Interfor Corporation

For the three and six months ended June 30, 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and six month periods ended June 30, 2014 ("Q2'14" and "H1'14", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation ("Interfor" or the "Company") for the three and six month periods ended June 30, 2014, and the related notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of July 31, 2014.

All figures are stated in Canadian dollars, unless otherwise noted, and references to US$ and ¥ are to the United States Dollar and Japanese Yen, respectively. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in our 2013 Annual Report.

Forward-Looking Statements

This MD&A contains forward-looking statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included under the headings "Overview of Second Quarter 2014", "Outlook", "Summary of Second Quarter 2014 Financial Performance", "Summary of First Half 2014 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including those related to general business and economic conditions in Canada, the U.S., Japan and China, and assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them, if any. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described under the heading "Risks and Uncertainties" and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.

Overview of Second Quarter 2014

Financial Results

Interfor generated sales of $390.2 million and Adjusted EBITDA of $47.3 million, representing significant growth over the comparable period of 2013 in which sales and Adjusted EBITDA were $274.7 million and $36.1 million, respectively. This growth reflects record lumber sales of 628 million board feet in the quarter, an improvement of 195 million board feet or 45.0% over the comparable period of 2013, driven by the expansion of our operations into the U.S. Southeast, higher operating rates and the draw-down of lumber inventories.

Net earnings reported for the quarter were $7.4 million or $0.11 per share. Excluding the impact of non-recurring restructuring and impairment charges related to the permanent closure of the Company's Beaver-Forks operation, net earnings were $21.6 million or $0.32 per share. On this basis, net earnings increased $5.9 million or 37.2% over the comparable period of 2013.

In the second quarter, Interfor generated $45.7 million in cash from operations before working capital changes and $41.7 million after working capital changes. Capital spending amounted to $15.9 million during the quarter.

The Company reduced its net debt during the quarter to $237.3 million or 28.1% of invested capital, leaving $145.4 million of available credit.

Closure of Beaver-Forks Operation

On June 27, 2014, the Company announced a curtailment of its Beaver-Forks operation on the Olympic Peninsula in Washington State. Following a comprehensive strategic review, the Company has decided to consolidate production at its Port Angeles facility and to close the Beaver-Forks operation. By consolidating operations on the Peninsula, the Company believes it can enhance operations in the area and improve its overall financial results. Interfor recorded asset impairment and restructuring charges in the second quarter totalling $14.2 million relating to the Beaver-Forks operation, net of an $8.5 million deferred tax recovery. For the quarter, Beaver-Forks contributed $9.7 million of sales and negative Adjusted EBITDA of $0.4 million on production and sales of 21 million and 20 million board feet, respectively.

Markets and Pricing

Average commodity lumber prices were mixed in the second quarter. Western SPF 2x4 and HF Stud 2x4 prices dropped to US$335 and US$409, down US$32 and US$23, respectively, in part due to the impact of lumber inventories from the first quarter working their way through the distribution channel. The SYP Eastside 2x4 #2Btr benchmark price strengthened US$2 quarter-over-quarter to US$405 as transportation issues impacted the ability to move product to market. Demand for lumber in China was relatively stable with some tightening of credit apparent. Activity in Japan continued to reflect post-VAT impacts.

Lumber price levels remained above the relevant softwood lumber benchmark price in Q2’14 and enabled Canadian producers to ship lumber to U.S. markets without an export tax throughout the quarter, as was the case in the comparable quarter of 2013. This export tax rate has been set at zero percent for July and August of 2014.

The U.S. dollar weakened somewhat against the Canadian dollar during Q2’14, closing 3.4% lower than at March 31, 2014. However, the average rate 1.0905 in Q2’14 was 6.6% higher than in the comparable quarter of 2013, which positively impacted Interfor’s reported earnings as a significant portion of sales are priced in U.S. dollars.

Outlook

Commodity lumber prices have stabilized since mid-June although some ongoing volatility is expected as the U.S. housing recovery seeks traction throughout the remainder of this year. Business activity in China is expected to be reasonably stable in the near term as the market adjusts to tightening credit policies and recent changes in currency values. The Japanese economy has indicated signs of recovery, aided by government stimulus packages including a tax rebate program for new home buyers to counter the VAT increase.

