336   | 334   | 313   | 321   | 277   | 270   | 264   | 234   |
| Lumber production                           | (million fbm)           | 313   | 325   | 332   | 303   | 272   | 277   | 258   | 245   |
| Log sales <sup>1</sup>                      | (thousand cubic metres) | 430   | 314   | 301   | 292   | 289   | 262   | 239   | 261   |
| Log production <sup>1</sup>                 | (thousand cubic metres) | 1,002 | 796   | 816   | 794   | 595   | 624   | 648   | 533   |
| Average selling price – lumber <sup>2</sup> | (\$/thousand fbm)       | \$407 | \$401 | \$423 | \$428 | \$408 | \$459 | \$408 | \$398 |
| Average selling price – logs <sup>1</sup>   | (\$/cubic metre)        | \$74  | \$82  | \$61  | \$64  | \$73  | \$68  | \$64  | \$62  |
| Average selling price – pulp chips          | (\$/thousand fbm)       | \$48  | \$44  | \$40  | \$42  | \$40  | \$37  | \$40  | \$39  |

1 B.C. operations

2 Gross sales before export taxes

3 Quarter is not restated for conversion to IFRS

4 Tables may not add due to rounding

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.

Operating rates increased in the fourth quarter of 2009 and first quarter, 2010, as lumber prices rose in response to increased North American demand and a temporary supply/demand imbalance. During the same period off-shore demand increased, particularly from China, with rapid export market growth through the remaining quarters of 2010 and the first three quarters, 2011.

The volatility of the Canadian dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to export markets and priced in \$U.S. A strong Canadian dollar reduces the lumber sales realizations in Canada, but reduces the impact of losses in U.S. operations when converted to Canadian dollars. No deferred tax assets arising from loss carry-forwards were recognized during 2010 or 2011.

In the first quarter, 2011 the Company acquired complete control of SGP. SGP was wound up on early January, 2011 but continued operations as Seaboard and its accounts were consolidated from the date of change in control on January 5, 2011. Other sales revenues include the ocean freight revenues of Seaboard.

## **Softwood Lumber Agreement Arbitration**

On October 8, 2010, the U.S. Trade Representative's office filed a request for consultations with Canada under the terms of the Softwood Lumber Agreement ("SLA") over its concern that the province of British Columbia is charging too low a price for certain grades of timber harvested on public lands in the B.C. Interior.

Under the terms of the SLA, consultations between the two governments were held but the matter was not resolved and on January 18, 2011 the U.S. Trade Representative filed for arbitration. The arbitration will be conducted by the London Court of International Arbitration ("LCIA"). Decisions by the LCIA are final and binding on both parties. The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the U.S. Trade Representative filed a detailed statement of claim with the LCIA and Canada is expected to deliver its initial response in November, 2011. A hearing before the arbitration panel is expected to take place in early 2012 with a final decision expected by the end of 2012.

As the arbitration process is still in its early stages, the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at September 30, 2011.

## **Accounting Policy Changes**

### **Adoption of International Financial Reporting Standards**

Effective January 1, 2011 Canadian publicly listed entities were required to prepare their financial statements in accordance with IFRS. Due to the requirement to present comparative financial information, the effective transition date was January 1, 2010. The Company's first reporting period under IFRS is the quarter ended March 31, 2011.

While IFRS uses a conceptual framework similar to Canadian Generally Accepted Accounting Principles ("GAAP"), there are significant differences on recognition, measurement, and disclosures. The Company identified a number of key areas impacted by changes in accounting policies, including: property, plant, and equipment; impairment of assets; provisions, including reforestation liabilities and other decommissioning obligations; share-based payments; employee future benefits; and deferred income taxes.

Note 18 to the consolidated interim financial statements provides more detail on key Canadian GAAP to IFRS differences, accounting policy decisions and *IFRS 1, First-Time Adoption of International Financial Reporting Standards* optional exemptions for significant or potentially significant areas that have had an impact on Interfor's financial statements on transition to IFRS or may have an impact in future periods.

### *IFRS Transitional Impact on Equity*

As a result of the policy choices selected and changes required under IFRS, Interfor has recorded an increase in equity of \$3.4 million as at the date of transition, January 1, 2010. The table below outlines adjustments to equity on adoption of IFRS on January 1, 2010, and at September 30, 2010 and December 31, 2010 for comparative purposes<sup>1</sup>:

|  | January 1<br>2010 | Sept. 30<br>2010      | December 31<br>2010 |
|--|-------------------|-----------------------|---------------------|
|  |                   | (millions of dollars) |                     |
| Equity under Canadian GAAP                 | \$ 358.0          | \$ 350.5              | \$ 347.3            |
| Transition election to fair value property | 15.7              | 15.7                  | 15.7                |
| Employee future benefits                   | (6.9)             | (11.0)                | (9.0)               |
| Decommissioning liabilities                | (2.8)             | (3.9)                 | (3.3)               |
| Share based compensation                   | (2.1)             | (1.1)                 | (2.2)               |
| Equity participation in associate's income | (0.9)             | (1.4)                 | (1.1)               |
| Deferred income taxes                      | 0.3               | -                     | -                   |
| Total IFRS adjustments to equity           | 3.4               | (1.6)                 | 0.2                 |
| Equity under IFRS                          | \$ 361.4          | \$ 348.9              | \$ 347.5            |

<sup>1</sup> Table may not add due to rounding

### *IFRS Impact on Comprehensive Income*

The following is a summary of the adjustments to Comprehensive Income for the three and nine months ended Sept. 30, 2010 under IFRS:<sup>1</sup>

|  | Three months ended<br>Sept. 30, 2010 | Nine months ended<br>Sept. 30, 2010 |
|--|--------------------------------------|-------------------------------------|
|  | (millions of dollars)                |                                     |
| Comprehensive income (loss) under Canadian GAAP  | \$ (3.4)                             | \$ (7.5)                            |
| Profit adjustments   |                                      |                                     |
| Employee future benefits <sup>2</sup>  | -                                    | -                                   |
| Decommissioning liabilities  | (0.4)                                | (1.1)                               |
| Share based compensation   | 0.1                                  | 0.9                                 |
| Equity participation in associate's income <sup>2</sup>                                  | -                                    | -                                   |
| Deferred income taxes  | 0.1                                  | (1.3)                               |
| <b>Total IFRS adjustments to net earnings</b>  | <b>(0.1)</b>                         | <b>(1.5)</b>                        |
| Other comprehensive income adjustments   |                                      |                                     |
| Employee future benefits – actuarial gains (losses)                                      | 0.3                                  | (4.1)                               |
| Equity participation in associate's employee future benefits<br>actuarial gains (losses) | 0.1                                  | (0.5)                               |
| Deferred income taxes  | (0.1)                                | 1.0                                 |
| <b>Total other comprehensive income adjustments</b>                                      | <b>0.3</b>                           | <b>(3.6)</b>                        |
| <b>Comprehensive income (loss) under IFRS</b>  | <b>\$ (3.2)</b>                      | <b>\$ (12.6)</b>                    |

<sup>1</sup> Table may not add due to rounding

<sup>2</sup> Due to rounding, amount appears to have no impact

### New Accounting Policy – Derivative Financial Instruments, Interest Rate Swaps

On August 25, 2011, the Company entered into two interest rate swaps and designated these financial instruments as cash flow hedges. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense based on BA CDOR. As these derivatives are designated as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under the Revolving Term Line, the effective portion of changes in the fair value of the derivative is recognized in Other comprehensive income (loss) and presented in the Hedging reserve in Equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in Net earnings (loss).

### IFRS Future Accounting Policy Changes

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 consolidation, and leases with Exposure Drafts currently in circulation for comment. Currently the following standards have been issued:

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.

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.

Both standards are in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. As at the reporting date, no assessment has been made of the impact of these standards on the Company's financial statements other than the effect of the elimination of the corridor method.

## **Controls and Procedures**

There were no changes in the Company's internal controls over financial reporting ("ICFR") during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, the Company's ICFR.

## **Critical Accounting Estimates**

There were no material changes to the Company's critical accounting estimates during the quarter ended September 30, 2011. 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, 2010 and to the First Quarter, 2011 Report for the three months ended March 31, 2011 for the impact of changes on accounting estimates due to the adoption of IFRS. Both documents are filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Outlook**

Business conditions remain uncertain. Sovereign debt issues in Europe, slow progress in the U.S. and credit conditions in China bear watching. On the positive side, a noticeable reduction in demand from offshore buyers has resulted in some easing of log prices in the Pacific Northwest.

At its meeting today, Interfor's Board of Directors approved a \$24 million capital plan to upgrade the Company's Grand Forks and Castlegar sawmills.

