

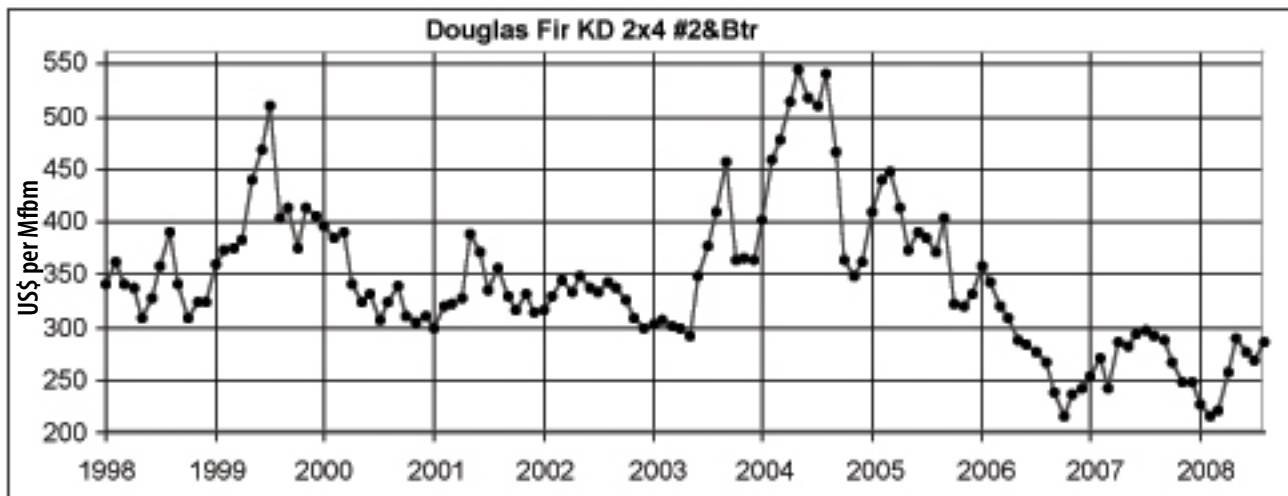


October 16, 2008

A single sawmill in Whonnock, BC, built in the 1930s, was incorporated in 1963 as Yorkston Lumber Co. In 1967 Yorkston converted to a public company and changed its name to Whonnock Industries. Sauder Industries acquired controlling interest in Whonnock in 1977 through Mountclair Investment Corporation, a family-owned holding company. In 1988 the name was changed to International Forest Products.

Between 1968 and 1990 Interfor completed more than 11 acquisitions of sawmill and logging operations in BC, including one-third interest in the old Western Forest Products (formerly ITT Rayoniel Canada), which was bought in 1980 and disposed of in 1989. In 1990 Interfor acquired logging roads and forest licenses from the ailing Doman Industries. In 1991 Interfor acquired a sawmill and planer in Coquitlam, BC, 20 logging operations, log and lumber inventories, and a cedar sawmill and planer at Maple Ridge, BC from Fletcher Challenge Canada and Crown Forest Industries, along with timber tenures and cutting rights and a long-term fibre supply agreement. In 1995 the company acquired a sawmill and planer mill in Squamish, BC, and a cedar sawmill and planer mill in Port Moody, BC from Weldwood of Canada, along with coastal tenures and cutting rights. Then in 1997 Interfor acquired timber licenses from TimberWest Forest Ltd.

Douglas Fir KD 2x4 #2&Btr 1998-2008



-28% -4% 19% 10% 23% -10% 7% 6% 28% -4% -12%
 International Forest Products Inc. Earnings Yield www.madisonsreport.com

The acquisitions from 1970 increased Interfor's annual lumber capacity from 65 to 800 million board feet, and its annual cut from 300,000 cubic meters to 3.6 million cubic meters. Currently the company's sawmilling operations have a combined manufacturing capacity of 1.6 billion board feet of lumber with sales to North America, Asia-Pacific and Europe.

Due to start up in June, 1998, the company announced construction of a \$3.1 million value-added remanufacturing plant in Fort Langley, BC to produce high-value bevel siding and trim/fascia for the US market. The plant was the final milestone in the restructuring of Interfor's cedar business, begun in 1996 with the closure of the

company's outdated Flavelle Cedar sawmill in Port Moody, BC. In mid-1997, a new high-tech sawmill built on the same site began processing small-diameter cedar logs. At the time about 30 per cent of Interfor's revenues came from its cedar business, which is characterized by strong demand and steady growth in value.

The company directors realized during 1998 that they had "allowed our business strategies to become overly complex and our cost structure to increase to the point that we were no longer competitive," according to Interfor's 1998 annual report. In addition, "The collapse of the Japanese lumber market combined with the impact of the Canada / U.S. Softwood Lumber Agreement and the high cost of logging in BC resulted in significant disruptions to our operations and considerable losses in the first half of the year." Mill and logging operations were consolidated, curtailments were announced and staffing levels were reduced throughout the company. Capital spending was slashed and focus was placed on reducing investments in inventories and accounts receivable. In short, measures were taken to "reduce ongoing losses and to protect the Company's financial integrity".

After a few years the dust settled, prompting Interfor to embark on a battle with Tolko Industries for control of Riverside Forest Products in 2004 (which Tolko won), and another round of acquisitions, this time in the US. Interfor reached an agreement with Crown Pacific in July of 2004 to acquire mills in Gilchrist, OR and in Port Angeles and Marysville, WA for \$57.3 million plus working capital of \$16 million. When added to a cedar re-manufacturing plant Interfor opened in 2003 in Sumas, WA, the company had seven sawmills and three reman plants in BC, and four lumber operations in the US, which operated under the name Interfor Pacific, a United States division of Interfor.

2005 brought another round of restructuring. The recently rebuilt Queensboro sawmill in New Westminster, BC was shut down in November after the \$25-million upgrade failed to meet budget projections, to be restarted in late January 2006 following further modifications. In July of 2008 Interfor closed Queensboro permanently after more than a year of continuous curtailments. In addition, the permanent closure of several company operations, including the just-bought sawmill in Marysville, WA, and the Fraser Reman facility in Coquitlam, BC, the voluntary payment of severances to employees of the recently-closed Field Sawmill in Courtenay, BC, and the sale of Tree Farm License 38 to a company held in trust by the Squamish Nation. In total, the initiatives completed in late 2005 were expected to generate \$30 million after severances were paid.

Despite an absolutely abysmal lumber market in 2007 and 2008, Interfor was able to acquire Castlegar and Grand Forks, BC sawmills, which are capable of producing in the range of 460 million board feet combined, and the related timber tenures in the southern BC Interior, as well as the sawmill in Spearfish, SD, for a steal from the bankrupt Pope & Talbot. At press time Grand Forks was running two shifts four days a week but Castlegar was curtailed.

The company website claims a strong balance sheet and recently negotiated credit lines of \$215 million. The death of founder and Chair William Sauder in December of 2005 raised some questions as to the Sauder's family intentions to continue holding their 99 per cent stake of B-class shares. Quick to take advantage of this opportunity, Fairfax Financial Holdings Ltd. of Toronto raised its share holdings over the course of a few days, to 19.7 per cent of A-class shares on October 11, 2008. The deal, among others, helped bring Fairfax share value on the TSX up from 318 on October 10 to 341 on October 16.

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