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

Financial and Operating Highlights [1]

	Unit	For the 3 months ended June 30, 2014	2013	For the 6 months ended June 30, 2014	2013
Financial Highlights[2]					
Total sales	$mm	390.2	274.7	685.1	517.2
Lumber	$mm	325.2	219.5	555.6	410.9
Logs	$mm	35.4	32.6	73.0	58.8
Wood chips and other residual products	$mm	25.8	17.4	48.2	34.0
Ocean freight and other	$mm	3.8	5.2	8.3	13.5
Operating earnings	$mm	3.8	19.3	17.1	36.6
Net earnings	$mm	7.4	15.8	34.9	30.9
Net earnings per share, basic and diluted	$/share	0.11	0.28	0.53	0.55
EBITDA[3]	$mm	47.8	35.3	80.1	65.9
Adjusted EBITDA[3]	$mm	47.3	36.1	86.5	73.2
Adjusted EBITDA margin[3]	%	12.1%	13.1%	12.6%	14.2%
Total assets	$mm	1,036.0	794.3	1,036.0	794.3
Total long-term debt	$mm	244.5	238.5	244.5	238.5
Pre-tax return on total assets[3]	%	9.3%	8.6%	7.0%	8.2%
Net debt to invested capital[3]	%	28.1%	36.0%	28.1%	36.0%
Operating Highlights					
Lumber production	million fbm	582	418	1,077	808
Lumber sales	million fbm	628	433	1,067	816
Lumber - average selling price[4]	$/thousand fbm	518	507	521	504
Log sales[5]	thousand cubic metres	305	301	703	590
Logs - average selling price[5]	$/cubic metre	103	90	91	83

Notes:
(1) Figures in this table may not add due to rounding.
(2) Financial information presented for quarterly periods in this MD&A is prepared in accordance with IFRS but is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(4) Gross sales before export taxes.
(5) For B.C. operations only.

Summary of Second Quarter 2014 Financial Performance

Sales

Interfor realized $390.2 million of total sales, up 42.0% from $274.7 million in the second quarter of 2013, driven by the sale of 628 million board feet of lumber at an average price of $518 per mfbm. Lumber sales volume and average selling price increased 195 million board feet and 2.2%, respectively, over the same quarter of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 156 million board feet or 59.7% over the second quarter of 2013. This growth is mostly attributable to three sawmills acquired in the U.S. Southeast since July 1, 2013, higher operating rates and the draw-down of lumber inventories.

The increase in the average selling price of lumber is primarily related to the strengthening of the U.S. dollar against the Canadian dollar by 6.6% and higher prices realized in non-U.S. markets as compared to the first quarter of 2013, partially offset by an increased proportion of Southern Yellow Pine sales.

Log sales of $35.4 million represent an increase of $2.8 million or 8.6% compared to the same quarter of 2013. This sales growth is mostly related to a 14.3% increase in the average selling price on B.C. log sales, which accounted for 88.6% of log sales revenue in the quarter.

Sales of wood chips and other residual products increased to $25.8 million, up $8.4 million over the comparable quarter of 2013. This increase mainly reflects the 39.2% increase in lumber production from Q2'13.

Operations

Production costs increased by $102.5 million or 44.3% over the second quarter of 2013, explained primarily by the 45.0% increase in lumber sales volume.

Depreciation of plant and equipment was $14.0 million, up 49.0% from the second quarter of 2013. The majority of this increase is explained by the inclusion of depreciation on the three sawmills in the U.S. Southeast acquired since July 1, 2013, and higher operating rates.

Depletion and amortization of timber, roads and other was $7.0 million, up 11.7% from the comparable quarter of 2013. This increase is mostly related to amortization of a non-competition agreement associated with the acquisition of Tolleson Ilim Lumber Company ("Tolleson").

Corporate and Other

Selling and administration expenses were $9.0 million, up $1.8 million from the second quarter of 2013. This increase reflects the growth of our operations into the U.S. Southeast and includes $0.2 million of non-recurring expenses related to the Tolleson acquisition.

The recovery of $0.4 million on long term incentive compensation reflects the impact of a lower market price for Interfor Common Shares during the quarter on the Company's share-based incentive compensation plans.

The increase of finance costs by $0.1 million over the comparable quarter of 2013 to $2.5 million is consistent with a slightly higher average level of debt outstanding during the period.

Income Taxes

The Company recorded an income tax recovery of $5.7 million, comprised of $0.5 million of current tax expense net of a $6.3 million deferred tax recovery. The deferred tax recovery includes $8.5 million related to the Beaver-Forks restructuring and impairment charges recorded in Q2'14.