The plan involves the installation of a new small log line at Grand Forks to replace the existing two-line facility, along with funds to complete the installation of an automated lumber grading system. The Grand Forks project is budgeted at \$19 million and will incorporate the same technology recently installed at the Company's Adams Lake sawmill. Construction will commence in the first quarter of 2012 and will be completed in mid 2013.

The investment at Castlegar, which totals \$5 million, consists of a series of high return projects including the installation of an automated lumber grading system focused on increasing productivity and value extraction at that mill.

When completed, the Grand Forks and Castlegar mills will operate with a combined capacity of 375 million board feet on a full two-shift basis.

## **Additional Information**

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



E. Lawrence Sauder  
Chairman



Duncan K. Davies  
President and Chief Executive Officer



**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**For the three and nine months ended September 30, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars except loss per share)

|  | 3 Months<br>Sept. 30, 2011 | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| <b>Sales</b>   | \$ 200,165                 | \$ 151,493                 | \$ 568,064                 | \$ 449,315                 |
| <b>Costs and expenses:</b>   |                            |                            |                            |                            |
| Production   | 179,166                    | 135,969                    | 507,951                    | 402,781                    |
| Selling and administration   | 5,008                      | 4,728                      | 15,248                     | 13,180                     |
| Long term incentive compensation expense (recovery)                    | (945)                      | 129                        | (485)                      | (480)                      |
| Export taxes   | 2,610                      | 1,746                      | 6,716                      | 4,903                      |
| Depreciation of plant and equipment (note 10)                          | 6,629                      | 7,091                      | 20,540                     | 20,131                     |
| Depletion and amortization of timber, roads and other (note 10)        | 6,698                      | 3,870                      | 18,055                     | 14,164                     |
|  | 199,166                    | 153,533                    | 568,025                    | 454,679                    |
| <b>Operating earnings (loss) before restructuring costs</b>            | 999                        | (2,040)                    | 39                         | (5,364)                    |
| Restructuring (costs) recovery (note 11)                               | 305                        | (480)                      | (684)                      | (1,587)                    |
| <b>Operating earnings (loss)</b>                                       | 1,304                      | (2,520)                    | (645)                      | (6,951)                    |
| Finance costs (note 12)  | (1,657)                    | (2,565)                    | (5,826)                    | (7,932)                    |
| Other foreign exchange gain (loss)                                     | 461                        | (67)                       | 331                        | (111)                      |
| Other income (expense) (note 13)                                       | 359                        | (129)                      | 416                        | 259                        |
| Equity in earnings of associate company                                | -                          | 6,481                      | -                          | 9,779                      |
|  | (837)                      | 3,720                      | (5,079)                    | 1,995                      |
| <b>Earnings (loss) before income taxes</b>                             | 467                        | 1,200                      | (5,724)                    | (4,956)                    |
| <b>Income tax expense (recovery):</b>                                  |                            |                            |                            |                            |
| Current  | 145                        | 8                          | 535                        | 42                         |
| Deferred   | 316                        | (213)                      | 727                        | 951                        |
|  | 461                        | (205)                      | 1,262                      | 993                        |
| <b>Net earnings (loss)</b>   | 6                          | 1,405                      | (6,986)                    | (5,949)                    |
| <b>Other comprehensive income (loss):</b>                              |                            |                            |                            |                            |
| Foreign currency translation differences – foreign operations          | 10,713                     | (4,930)                    | 6,741                      | (3,046)                    |
| Defined benefit plan actuarial losses                                  | (4,913)                    | 314                        | (5,571)                    | (4,134)                    |
| Equity share of associate's defined benefit plan actuarial losses      | -                          | 84                         | -                          | (487)                      |
| Loss in fair value of interest rate swaps                              | (500)                      | -                          | (500)                      | -                          |
| Income tax recovery (expense) on defined benefit plan actuarial losses | -                          | (78)                       | 165                        | 1,034                      |
|  | 5,300                      | (4,610)                    | 835                        | (6,633)                    |
| <b>Total comprehensive income (loss) for the period</b>                | \$ 5,306                   | \$ (3,205)                 | \$ (6,151)                 | \$ (12,582)                |
| <b>Net earnings (loss) per share, basic and diluted (note 14)</b>      | \$ 0.00                    | \$ 0.03                    | \$ (0.13)                  | \$ (0.13)                  |

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**For the nine months ended September 30, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars)

|  | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|--|----------------------------|----------------------------|
| <b>Cash provided by (used in):</b>   |                            |                            |
| <b>Operating activities:</b>   |                            |                            |
| <b>Net loss</b>  | \$ (6,986)                 | \$ (5,949)                 |
| <b>Items not involving cash:</b>   |                            |                            |
| Depreciation of plant and equipment  | 20,540                     | 20,131                     |
| Depletion and amortization of timber, roads and other                                | 18,055                     | 14,164                     |
| Deferred income tax expense  | 727                        | 951                        |
| Income tax expense   | 535                        | 42                         |
| Finance costs  | 5,826                      | 7,932                      |
| Other assets   | 76                         | 15                         |
| Reforestation liability  | 580                        | 1,411                      |
| Other liabilities and provisions   | (2,296)                    | 327                        |
| Equity in earnings of associate company  | -                          | (9,779)                    |
| Write-downs (reversals) of plant and equipment                                       | (423)                      | 809                        |
| Unrealized foreign exchange losses   | 2,551                      | 312                        |
| Other (note 13)  | (228)                      | (259)                      |
|  | <b>38,957</b>              | <b>30,107</b>              |
| <b>Cash generated from (used in) operating working capital:</b>                      |                            |                            |
| Trade accounts receivable and other  | (4,715)                    | 1,511                      |
| Inventories  | (17,792)                   | (11,566)                   |
| Prepayments  | (2,465)                    | (1,363)                    |
| Trade accounts payable and accrued liabilities                                       | 10,936                     | 5,293                      |
| Income taxes refunded (paid)   | (410)                      | 399                        |
|  | <b>24,511</b>              | <b>24,381</b>              |
| <b>Investing activities:</b>   |                            |                            |
| Additions to property, plant and equipment   | (12,603)                   | (6,252)                    |
| Additions to logging roads   | (14,597)                   | (11,839)                   |
| Additions to timber and other intangible assets                                      | (59)                       | (15,050)                   |
| Proceeds on disposal of property, plant, and equipment                               | 257                        | 1,301                      |
| Cash received on acquisition of subsidiary (note 5)                                  | 4,846                      | -                          |
| Investments and other assets   | (736)                      | (3,536)                    |
|  | <b>(22,892)</b>            | <b>(35,376)</b>            |
| <b>Financing activities:</b>   |                            |                            |
| Issuance of capital stock, net of share issue expenses (note 9)                      | 56,256                     | 39                         |
| Interest payments  | (4,624)                    | (7,098)                    |
| Funds from promissory note payable to associate                                      | -                          | 6,896                      |
| Additions to long-term debt (note 8(b))  | 70,000                     | 120,819                    |
| Repayments of long-term debt (note 8(b))   | (121,000)                  | (102,534)                  |
|  | <b>632</b>                 | <b>18,122</b>              |
| <b>Foreign exchange gain on cash and cash equivalents held in a foreign currency</b> | <b>179</b>                 | <b>102</b>                 |
| <b>Increase in cash</b>  | <b>2,430</b>               | <b>7,229</b>               |
| <b>Cash and cash equivalents, beginning of year</b>                                  | <b>9,301</b>               | <b>3,802</b>               |
| <b>Cash and cash equivalents, end of period</b>                                      | <b>\$ 11,731</b>           | <b>\$ 11,031</b>           |