Net Earnings

The Company recorded net earnings of $7.4 million or $0.11 per share, lower compared to net earnings of $15.8 million or $0.28 per share in the second quarter of 2013. Excluding the impact of the restructuring and impairment charges associated with curtailment of the Beaver-Forks operation, net earnings in Q2'14 would have been $21.6 million, or $5.8 million higher than Q2'13 on improved profit from operations.

Summary of First Half 2014 Financial Performance

Sales

Interfor realized $685.1 million of total sales, up 32.5% from $517.2 million in the first half of 2014, driven by the sale of 1.1 billion board feet of lumber at an average price of $521 per mfbm. Lumber sales volume and average selling price increased 251 million board feet and 3.4%, respectively, over the same period of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 220 million board feet or 44.2% over the first half of 2013. This growth is mostly attributable to our six sawmills in Georgia acquired since March of 2013.

The increase in the average selling price of lumber is primarily related to the strengthening of the U.S. dollar against the Canadian dollar by 8.0% and higher prices realized in Canada, China and Japan as compared to the first half of 2013, partially offset by a change in species sales mix with a higher proportion of Southern Yellow Pine.

Log sales of $73.0 million represent an increase of $14.2 million or 24.2% compared to the same period of 2013. Increases of 19.1% and 9.2% in B.C. log sales volume and average selling price, respectively, contributed to this sales growth.

Sales of wood chips and other residual products increased to $48.2 million, up $14.2 million over the comparable period of 2013. This increase mainly reflects the 33.3% increase in lumber production from H1'13.

Operations

Production costs increased by $151.0 million or 35.1% over the first half of 2013, explained primarily by the 30.8% and 19.1% increases in lumber and B.C. log sales volumes, respectively.

Depreciation of plant and equipment was $26.3 million, up 46.6% from the first half of 2013. The majority of this increase is explained by the inclusion of depreciation on the six mills in the U.S. Southeast acquired since March 2013, and higher operating rates at our Canadian mills.

Depletion and amortization of timber, roads and other was $13.3 million, up 22.5% from the similar period of 2013. This increase is mostly related to the non-competition agreement associated with the Tolleson acquisition.

Corporate and Other

Selling and administration expenses were $17.9 million, up $3.6 million from the first half of 2013. This increase reflects the growth of our operations into the U.S. Southeast and includes $1.3 million of non-recurring expenses related to the Tolleson acquisition.

Long term incentive compensation expense was $6.5 million, down $1.0 million from the comparable 2013 period, reflecting changes in the fair value of the Company's share-based incentive compensation plans.

The increase of finance costs by $0.1 million over the comparable period of 2013 to $4.3 million is consistent with an increased average level of debt outstanding during the period.

Income Taxes

The Company recorded an income tax recovery of $21.9 million, comprised of $0.9 million of current tax expense net of a $22.9 million deferred tax recovery. The deferred tax recovery includes two notable items: i) recognition of $19.3 million of previously unrecognized deferred tax assets related to its U.S. operations and associated with accounting for the acquisition of Tolleson; and ii) an $8.5 million recovery related to the Beaver-Forks restructuring and impairment charges.

Net Earnings

The Company recorded net earnings of $34.9 million or $0.53 per share, higher compared to net earnings of $30.9 million or $0.55 per share in the first half of 2013. Excluding the impact of the restructuring and impairment charges associated with curtailment of the Beaver-Forks operation in Q2'14 and recognition of $19.3 million of previously unrecognized deferred tax assets related to U.S. operations in Q1'14, net earnings in H1'14 would have been $29.8 million and relatively in-line with H1'13.