See accompanying notes to consolidated financial statements



**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**September 30, 2011 and December 31, 2010 (unaudited)**

(thousands of Canadian dollars)

|  | Sept. 30,<br>2011 | Dec. 31,<br>2010<br>(note 2) |
|--|-------------------|------------------------------|
| <b>Assets</b>  |                   |                              |
| <b>Current assets:</b>                                 |                   |                              |
| Cash and cash equivalents (note 8(c))                  | \$ 11,731         | \$ 9,301                     |
| Trade accounts receivable and other                    | 51,909            | 45,961                       |
| Inventories (note 7)                                   | 90,359            | 71,762                       |
| Prepayments  | 11,760            | 8,334                        |
|  | <b>165,759</b>    | <b>135,358</b>               |
| <b>Investment in associate company (notes 5 and 6)</b> | -                 | 16,074                       |
| <b>Employee future benefits</b>                        | 811               | 515                          |
| <b>Other investments and assets</b>                    | 2,907             | 2,636                        |
| <b>Property, plant and equipment</b>                   | 347,511           | 347,990                      |
| <b>Logging roads and bridges</b>                       | 16,545            | 17,063                       |
| <b>Timber licences</b>                                 | 77,658            | 80,154                       |
| <b>Other intangible assets</b>                         | 1,354             | 1,723                        |
| <b>Goodwill</b>  | 13,078            | 13,078                       |
|  | <b>\$ 625,623</b> | <b>\$ 614,591</b>            |
| <b>Liabilities and Equity</b>                          |                   |                              |
| <b>Current liabilities:</b>                            |                   |                              |
| Trade accounts payable and accrued liabilities         | \$ 65,789         | \$ 50,053                    |
| Reforestation liability                                | 12,784            | 9,785                        |
| Income taxes payable                                   | 972               | 230                          |
| Payable to associate (note 6)                          | -                 | 15,738                       |
|  | <b>79,545</b>     | <b>75,806</b>                |
| <b>Reforestation liability</b>                         | 18,348            | 17,325                       |
| <b>Long-term debt (notes 8(a), 8(b))</b>               | 106,656           | 156,037                      |
| <b>Employee future benefits</b>                        | 8,957             | 5,815                        |
| <b>Other liabilities and provisions</b>                | 11,830            | 12,158                       |
| <b>Equity:</b>   |                   |                              |
| Share capital (note 9)                                 |                   |                              |
| Class A subordinate voting shares                      | 342,286           | 285,362                      |
| Class B common shares                                  | 4,080             | 4,080                        |
| Contributed surplus                                    | 7,476             | 5,408                        |
| Translation reserve                                    | (905)             | (7,646)                      |
| Hedging reserve  | (500)             | -                            |
| Retained earnings                                      | 47,850            | 60,246                       |
|  | <b>400,287</b>    | <b>347,450</b>               |
|  | <b>\$ 625,623</b> | <b>\$ 614,591</b>            |

**Contingencies (note 17)**

See accompanying notes to consolidated financial statements

On behalf of the Board:

E.L. Sauder  
Director

G.H. MacDougall  
Director





**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**For the nine months ended September 30, 2011 and 2010 (unaudited)**

(thousands of Canadian dollars)

|   | Class A<br>Share Capital | Class B<br>Share Capital | Contributed<br>Surplus | Translation<br>Reserve | Hedging<br>Reserve | Retained<br>Earnings | Total      |
|---|--------------------------|--------------------------|------------------------|------------------------|--------------------|----------------------|------------|
| <b>Balance at January 1, 2011</b>                                     | \$ 285,362               | \$ 4,080                 | \$ 5,408               | \$ (7,646)             | \$ -               | \$ 60,246            | \$ 347,450 |
| <b>Net loss for the period:</b>                                       | -                        | -                        | -                      | -                      | -                  | (6,986)              | (6,986)    |
| <b>Other comprehensive earnings (loss):</b>                           |                          |                          |                        |                        |                    |                      |            |
| Foreign currency translation differences<br>– foreign operations      | -                        | -                        | -                      | 6,741                  | -                  | -                    | 6,741      |
| Defined benefit plan actuarial losses, net of<br>income tax benefit   | -                        | -                        | -                      | -                      | -                  | (5,406)              | (5,406)    |
| Loss in fair value of interest rate swaps                             | -                        | -                        | -                      | -                      | (500)              | -                    | (500)      |
| <b>Contributions:</b>   |                          |                          |                        |                        |                    |                      |            |
| Share options exercised   | 1,370                    | -                        | -                      | -                      | -                  | -                    | 1,370      |
| Share issuance, net of share issue expenses<br>and income tax benefit | 55,554                   | -                        | -                      | -                      | -                  | -                    | 55,554     |
| <b>Changes in ownership interests in investee:</b>                    |                          |                          |                        |                        |                    |                      |            |
| Acquisition of subsidiary   | -                        | -                        | 2,068                  | -                      | -                  | (4)                  | 2,064      |
| <b>Balance at September 30, 2011</b>                                  | \$ 342,286               | \$ 4,080                 | \$ 7,476               | \$ (905)               | \$ (500)           | \$ 47,850            | \$ 400,287 |
|   | Class A<br>Share Capital | Class B<br>Share Capital | Contributed<br>Surplus | Translation<br>Reserve | Hedging<br>Reserve | Retained<br>Earnings | Total      |
| <b>Balance at January 1, 2010</b>                                     | \$ 284,500               | \$ 4,080                 | \$ 5,408               | \$ -                   | \$ -               | \$ 67,421            | \$ 361,409 |
| <b>Net loss for the period:</b>                                       | -                        | -                        | -                      | -                      | -                  | (5,949)              | (5,949)    |
| <b>Other comprehensive loss:</b>                                      |                          |                          |                        |                        |                    |                      |            |
| Foreign currency translation differences<br>– foreign operations      | -                        | -                        | -                      | (3,046)                | -                  | -                    | (3,046)    |
| Defined benefit plan actuarial losses, net of<br>income tax benefit   | -                        | -                        | -                      | -                      | -                  | (3,100)              | (3,100)    |
| Equity in associate defined benefit plan<br>actuarial losses          | -                        | -                        | -                      | -                      | -                  | (487)                | (487)      |
| <b>Contributions:</b>   |                          |                          |                        |                        |                    |                      |            |
| Share options exercised   | 39                       | -                        | -                      | -                      | -                  | -                    | 39         |
| <b>Balance at September 30, 2010</b>                                  | \$ 284,539               | \$ 4,080                 | \$ 5,408               | \$ (3,046)             | \$ -               | \$ 57,885            | \$ 348,866 |

See accompanying notes to consolidated financial statements.

## **INTERNATIONAL FOREST PRODUCTS LIMITED**

Notes to Unaudited Interim Consolidated Financial Statements

(Tabular amounts expressed in thousands except per share amounts)

Three and nine months ended September 30, 2011 and 2010 (unaudited)

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### **1. Nature of operations:**

International Forest Products Limited and its subsidiaries (the "Company" or "Interfor") is a producer of wood products in British Columbia and the U.S. Pacific Northwest 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 nine months ended September 30, 2011 comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2010 which were prepared under Canadian generally accepted accounting principles ("GAAP") are available on [www.sedar.com](http://www.sedar.com).

### **2. Statement of Compliance:**

#### **(a) Statement of compliance and conversion to International Financial Reporting Standards ("IFRS"):**

For fiscal years commencing January 1, 2011 Canadian GAAP were converged with IFRS. Consequently, the Company has prepared current and comparative financial information under IFRSs for the reporting period ending September 30, 2011. These condensed consolidated interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. As these IFRS condensed consolidated interim financial statements are for part of the period covered by the first IFRS annual financial statements IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The condensed consolidated interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Company as at the date of transition of January 1, 2010 and as at December 31, 2010 have been fully described in note 19 of the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011 as filed on [www.sedar.com](http://www.sedar.com).

Reconciliations of equity as at September 30, 2010 and total comprehensive income for the three and nine months ended September 30, 2010 comparative periods reported under Canadian GAAP to those reported for those periods under IFRSs are provided in note 18.

In these financial statements the term Canadian GAAP refers to Canadian GAAP before the adoption of IFRS.

These condensed consolidated interim financial statements were approved by the Board of Directors on November 2, 2011.

#### **(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.

### **3. Significant accounting policies:**

The accounting policies that the Company has adopted in its consolidated financial statements for the year ended December 31, 2011 have been fully described in note 3 of the Company's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2011 and as filed on [www.sedar.com](http://www.sedar.com). These accounting policies have been applied consistently to all periods presented in these condensed consolidated interim financial statements.

#### ***New Accounting Policy – Derivative Financial Instruments, Interest Rate Swaps:***

On August 25, 2011, the Company entered into two interest rate swaps and designated these financial instruments as cash flow hedges. The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense based on BA CDOR. As these derivatives are designated as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under the Revolving Term Line, the effective portion of changes in the fair value of the derivative is recognized in Other comprehensive income (loss) and presented in the Hedging reserve in Equity. Any ineffective portion of the changes in the fair value of the derivative is recognized immediately in Net earnings (loss).

#### ***Future accounting changes:***

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.

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.

Both standards are in effect for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted. As at the reporting date, no assessment has been made of the impact of the standard on the Company's financial statements other than the effect of the elimination of the corridor method.

## 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 nine months ended September 30, 2011 and 2010 (unaudited)

### 4. 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.

### 5. Acquisition:

On January 5, 2011, all partners in the Seaboard General Partnership ("the SGP") withdrew with the exception of Interfor. The SGP was wound-up on January 7, 2011 and continues shipping operations as Seaboard Shipping Company Limited ("Seaboard") which became a wholly-owned subsidiary of Interfor. Seaboard's accounts are included in the consolidated financial statements of the Company from the date of change in control.

This acquisition has been accounted for using the purchase method. At the date of change in control the identifiable assets acquired and liabilities and residual equity assumed were recorded at fair value based on management's best estimates and allocated as follows:

|   |    |         |
|---|----|---------|
| Assets acquired:  |    |         |
| Cash  | \$ | 4,846   |
| Other current assets  |    | 1,950   |
| Employee future benefits  |    | 1,659   |
|   |    | 8,455   |
| Liabilities assumed:  |    |         |
| Current liabilities   |    | (5,422) |
| Employee future benefits  |    | (326)   |
| Deferred income taxes   |    | (307)   |
| Residual equity assumed:  |    |         |
| Contributed surplus   |    | (2,068) |
| Withdrawing partners' share of actuarial gains and losses recognized through Other Comprehensive Income |    | 4       |
| Previous carrying value of investment in associate  | \$ | 336     |

There was no cash consideration paid and the net assets acquired were equal to the existing interest in the SGP at the date of change in control.

### 6. Payable to associate company:

On July 30, 2010 the SGP made an advance to its partners, with the Company's share of the advance being \$6,896,000. A second advance was made on December 30, 2010 and Interfor received an additional \$8,842,000. The Company signed unsecured promissory notes in respect of each of these advances, payable on demand on or before January 3, 2011 and non-interest bearing until January 3, 2011.

On January 3, 2011, the SGP declared an income distribution to its partners, of which the Company's share of \$15,738,000 was received by way of setoff against the promissory note payable to the SGP. In accordance with equity accounting, the income distribution was recorded as a reduction of the investment in associate company.

### 7. Inventories:

|        | Sept. 30, 2011 | Dec.31, 2010 |
|--------|----------------|--------------|
| Logs   | \$ 48,741      | \$ 39,107    |
| Lumber | 34,987         | 27,353       |
| Other  | 6,631          | 5,302        |
|        | \$ 90,359      | \$ 71,762    |

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 September 30, 2011 was \$6,761,000 (December 31, 2010 - \$6,253,000).

## 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 nine months ended September 30, 2011 and 2010 (unaudited)

### 8. Cash and borrowings:

|  | Operating<br>Facility | Revolving<br>Term<br>Facility | Total      |
|--|-----------------------|-------------------------------|------------|
| September 30, 2011   |                       |                               |            |
| Available line of credit                                   | \$ 65,000             | \$ 200,000                    | \$ 265,000 |
| Maximum borrowing available                                | 65,000                | 200,000                       | 265,000    |
| Drawings   | -                     | 106,656                       | 106,656    |
| Outstanding letters of credit included in line utilization | 4,909                 | -                             | 4,909      |
| Unused portion of line                                     | 60,091                | 93,344                        | 153,435    |
| December 31, 2010  |                       |                               |            |
| Available line of credit                                   | \$ 65,000             | \$ 200,000                    | \$ 265,000 |
| Maximum borrowing available                                | 65,000                | 200,000                       | 265,000    |
| Drawings   | -                     | 156,037                       | 156,037    |
| Outstanding letters of credit included in line utilization | 4,756                 | -                             | 4,756      |
| Unused portion of line                                     | 60,244                | 43,963                        | 104,207    |

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

|                      |            |
|----------------------|------------|
| Twelve months ending |            |
| September 30, 2012   | \$ -       |
| September 30, 2013   | -          |
| September 30, 2014   | -          |
| September 30, 2015   | 106,656    |
| September 30, 2016   | -          |
|                      | \$ 106,656 |

#### (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 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, 2011, other than outstanding letters of credit included in the line utilization, the Operating Line was undrawn (December 31, 2010 - \$nil).

On July 11, 2011, the Company extended and amended its Operating Line with the maturity date of the Operating Line extended from July 28, 2012 to July 28, 2015. All other terms and conditions of the line remain substantially unchanged except for a reduction in pricing.

#### (b) Revolving Term Line:

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

The Revolving Term Line is available to a maximum of \$200,000,000 and 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 and a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

As at September 30, 2011, the Revolving Term Line was drawn by US\$30,200,000 (December 31, 2010 - US\$30,200,000) revalued at the quarter-end exchange rate to \$31,656,000 (December 31, 2010 - \$30,037,000), and \$75,000,000 (December 31, 2010 - \$126,000,000) for total drawings of \$106,656,000 (December 31, 2010 - \$156,037,000).

The US\$30,200,000 drawing under the line has been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange loss of \$1,619,000 (September 30, 2010 - \$664,000 gain) arising on revaluation of the Revolving Term Line for the year ending September 30, 2011 were recognized in Other comprehensive income (loss). For the third quarter, 2011 the unrealized foreign exchange loss of \$2,528,000 (Quarter 3, 2010 - \$1,075,000 gain) was recognized in Other comprehensive income (loss).

On July 11, 2011, the Company extended and amended its Revolving Line with the maturity date of the Revolving Line extended from July 28, 2013 to July 28, 2015. All other terms and conditions of the line remain substantially unchanged except for a reduction in pricing.

<sup>1</sup>EBITDA 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 nine months ended September 30, 2011 and 2010 (unaudited)

### 8. Cash and borrowings (continued):

#### (c) Other:

On January 5, 2011 the Company acquired full control of Seaboard and its wholly-owned subsidiaries, Seaboard Shipping Company Limited ("SSCo") and Seaboard International Shipping Company ("SISCO") (see note 5). Seaboard had demand facilities with a Canadian bank which were secured by a general assignment of accounts receivable, inventory and insurance. The demand lines could be drawn in either CAD\$ or US\$ and bore interest at either the bank prime rate plus a margin for CAD\$ borrowings or the U.S. base rate plus a margin for \$US borrowings. Borrowing levels under the line were subject to a borrowing base calculation dependent on certain accounts receivable.

On September 29, 2011 both lines were cancelled and the related security was released.

At September 30, 2011 Company's cash balances are restricted by the amount of Seaboard's outstanding letters of credit of \$138,000 (December 31, 2010 - \$nil).

### 9. Share capital:

The transactions in share capital are described below:

|   | Number     |           |            | Amount     |
|---|------------|-----------|------------|------------|
|   | Class A    | Class B   | Total      |            |
| Balance, December 31, 2009                                      | 46,101,476 | 1,015,779 | 47,117,255 | \$ 288,580 |
| Shares issued on exercise of options                            | 236,200    | -         | 236,200    | 862        |
| Balance, December 31, 2010                                      | 46,337,676 | 1,015,779 | 47,353,455 | 289,442    |
| Shares issued on exercise of options                            | 287,000    | -         | 287,000    | 1,370      |
| Share issuance, net of share issue costs and income tax benefit | 8,222,500  | -         | 8,222,500  | 55,554     |
| Balance, September 30, 2011                                     | 54,847,176 | 1,015,779 | 55,862,955 | \$ 346,366 |

On April 8, 2011 the Company closed a public offering of 8,222,500 Class A Subordinate Voting shares at a price of \$7.00 per share for net cash proceeds of \$54,886,000.

### 10. Depreciation, depletion and amortization:

Depreciation, depletion and amortization allocated by function is as follows:

|                            | 3 Months       | 3 Months       | 9 Months       | 9 Months       |
|----------------------------|----------------|----------------|----------------|----------------|
|                            | Sept. 30, 2011 | Sept. 30, 2010 | Sept. 30, 2011 | Sept. 30, 2010 |
| Production                 | \$ 13,108      | \$ 10,716      | \$ 37,922      | \$ 33,532      |
| Selling and administration | 219            | 245            | 673            | 763            |
|                            | \$ 13,327      | \$ 10,961      | \$ 38,595      | \$ 34,295      |

### 11. Restructuring costs:

|  | 3 Months       | 3 Months       | 9 Months       | 9 Months       |
|--|----------------|----------------|----------------|----------------|
|  | Sept. 30, 2011 | Sept. 30, 2010 | Sept. 30, 2011 | Sept. 30, 2010 |
| Severance costs                            | \$ 118         | \$ (5)         | \$ 369         | \$ 1,102       |
| Contractor buyout                          | -              | -              | 840            | -              |
| Plant and equipment write-downs (reversal) | (423)          | 485            | (423)          | 485            |
| Other recovery                             | -              | -              | (102)          | -              |
|  | \$ (305)       | \$ 480         | \$ 684         | \$ 1,587       |

Restructuring costs of \$850,000 in the first quarter, 2011 resulted from the buyout of a logging contractor's Bill 13 entitlements and severance costs related to early retirement of hourly workers.