Summary of Quarterly Results (1)

	Unit	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1	2012 Q4	2012 Q3
Financial Performance (Unaudited)									
Total sales	$mm	390.2	294.8	315.3	272.7	274.7	242.5	222.4	214.7
Lumber	$mm	325.2	230.4	249.2	212.2	219.5	191.4	173.3	161.9
Logs	$mm	35.4	37.6	41.3	36.6	32.6	26.1	24.5	26.8
Wood chips and other residual products	$mm	25.8	22.4	20.0	18.4	17.4	16.6	15.9	17.5
Ocean freight and other	$mm	3.8	4.4	4.9	5.4	5.2	8.4	8.7	8.5
Operating earnings (loss)	$mm	3.8	13.3	13.7	2.3	19.3	17.2	(2.4)	2.3
Net earnings (loss)	$mm	7.4	27.5	11.4	(0.1)	15.8	15.2	(3.8)	0.9
Net earnings (loss) per share, basic and diluted	$/share	0.11	0.43	0.18	0.00	0.28	0.27	(0.07)	0.02
EBITDA(2)	$mm	47.8	32.3	31.4	18.4	35.3	30.6	13.0	15.0
Adjusted EBITDA(2)	$mm	47.3	39.2	36.2	24.6	36.1	37.1	19.3	17.1
Shares outstanding - end of period	million	66.7	66.7	63.1	63.1	55.9	55.9	55.9	55.9
Shares outstanding - weighted average	million	66.7	63.8	63.1	55.9	55.9	55.9	55.9	55.9
Operating Performance									
Lumber production	million fbm	582	495	470	447	418	390	347	350
Lumber sales	million fbm	628	439	500	446	433	383	384	366
Lumber - average selling price(3)	$/thousand fbm	518	525	498	476	507	500	452	442
Log sales(4)	thousand cubic metres	305	398	397	353	301	289	267	345
Logs - average selling price(4)	$/cubic metre	103	82	92	93	90	76	76	75
Average US$/CAD$ exchange rate(5)	1 US$ in CAD$	1.0905	1.1033	1.0491	1.0385	1.0233	1.0080	0.9914	0.9954
Closing US$/CAD$ exchange rate(5)	1 US$ in CAD$	1.0676	1.1053	1.0636	1.0303	1.0518	1.0160	0.9949	0.9832

Notes:

(1) Figures in this table may not add due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A.
(3) Gross sales before export taxes.
(4) For B.C. operations.
(5) Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by seasonality, levels of lumber production, log costs, market prices for lumber and the US$/CAD$ foreign currency exchange rate.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, the Company's B.C. Coast logging division experiences higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring break-up and increases in the third and fourth quarters. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lower in the winter due to reduced construction activity, which increases during the spring, summer and fall.

Steady recoveries in the U.S. housing market helped drive up domestic demand and pricing through the end of 2012. Building on the positive momentum of 2012, U.S. housing starts surged, supporting higher lumber prices and positive net earnings in the first quarter of 2013. Mid-way through the second quarter of 2013, supply outstripped demand, and lumber prices dropped, ending the quarter at levels close to those of early 2012. Late in the third quarter of 2013, lumber prices started to rise in response to demand from China and improving U.S. housing starts. The North American lumber market was affected by both supply and demand factors in the first half of 2014, with commodity lumber prices remaining at relatively strong levels. Three sawmills acquired on March 1, 2013, and one sawmill acquired on July 1, 2013, contributed to growth in production, sales and earnings from 2012. Production, sales and earnings have also benefited since the acquisition of two sawmills on March 14, 2014.

The volatility of the Canadian dollar against the U.S. dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to the U.S. and export markets priced in U.S. dollars. A weaker Canadian dollar increases the lumber sales realizations in Canada, and increases net earnings of U.S. operations when converted to Canadian dollars.

Liquidity

Balance Sheet

Interfor completed the second quarter of 2014 in a strong financial position, with $237.3 million of net debt representing 28.1% of invested capital. Net debt increased $96.5 million from December 31, 2013, primarily due to borrowings for the acquisition of Tolleson.

As at June 30, 2014, the Company had net working capital of $134.9 million and available capacity on operating and term facilities of $145.4 million. These resources, in addition to cash generated from operations, will be used to support our working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

In the first six months of 2014, the Company generated $77.9 million of cash flow from operations before changes in working capital, up $9.4 million from the comparable period of 2013. Higher sales were partially offset by small reduction in profit margin on production and a $3.6 million increase in selling and administration costs. The increase in selling and administration costs includes $1.3 million of a non-recurring nature related to the Tolleson acquisition.

Total cash generated from operations after changes in working capital was $57.7 million, with $20.2 million of cash used in operating working capital. In the comparable period of 2013, $19.6 million of cash was used in operating working capital, resulting in $48.9 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled $153.7 million in H1'14, including $124.4 million related to the Tolleson acquisition, $17.7 million for mill improvements and $11.6 million for development of logging roads. Discretionary mill improvements of $8.7 million during the period included work on a new kiln and crane at the Thomaston sawmill and a Weinig moulder at the Gilchrist sawmill.