Additional payments in the second quarter, 2011 resulted in the recognition of further restructuring costs of \$175,000 for the buyout of Bill 13 entitlements. Further hourly worker early retirements were slightly offset by revisions to previously accrued severances resulted in a recovery of \$102,000 in the second quarter, and an expense of \$118,000 in the third quarter, 2011.

During the third quarter, 2011, the Company also reversed an amount of \$423,000 for a write-down for an asset previously considered impaired.

During the first quarter of 2010 the Company revised its estimated severance costs and recorded \$33,000 in additional restructuring costs. In the second quarter of 2010 the Company restructured certain of its manufacturing operations resulting in additional severance costs of \$1,074,000. The Company recorded \$485,000 in asset write-downs in the third quarter, 2010, as it determined certain assets were impaired.

**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 nine months ended September 30, 2011 and 2010 (unaudited)

**12. Finance costs:**

|                                       | 3 Months<br>Sept. 30, 2011 | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|---------------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Interest on borrowing                 | \$ 1,173                   | \$ 2,097                   | \$ 4,488                   | \$ 6,421                   |
| Accretion expense                     | 194                        | 195                        | 575                        | 614                        |
| Amortization of prepaid finance costs | 290                        | 273                        | 763                        | 897                        |
|                                       | \$ 1,657                   | \$ 2,565                   | \$ 5,826                   | \$ 7,932                   |

**13. Other income (expense):**

|  | 3 Months<br>Sept. 30, 2011 | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|--|----------------------------|----------------------------|----------------------------|----------------------------|
| Gain (loss) on disposal of surplus plant and equipment, and licences | \$ 171                     | \$ (146)                   | \$ 228                     | \$ (117)                   |
| Gain on settlement of timber takeback                                | -                          | -                          | -                          | 376                        |
| Gain on lumber futures trading                                       | 188                        | -                          | 188                        | -                          |
| Other (expense)  | -                          | 17                         | -                          | -                          |
|  | \$ 359                     | \$ (129)                   | \$ 416                     | \$ 259                     |

In the first, second and third quarters, 2011, the Company disposed of surplus equipment and a timber licence which generated \$257,000 in proceeds and a gain of \$228,000.

During the third quarter, 2011 the Company generated a gain of \$188,000 on lumber futures trading.

In the first quarter of 2010, minor disposals of surplus equipment resulted in proceeds of \$14,000 and a loss of \$8,000. In the second quarter, 2010, the Company received further compensation under the *Forest Act* for timber, roads and bridges resulting from the 2006 legislated takeback of certain logging rights on the B.C. Coast which, combined with further minor disposals of surplus equipment, resulted in proceeds of \$475,000 and a gain of \$413,000. Additional minor sales of surplus equipment in the third quarter, 2010 generated proceeds of \$812,000 and a loss of \$146,000.

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

|                            | 3 Months Sept. 30, 2011 |   |           | 3 Months Sept. 30, 2010 |   |           |
|----------------------------|-------------------------|---|-----------|-------------------------|---|-----------|
|                            | Net earnings            | Weighted Average<br>Number of<br>Shares | Per share | Net earnings            | Weighted Average<br>Number of<br>Shares | Per share |
| Basic earnings per share   | \$ 6                    | 55,863                                  | \$ 0.00   | \$ 1,405                | 47,128                                  | \$ 0.03   |
| Share options              | -                       | -                                       | -         | -                       | -                                       | -         |
| Diluted earnings per share | \$ 6                    | 55,863                                  | \$ 0.00   | \$ 1,405                | 47,128                                  | \$ 0.03   |

|                        | 9 Months Sept. 30, 2011 |   |           | 9 Months Sept. 30, 2010 |   |           |
|------------------------|-------------------------|---|-----------|-------------------------|---|-----------|
|                        | Net loss                | Weighted Average<br>Number of<br>Shares | Per share | Net loss                | Weighted Average<br>Number of<br>Shares | Per share |
| Basic loss per share   | \$ (6,986)              | 52,852                                  | \$ (0.13) | \$ (5,949)              | 47,123                                  | \$ (0.13) |
| Share options          | -                       | -                                       | -         | -                       | 56*                                     | -         |
| Diluted loss per share | \$ (6,986)              | 52,852                                  | \$ (0.13) | \$ (5,949)              | 47,123                                  | \$ (0.13) |

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

## 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 nine months ended September 30, 2011 and 2010 (unaudited)

### 15. 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, U.S.A.

In the first quarter, 2011 the Company acquired complete control of the SGP. The SGP was wound up on early January, 2011 but continued operations as Seaboard and its accounts were consolidated from the date of change in control on January 5, 2011. Other sales revenues in sales by product line include the ocean freight revenues of Seaboard.

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

|               | 3 Months<br>Sept. 30, 2011 | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|---------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Canada        | \$ 57,089                  | \$ 44,601                  | \$ 157,185                 | \$ 127,325                 |
| United States | 71,898                     | 53,164                     | 194,443                    | 182,760                    |
| China/Taiwan  | 33,057                     | 23,773                     | 110,391                    | 46,400                     |
| Japan         | 27,000                     | 19,956                     | 71,110                     | 57,764                     |
| Other export  | 11,121                     | 9,999                      | 34,935                     | 35,066                     |
|               | \$ 200,165                 | \$ 151,493                 | \$ 568,064                 | \$ 449,315                 |

Sales by product line are as follows:

|                                  | 3 Months<br>Sept. 30, 2011 | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2011 | 9 Months<br>Sept. 30, 2010 |
|----------------------------------|----------------------------|----------------------------|----------------------------|----------------------------|
| Lumber                           | \$ 136,695                 | \$ 113,103                 | \$ 403,241                 | \$ 344,434                 |
| Logs                             | 35,979                     | 21,946                     | 85,473                     | 59,186                     |
| Wood chips and other by products | 17,624                     | 14,000                     | 50,817                     | 40,486                     |
| Ocean freight and other          | 9,867                      | 2,444                      | 28,533                     | 5,209                      |
|                                  | \$ 200,165                 | \$ 151,493                 | \$ 568,064                 | \$ 449,315                 |

### 16. Financial instruments:

The Company employs financial instruments such as foreign currency forward and option contracts to manage exposure to fluctuations in foreign exchange rates and interest rate swaps to manage exposure to interest rates. The Company does not expect any credit losses in the event of non-performance by counterparties as the counterparties are the Company's Canadian bankers, which are all highly rated.

As at September 30, 2011, the Company has outstanding obligations to sell a maximum of US\$39,800,000 at an average rate of CAD\$0.99652 to the USD\$1.00 and sell Japanese ¥65,507,077 at an average rate of ¥80.19 to the US\$1.00 during 2011. All foreign currency gains or losses to September 30, 2011 have been recognized in Sales revenue in net earnings and the fair value of these foreign currency contracts being a liability of \$2,077,000 (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts payable and accrued liabilities (December 31, 2010 - \$492,000 asset recorded in Trade accounts receivable and other and \$18,000 liability recorded in Trade accounts payable and accrued liabilities 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. 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 September 30, 2011 being a liability of \$500,000 (measured based on Level 2 of the fair value hierarchy) has been recorded in Trade accounts payable and accrued liabilities and a charge of \$500,000 has been recognized in Other comprehensive income.

During the third quarter, 2011 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 September 30, 2011 there were no outstanding lumber futures contracts and a gain of \$188,000 was recognized in Other income (expense) on completed contracts for the third quarter, 2011.

### 17. Contingencies:

#### (a) Softwood Lumber Agreement:

On January 18, 2011 U.S. Trade Representative's office filed for arbitration under the provisions of the Softwood Lumber Agreement ("SLA") over its concern that the Province of British Columbia ("B.C.") is charging too low a price for certain timber harvested on public lands in the B.C. Interior. The arbitration will be conducted by the London Court of International Arbitration ("LCIA"). The Company believes that B.C. and Canada are complying with their obligations under the SLA.

In August, 2011 the U.S. Trade Representative filed a detailed statement of claim with the LCIA and Canada is expected to deliver its initial response in November, 2011. A hearing before the arbitration panel is expected to take place in early 2012 with a final decision expected by the end of 2012.

As the arbitration process is still in its early stages, the existence of any potential claim has not been determined and no provision has been recorded in the financial statements as at September 30, 2011.

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### **17. Contingencies (continued):**

#### **(b) Storm and earthquake damage:**

In September 2011, an earthquake on Vancouver Island and heavy rains on the B.C. mainland coastal and inlet areas resulted in mudslides and debris torrents with some logging areas impacted by road washouts and bridge and culvert damage. Due to the remoteness and magnitude of the areas impacted the Company has been unable to fully assess the extent of the damage and its related costs.

Similarly, in the latter half of September 2010, heavy rains and strong winds on northern Vancouver Island and the B.C. Central Coast triggered mudslides, road washouts and flooding and caused bridge and culvert damage. Certain losses relating to the 2010 storm damage were covered by insurance and in June, 2011 the Company settled with its insurers for recovery of qualifying expenditures, net of the insurance deductible for total proceeds of \$4,836,000 of which \$4,815,000 was received in the second quarter, 2011.

During the first quarter, 2011, the Company recorded business interruption insurance recoveries of \$2,211,000 as a reduction in Production costs in net earnings with a further recovery of \$503,000 recognized during the second quarter, 2011 for total recoveries reflected in net earnings of \$2,714,000.

A further \$525,000 was applied against amounts previously set up as receivable for costs already incurred. The remaining \$1,576,000 was set up as a provision for future remediation on roads and bridges, with \$482,000 recorded in Trade accounts payable and accrued liabilities and \$1,094,000 recorded in Other liabilities and provisions.

As at September 30, 2011 \$1,237,000 of these provisions remain unspent.

### **18. Explanation of transition to IFRS:**

As stated in note 2 (a), these consolidated interim financial statements are prepared in accordance with IFRSs.

As described in note 3, the accounting policies adopted by the Company under IFRSs have been applied in preparing the interim financial statements for the comparative information presented in these unaudited condensed consolidated interim financial statements for both the three and nine months ended September 30, 2010.

An explanation of how the transition from previous GAAP to IFRSs has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.



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### 18. Explanation of transition to IFRSs (continued):

#### Reconciliation of equity

#### September 30, 2010

(thousands of Canadian dollars)

|  | Note    | Previous<br>GAAP | IFRSs<br>Reclassify | IFRSs<br>Adjustment | IFRSs      |
|--|---------|------------------|---------------------|---------------------|------------|
| <b>Assets</b>                                  |         |                  |                     |                     |            |
| <b>Current assets:</b>                         |         |                  |                     |                     |            |
| Cash and cash equivalents                      |         | \$ 11,031        | \$ -                | \$ -                | \$ 11,031  |
| Trade accounts receivable and other            |         | 30,980           | -                   | -                   | 30,980     |
| Inventories                                    |         | 71,324           | -                   | -                   | 71,324     |
| Prepayments                                    |         | 9,570            | -                   | -                   | 9,570      |
| Deferred tax assets                            | a       | 3,222            | (3,222)             | -                   | -          |
|  |         | 126,127          | (3,222)             | -                   | 122,905    |
| <b>Investment in associate company</b>         | b, j    | -                | 15,423              | (1,373)             | 14,050     |
| <b>Employee future benefits</b>                | c, i    | -                | 7,464               | (7,243)             | 221        |
| <b>Other investments and assets</b>            | b, c    | 26,311           | (23,361)            | -                   | 2,950      |
| <b>Property, plant and equipment</b>           | d, k    | 338,474          | (1,853)             | 15,748              | 352,369    |
| <b>Logging roads and bridges</b>               |         | 16,390           | -                   | -                   | 16,390     |
| <b>Timber licences</b>                         |         | 80,623           | -                   | -                   | 80,623     |
| <b>Other intangible assets</b>                 | d       | -                | 1,853               | -                   | 1,853      |
| <b>Goodwill</b>                                |         | 13,078           | -                   | -                   | 13,078     |
| <b>Asset classified as held for sale</b>       |         | 3,424            | -                   | -                   | 3,424      |
|  |         | \$ 604,427       | \$ (3,696)          | \$ 7,132            | \$ 607,863 |
| <b>Liabilities and Equity</b>                  |         |                  |                     |                     |            |
| <b>Current liabilities:</b>                    |         |                  |                     |                     |            |
| Trade accounts payable and accrued liabilities | e, n    | \$ 49,270        | \$ (8,906)          | \$ 1,031            | \$ 41,395  |
| Reforestation liability                        | e       | -                | 8,906               | -                   | 8,906      |
| Income taxes payable                           |         | 215              | -                   | -                   | 215        |
| Payable to investee company                    |         | 6,896            | -                   | -                   | 6,896      |
|  |         | 56,381           | -                   | 1,031               | 57,412     |
| <b>Reforestation liability</b>                 | m       | 16,501           | -                   | 2,711               | 19,212     |
| <b>Long-term debt</b>                          |         | 162,076          | -                   | -                   | 162,076    |
| <b>Employee future benefits</b>                | c, i    | -                | 4,611               | 3,765               | 8,376      |
| <b>Other liabilities and provisions</b>        | c, m, n | 15,745           | (5,085)             | 1,261               | 11,921     |
| <b>Deferred income taxes</b>                   | a, p    | 3,222            | (3,222)             | -                   | -          |
| <b>Equity:</b>                                 |         |                  |                     |                     |            |
| Share capital                                  |         |                  |                     |                     |            |
| Class A subordinate voting shares              |         | 284,539          | -                   | -                   | 284,539    |
| Class B common shares                          |         | 4,080            | -                   | -                   | 4,080      |
| Contributed surplus                            |         | 5,408            | -                   | -                   | 5,408      |
| Translation reserves                           | h       | (27,901)         | 24,855              | -                   | (3,046)    |
| Retained earnings                              | h, q    | 84,376           | (24,855)            | (1,636)             | 57,885     |
|  |         | 350,502          | -                   | (1,636)             | 348,866    |
|  |         | \$ 604,427       | \$ (3,696)          | \$ 7,132            | \$ 607,863 |

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Three and nine months ended September 30, 2011 and 2010 (unaudited)

**18. Explanation of transition to IFRSs (continued):**
**Reconciliation of comprehensive income (loss):**

| (thousands of Canadian dollars)                                   | Note       | Three months ended<br>September 30, 2010 |                     |                     |            | Nine months ended<br>September 30, 2010 |                     |                     |             |
|---|------------|--|---------------------|---------------------|------------|---|---------------------|---------------------|-------------|
|   |            | Previous<br>GAAP                         | IFRSs<br>Reclassify | IFRSs<br>Adjustment | IFRSs      | Previous<br>GAAP                        | IFRSs<br>Reclassify | IFRSs<br>Adjustment | IFRSs       |
| <b>Sales</b>  |            | \$ 151,493                               | \$ -                | \$ -                | \$ 151,493 | \$ 449,315                              | \$ -                | \$ -                | \$ 449,315  |
| <b>Costs and Expenses:</b>  |            |  |                     |                     |            |   |                     |                     |             |
| Production  | f, i, k, m | 135,830                                  | (195)               | 334                 | 135,969    | 402,309                                 | (614)               | 1,086               | 402,781     |
| Selling and administration  |            | 4,728                                    | -                   | -                   | 4,728      | 13,180                                  | -                   | -                   | 13,180      |
| Long term incentive compensation expense (recovery)               | n          | 249                                      | -                   | (120)               | 129        | 454                                     | -                   | (934)               | (480)       |
| Export taxes  |            | 1,746                                    | -                   | -                   | 1,746      | 4,903                                   | -                   | -                   | 4,903       |
| Amortization of plant and equipment                               | d          | 7,246                                    | (155)               | -                   | 7,091      | 20,622                                  | (491)               | -                   | 20,131      |
| Depletion and amortization of timber, roads and other             | f          | 3,988                                    | (118)               | -                   | 3,870      | 14,570                                  | (406)               | -                   | 14,164      |
|   |            | 153,787                                  | (468)               | 214                 | 153,533    | 456,038                                 | (1,511)             | 152                 | 454,679     |
| <b>Operating earnings (loss) before restructuring costs</b>       |            | (2,294)                                  | 468                 | (214)               | (2,040)    | (6,723)                                 | 1,511               | (152)               | (5,364)     |
| Restructuring costs   |            | (480)                                    | -                   | -                   | (480)      | (1,587)                                 | -                   | -                   | (1,587)     |
| <b>Operating earnings (loss)</b>                                  |            | (2,774)                                  | 468                 | (214)               | (2,520)    | (8,310)                                 | 1,511               | (152)               | (6,951)     |
| Finance costs   | f          | -  | (2,565)             | -                   | (2,565)    | -                                       | (7,932)             | -                   | (7,932)     |
| Interest expense on long-term debt                                | f          | (1,956)                                  | 1,956               | -                   | -          | (5,976)                                 | 5,976               | -                   | -           |
| Other interest expense  | f          | (141)                                    | 141                 | -                   | -          | (445)                                   | 445                 | -                   | -           |
| Other foreign exchange loss                                       |            | (67)                                     | -                   | -                   | (67)       | (111)                                   | -                   | -                   | (111)       |
| Other income  |            | (129)                                    | -                   | -                   | (129)      | 259                                     | -                   | -                   | 259         |
| Equity in earnings of associate company                           | j          | 6,465                                    | -                   | 16                  | 6,481      | 9,745                                   | -                   | 34                  | 9,779       |
|   |            | 4,172                                    | (468)               | 16                  | 3,720      | 3,472                                   | (1,511)             | 34                  | 1,995       |
| <b>Earnings (loss) before income taxes</b>                        |            | 1,398                                    | -                   | (198)               | 1,200      | (4,838)                                 | -                   | (118)               | (4,956)     |
| <b>Income tax expense (recovery):</b>                             |            |  |                     |                     |            |   |                     |                     |             |
| Current   |            | 8  | -                   | -                   | 8          | 42                                      | -                   | -                   | 42          |
| Deferred  | p          | (135)                                    | -                   | (78)                | (213)      | (395)                                   | -                   | 1,346               | 951         |
|   |            | (127)                                    | -                   | (78)                | (205)      | (353)                                   | -                   | 1,346               | 993         |
| <b>Net earnings (loss)</b>  |            | 1,525                                    | -                   | (120)               | 1,405      | (4,485)                                 | -                   | (1,464)             | (5,949)     |
| <b>Other comprehensive income (loss):</b>                         |            |  |                     |                     |            |   |                     |                     |             |
| Foreign currency translation differences – foreign operations     |            | (4,930)                                  | -                   | -                   | (4,930)    | (3,046)                                 | -                   | -                   | (3,046)     |
| Defined benefit plan actuarial losses                             | i          | -  | -                   | 314                 | 314        | -                                       | -                   | (4,134)             | (4,134)     |
| Equity share of associate's defined benefit plan actuarial losses | j          | -  | -                   | 84                  | 84         | -                                       | -                   | (487)               | (487)       |
| Income tax recovery on defined benefit plan actuarial losses      | p          | -  | -                   | (78)                | (78)       | -                                       | -                   | 1,034               | 1,034       |
|   |            | (4,930)                                  | -                   | 320                 | (4,610)    | (3,046)                                 | -                   | (3,587)             | (6,633)     |
| <b>Total comprehensive income (loss) for the period</b>           |            | \$ (3,405)                               | \$ -                | \$ 200              | \$ (3,205) | \$ (7,531)                              | \$ -                | \$ (5,051)          | \$ (12,582) |
| <b>Net earnings (loss) per share, basic and diluted</b>           |            | \$ 0.03                                  | \$ -                | \$ -                | \$ 0.03    | \$ (0.10)                               | \$ -                | \$ (0.03)           | \$ (0.13)   |