Investing activities totaled $153.9 million in H1'13, including $86.6 million related to the acquisition of Rayonier's Wood Products Business, $33.2 million held in escrow for the acquisition of the Thomaston mill, and $34.0 million on capital expenditures. Capital expenditures included $6.9 million on upgrades at the Grand Forks and Castlegar sawmills, $3.2 million on other high-return discretionary projects, $4.7 million on business maintenance expenditures and $19.2 million on road construction and timber tenures.

Cash Flow from Financing Activities

Net drawings on the Company's long-term debt facilities were $102.5 million over the first six months of 2014, leading to total cash used in financing activities of $102.9 million. This includes US$112.5 million drawn from the Company's Revolving Term Line and Operating Line to fund the acquisition of Tolleson.

In the comparable period of 2013, net drawings on the Company's long-term debt facilities were $98.8 million resulting in total cash used in financing activities of $94.1 million. This includes $79.4 million drawn from the Company's Revolving Term Line and Operating Line to fund the acquisition of Rayonier's Wood Products Business.

Capital Resources

The following table summarizes Interfor’s credit facilities and availability as of June 30, 2014:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit and maximum borrowing available	65,000	250,000	53,380	32,028	400,408
Less:					
Drawings	4,657	186,492	53,380	-	244,529
Outstanding letters of credit included in line utilization	9,896	-	-	597	10,493
Unused portion of facility	50,447	63,508	0	31,431	145,386

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand. Based on current pricing, cash flow projections and existing credit lines, the Company believes it has sufficient liquidity to meet all of its financial obligations.

Transactions Between Related Parties

The Company did not have any transactions between related parties in the six months ended June 30, 2014.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber sales. At June 30, 2014, such instruments aggregated $29.7 million (December 31, 2013 - $26.7 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company’s current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures to manage price risk. The Company’s policy is not to use derivatives for trading or speculative purposes. Risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items. The counter-parties for all derivative contracts, except lumber futures, are the Company’s Canadian bankers who are highly-rated and, hence, the risk of credit loss on such instruments is mitigated.

On April 14, 2014, the Company entered into two additional interest rate swaps, each with a notional value of US$25 million and maturing on April 14, 2016. Under the terms of these swaps, the Company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates.

Outstanding Shares

As of July 31, 2014, Interfor had 66,730,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

There have been no changes in the Company’s internal controls over financial reporting (“ICFR”) during the three months ended June 30, 2014, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company’s critical accounting estimates during the quarter ended June 30, 2014. Interfor’s critical accounting estimates are described in its MD&A for the year ended December 31, 2013, filed under the Company’s profile on www.sedar.com.

Accounting Policy Changes

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended June 30, 2014, and have not been applied in preparing the Company's unaudited interim condensed consolidated financial statements. The following pronouncement is considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

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

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: EBITDA, Adjusted EBITDA, Pre-tax return on total assets and Net debt to invested capital, which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim condensed consolidated financial statements prepared in accordance with IFRS:

Thousands of Canadian dollars	For the 3 months ended June 30, 2014	2013	For the 6 months ended June 30, 2014	2013
Adjusted EBITDA				
Net earnings	7,395	15,759	34,883	30,938
Add:				
Depreciation of plant and equipment	13,978	9,382	26,309	17,946
Depletion and amortization of timber, roads and other	7,016	6,279	13,325	10,878
Restructuring costs, capital asset and timber write-downs	22,917	219	23,246	322
Finance costs	2,537	2,422	4,300	4,210
Other foreign exchange loss (gain)	(284)	848	(10)	1,563
Income tax expense (recovery)	(5,717)	406	(21,914)	51
EBITDA	47,842	35,315	80,139	65,908
Add:				
Long term incentive compensation	(427)	878	6,490	7,496
Other income	(117)	(119)	(173)	(208)
Adjusted EBITDA	47,298	36,074	86,456	73,196
Pre-tax return on total assets				
Earnings before income taxes	1,678	16,165	12,969	30,989
Add:				
Restructuring costs	22,917	219	23,246	322
Other foreign exchange loss (gain)	(284)	848	(10)	1,563
Other income	(117)	(119)	(173)	(208)
	24,194	17,113	36,032	32,666
Total assets, period end	1,036,343	794,316	1,036,343	794,316
Pre-tax return on total assets(1)	9.3%	8.6%	7.0%	8.2%
Net debt to invested capital				
Net debt				
Long term debt	244,529	238,507	244,529	238,507
Cash and cash equivalents	(11,639)	(4,526)	(11,639)	(4,526)
Current bank indebtedness	4,400	-	4,400	-
Total net debt	237,290	233,981	237,290	233,981
Invested capital				
Net debt	237,290	233,981	237,290	233,981
Shareholders' equity	607,713	416,697	607,713	416,697
Total invested capital	845,003	650,678	845,003	650,678
Net debt to invested capital	28.1%	36.0%	28.1%	36.0%