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### 18. Explanation of transition to IFRSs (continued):

#### **Presentation reclassifications:**

##### **(a) Deferred taxes:**

Under Canadian GAAP deferred taxes are split between current and non-current components on the basis of either the underlying asset or liability or the expected reversal of items not related to an asset or liability.

Under IFRS deferred tax assets and liabilities are classified as non-current.

Consequently, current deferred tax assets under Canadian GAAP have been reclassified against non-current deferred tax liabilities to conform to IFRS requirements.

##### **(b) Investment in associate company:**

Under Canadian GAAP separate disclosure of investments accounted for on the equity basis is required but may be disclosed in either the financial statements or the notes to the financial statements.

Under IAS 1, *Presentation of Financial Statements*, investments accounted for using the equity method must be disclosed separately in the Statement of Financial Position.

The Company's investment in an associate company has been reclassified from Other investments and assets as a separate line item on the Statement of Financial Position to conform to IFRS requirements.

##### **(c) Employee future benefits:**

Employee benefit plan assets and obligations have been reclassified from Other investments and assets and Other liabilities and provisions to highlight items where there has been a significant transitional IFRS adjustment in accordance with IAS 34, *Interim Financial Reporting*.

##### **(d) Other intangible assets, net of accumulated amortization:**

Under Canadian GAAP computer software acquired or developed for use is treated as a component of Property, plant and equipment.

Under IAS 38, *Intangible Assets*, computer software acquired or developed for use meets the definition of an intangible asset and is therefore reclassified from Property, plant and equipment on the Statement of Financial Position as is the related amortization on the Statement of Comprehensive Income.

##### **(e) Reforestation liability, current:**

IAS 1, *Presentation of Financial Statements*, requires the separate disclosure of provisions, where significant. Consequently, the current portion of reforestation liability has been reclassified from Trade accounts payable and other accrued liabilities.

##### **(f) Finance costs:**

Under IFRS 7, *Financial Instruments: Disclosures*, interest expense on borrowings, the unwinding of the discount on provisions (accretion expense), the amortization of prepaid financing costs and other related transaction costs are disclosed as finance costs.

Under Canadian GAAP, interest expense on borrowings was disclosed separately, accretion expense was included in Production costs and the amortization of prepaid financing costs were included in Depletion and amortization of timber, roads and other.

To comply with IFRS, these items have been reclassified to Finance costs on the Statement of Comprehensive Income.

##### **(g) Interest paid:**

Cash flows relating to interest paid have been classified as financing activities in the Statement of Cash Flows.

#### **First-time adoption elections and changes due to IFRS:**

##### **(h) Currency translation differences:**

Retrospective application of IFRS would require the Company to determine cumulative currency translation differences in accordance with IAS 21, *The Effects of Changes in Foreign Exchange Rates*, from the date a foreign subsidiary was formed or acquired. IFRS 1, *First-time Adoption of International Financial Reporting Standards*, permits cumulative translation gains and losses to be reset to zero at the transition date. The Company elected to reset all cumulative translation gains and losses to zero in the opening retained earnings at January 1, 2010.

The impact on the Statement of Financial Position is summarized as follows:

|                                | Sept. 30, 2010 |
|--------------------------------|----------------|
| Reserve increase               | \$ 24,855      |
| Reduction to retained earnings | \$ (24,855)    |

##### **(i) Employee future benefits:**

IFRS 1 provides the option to retrospectively apply the corridor approach under IAS 19, *Employee Benefits*, for the recognition of actuarial gains and losses, or to recognize all cumulative gains and losses deferred under Canadian GAAP in opening retained earnings as at the transition date. The Company elected to recognize all cumulative actuarial gains and losses that existed at its transition date of January 1, 2010 in opening retained earnings for all of its employee benefit plans.

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### 18. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### (i) Employee future benefits (continued):

Under Canadian GAAP actuarial gains and losses that arise in calculating the present value of the defined benefit obligations and the fair value of plan assets are recognized on a systematic and consistent basis subject to a minimum required amortization based on a "corridor" approach. The corridor was 10% of the greater of the accrued benefit obligation at the beginning of the year and the fair value of plan assets at the beginning of the year. The unamortized net actuarial gains and losses in excess of the corridor is amortized as a component of pension expense on a straight-line basis over the expected average remaining service life of active participants. Actuarial gains and losses below the 10% corridor are deferred.

Under IFRS the Company elected to recognize all actuarial gains and losses immediately Other comprehensive income without recycling to the income statement in subsequent periods. As a result, actuarial gains and losses are not amortized to the income statement but rather are recorded directly to other comprehensive income at the end of each period. Consequently, the Company adjusted its pension expense to remove the amortization of actuarial gains and losses.

Under Canadian GAAP when a defined benefit plan gives rise to an accrued benefit asset, a provision is recognized for any excess of the accrued benefit asset over the expected future benefit. The accrued benefit asset is presented in the Statement of Financial Position net of the provision. A change in the provision is recognized in earnings for the period in which the change occurs.

IFRS also limits the recognition of the net benefit asset under certain circumstances to the amount that is recoverable. Since the Company has elected to recognize all actuarial gains and losses in Other comprehensive income, changes in the provision are recognized in other comprehensive income in the period in which the change occurs. The Company did not have a provision in respect of its benefit assets for any of the periods presented.

The impact on the Statement of Financial Position was:

|                                       | Sept. 30, 2010 |
|---------------------------------------|----------------|
| Employee benefit assets decrease      | \$ (7,243)     |
| Employee benefit obligations increase | (3,765)        |
| Related tax effect                    | 2,752          |
| Reduction to retained earnings        | \$ (8,256)     |

The impact on the Statement of Comprehensive Income was:

|   | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|---|----------------------------|----------------------------|
| Production expense increase (decrease)                              | \$ (18)                    | \$ 3                       |
| Other comprehensive loss (income):                                  |                            |                            |
| Defined benefit plan actuarial losses (gains)                       | (314)                      | 4,134                      |
| Reduction to (increase in) comprehensive income before income taxes | \$ (332)                   | \$ 4,137                   |

##### (j) Investment in associate company:

In applying the equity method of accounting for an investment in an associate company both Canadian GAAP and IFRS require the accounting policies of the associate entity to be consistent with those of the parent company. As such, the employee defined benefit asset of the associate company has been adjusted to reflect the same policies as described in Note 19 (i) for employee future benefits and the Company has reflected its proportionate share of the associate's after-tax adjustments to earnings and comprehensive income.

The impact on the Statement of Financial Position was:

|                                  | Sept. 30, 2010 |
|----------------------------------|----------------|
| Investment in associate decrease | \$ (1,373)     |
| Reduction to retained earnings   | \$ (1,373)     |

The impact on the Statement of Comprehensive Income was:

|   | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|---|----------------------------|----------------------------|
| Equity in income  | \$ (16)                    | \$ (34)                    |
| Other comprehensive loss (income):  |                            |                            |
| Equity share of associate's defined benefit plan actuarial losses (gains) | (84)                       | 487                        |
| Reduction to (increase in) comprehensive income before income taxes       | \$ (100)                   | \$ 453                     |

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### 18. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### **(k) Property, plant and equipment:**

IFRS 1 allows a company to elect to measure an item of property, plant and equipment at the date of transition at its fair value and use that fair value as its deemed cost at that date. The Company identified a property at its Hammond sawmill site which it elected to use fair value as its deemed cost. As at January 1, 2010 the fair value of the property was estimated to be \$16,320,000 with a historical cost of \$572,000.

In addition, the Company reversed certain costs related to the transfer of equipment from one sawmill site to another which, under previous GAAP, qualified for capital treatment, but under IFRS do not.

The impact on the Statement of Financial Position was:

|  | Sept. 30, 2010 |
|--|----------------|
| Property, plant and equipment increase | \$ 15,748      |
| Related tax effect                     | (1,969)        |
| Increase in retained earnings          | \$ 13,779      |

The was no impact on the Statement of Comprehensive Income for the three months and nine months ended September 30, 2010.

##### **(l) Borrowing costs:**

IAS 23, *Borrowing Costs*, requires an entity to capitalize the borrowing costs for qualifying assets for which the commencement date for capitalization is on or after January 1, 2009. Early adoption is permitted. IFRS 1 contains an exemption allowing companies to apply this standard to assets for which the commencement date is the later of January 1, 2009 and the date of transition. The Company elected to take this IFRS 1 exemption and, therefore, borrowing costs prior to January 1, 2010 are expensed.

##### **(m) Decommissioning provisions:**

The Company's logging activities give rise to obligations for reforestation and deactivation of logging roads. In addition, the Company has also recognized some environmental provisions.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. Canadian GAAP requires the provision to be measured at fair value based on the amount a third party would charge for performing the remediation work. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on "best estimate". The best estimate calculation can be based on internal or external costs, depending upon which is most likely.

Discount rates used under Canadian GAAP for decommissioning provisions (known as asset retirement obligations under Canadian GAAP) are based on the Company's credit-adjusted risk-free rate. Adjustments are made to decommissioning provisions for changes in the timing or amount of the cashflows and the unwinding of the discount. Changes in estimates that decrease provisions are discounted using the discount rate applied upon initial recognition of the liability; changes in estimates that increase the provision are discounted using the current discount rate.

Discount rates used under IFRS reflect the risks specific to the decommissioning provision. Adjustments are made to decommissioning provisions each period for changes in the timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

The impact on the Statement of Financial Position was:

|   | Sept. 30, 2010 |
|---|----------------|
| Reforestation liability, non-current increase | \$ (2,711)     |
| Other liabilities and provisions increase     | (1,151)        |
| Related tax effect                            | 966            |
| Reduction to retained earnings                | \$ (2,896)     |

The impact on the Statement of Comprehensive Income was:

|   | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|---|----------------------------|----------------------------|
| Production expense increase                           | \$ 352                     | \$ 1,083                   |
| Reduction to comprehensive income before income taxes | \$ 352                     | \$ 1,083                   |

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### 18. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS (continued):*

##### (n) Share-based payments:

The Company has granted certain cash-settled share-based payments to certain employees. The Company accounted for these share-based payment arrangements by reference to their intrinsic value under Canadian GAAP.

Under IFRSs the related liability has been adjusted to reflect the fair value of the outstanding cash-settled share-based payments. The fair value is estimated by applying an option pricing model and until the liability is settled the fair value of the liability is remeasured at each reporting date, with changes in fair value recognized as the awards vest. Additionally, IFRS requires an estimate of the number of awards expected to vest, which is revised if subsequent information indicates that actual forfeitures are likely to differ from the estimate.

As a result, the Company adjusted expenses associated with cash-settled share-based payments to reflect the changes of the fair values of these awards.

The impact on the Statement of Financial Position was:

|   | Sept. 30, 2010 |
|---|----------------|
| Trade accounts payable and accrued liabilities increase | \$ (1,031)     |
| Other liabilities and provisions increase               | (110)          |
| Related tax effect                                      | 285            |
| Reduction to retained earnings                          | \$ 856         |

The impact on the Statement of Comprehensive Income was:

|  | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|--|----------------------------|----------------------------|
| Long term incentive compensation recovery            | \$ (120)                   | \$ (934)                   |
| Increase in comprehensive income before income taxes | \$ (120)                   | \$ (934)                   |

##### (o) Business combinations:

IFRS 1 provides the option to apply IFRS 3, *Business Combinations*, retrospectively or prospectively from the date of transition of January 1, 2010. The retrospective basis would require restatement of all business combinations that occurred prior to the transition date. The Company elected not to retrospectively apply IFRS 3 to business combinations that occurred prior to its transition date and such business combinations have not been restated. Any goodwill arising on such business combinations prior to the transition date has not been adjusted from the carrying value previously determined under Canadian GAAP as a result of applying these exemptions.

##### (p) Income taxes:

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 deferred tax assets in excess of deferred tax liabilities under Canadian GAAP or IFRS.

The above changes had the following impact on deferred income tax liabilities based on a tax rate of 25 percent:

|  | Sept. 30, 2010 |
|--|----------------|
| Employee future benefits   | \$ 2,752       |
| Property, plant and equipment  | (1,969)        |
| Decommissioning provisions   | 966            |
| Share-based payments   | 285            |
| Reduction of deferred income tax assets for loss carry-forwards not recognized | (2,034)        |
| Reduction to deferred income tax liability and increase in retained earnings   | \$ -           |

The impact on the Statement of Comprehensive Income was:

|   | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|---|----------------------------|----------------------------|
| Deferred income tax expense (recovery)                      | \$ (78)                    | \$ 1,346                   |
| Income tax expense (recovery) on other comprehensive losses | 78                         | (1,034)                    |
| Reduction to comprehensive income                           | \$ -                       | \$ 312                     |

## 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 nine months ended September 30, 2011 and 2010 (unaudited)

### 18. Explanation of transition to IFRSs (continued):

#### *First-time adoption elections and changes due to IFRS:*

##### (q) Retained earnings:

The above changes had the following impact on retained earnings:

|  | Sept. 30, 2010 |
|--|----------------|
| Employee future benefits   | \$ (8,256)     |
| Investment in associate company  | (1,373)        |
| Property, plant and equipment  | 13,779         |
| Decommissioning provisions   | (2,896)        |
| Share-based payments   | (856)          |
| Tax reduction of deferred income tax assets for loss carry-forwards not recognized | (2,034)        |
| Reduction to retained earnings due to IFRS adjustments                             | (1,636)        |
| Reclassifications due to IFRS  |                |
| Currency translation adjustments   | (24,855)       |
| Reduction to retained earnings   | \$ (26,491)    |

The impact on the Statement of Comprehensive Income was:

|   | 3 Months<br>Sept. 30, 2010 | 9 Months<br>Sept. 30, 2010 |
|---|----------------------------|----------------------------|
| Production expense increase (decrease)                                    |                            |                            |
| Employee future benefits increase (decrease)                              | \$ (18)                    | \$ 3                       |
| Decommissioning provisions increase                                       | 352                        | 1,083                      |
|   | 334                        | 1,086                      |
| Long term incentive compensation recovery                                 | (120)                      | (934)                      |
| Equity in earnings of associate company increase                          | (16)                       | (34)                       |
| Deferred income tax expense   | (78)                       | 1,346                      |
| Decrease to net earnings/increase to net loss                             | 120                        | 1,464                      |
| Other comprehensive loss increase (decrease):                             |                            |                            |
| Defined benefit plan actuarial losses (gains)                             | (314)                      | 4,134                      |
| Equity share of associate's defined benefit plan actuarial losses (gains) | (84)                       | 487                        |
| Income tax recovery on other comprehensive losses                         | 78                         | (1,034)                    |
| Increase in (reduction to) other comprehensive loss                       | (320)                      | 3,587                      |
| Increase in (reduction to) comprehensive loss                             | \$ (200)                   | \$ 5,051                   |



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