Note: (1) Annualized rate.

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; availability of log supply; competition; government regulation; foreign currency exchange fluctuations; environmental matters; and labour disruption. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2013, filed under the Company's profile on www.sedar.com. Except as noted below, there have been no significant changes to the Company's risks and uncertainties during the six month period ended June 30, 2014.

On June 26, 2014 the Supreme Court of Canada ("SCC") released its ruling on the Tsilhqot'in vs. British Columbia. To the extent that this defines for the first time the criteria upon which Aboriginal title rests is a positive development. It is also an important motivation for the federal and provincial governments to move forward on the treaty process in British Columbia.

The SCC ruling applies to two percent of the Tsilhqot'in traditional territory in a remote area of Central B.C. – far removed from Interfor's operations. To date, Aboriginal title has not been established in any of Interfor's tenures; and doing so will likely be a lengthy and complex process. The Company will continue to manage its operations within the existing legal framework while paying close attention to the direction provided by the Province and First Nations regarding the application of this ruling. Therefore, risks and uncertainties remain consistent with those referenced above.

The Company's operations in B.C. account for approximately 40% of its total lumber production. Interfor has a number of agreements and initiatives with First Nations in B.C., and as such, remains committed to working with First Nations to develop economic opportunities of mutual benefit.

Additional Information

Additional information relating to the Company and its operations can be found on its website at www.interfor.com, in the Annual Information Form and on SEDAR at www.sedar.com.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the three and six months ended June 30, 2014 and 2013 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Sales	$ 390,219	$ 274,698	$ 685,059	$ 517,197
Costs and expenses:				
Production	333,885	231,368	580,685	429,670
Selling and administration	9,036	7,256	17,918	14,331
Long term incentive compensation expense (recovery)	(427)	878	6,490	7,496
Depreciation of plant and equipment (note 9)	13,978	9,382	26,309	17,946
Depletion and amortization of timber, roads and other (note 9)	7,016	6,279	13,325	10,878
	363,488	255,163	644,727	480,321
Operating earnings before restructuring costs	26,731	19,535	40,332	36,876
Restructuring costs (note 10)	(22,917)	(219)	(23,246)	(322)
Operating earnings	3,814	19,316	17,086	36,554
Finance costs (note 11)	(2,537)	(2,422)	(4,300)	(4,210)
Other foreign exchange gain (loss)	284	(848)	10	(1,563)
Other income	117	119	173	208
	(2,136)	(3,151)	(4,117)	(5,565)
Earnings before income taxes	1,678	16,165	12,969	30,989
Income tax expense (recovery):				
Current	542	148	936	(121)
Deferred (note 4)	(6,259)	258	(22,850)	172
	(5,717)	406	(21,914)	51
Net earnings	$ 7,395	$ 15,759	$ 34,883	$ 30,938
Net earnings per share, basic and diluted (note 12)	$ 0.11	$ 0.28	$ 0.53	$ 0.55

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2014 and 2013 (unaudited)

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Net earnings	$ 7,395	$ 15,759	$ 34,883	$ 30,938
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to Net earnings:				
Defined benefit plan actuarial gains (losses)	(168)	2,901	(309)	2,507
Items that are or may be reclassified subsequently to Net earnings:				
Foreign currency translation differences – foreign operations	(8,662)	3,678	(3,421)	6,430
Gain (loss) in fair value of interest rate swaps (note 14)	(249)	955	(217)	580
Income tax recovery on other comprehensive income	-	267	-	212
Total items that are or may be reclassified subsequently to Net earnings	(8,911)	4,900	(3,638)	7,222
Total other comprehensive income, net of tax	(9,079)	7,801	(3,947)	9,729
Total comprehensive income (loss)	$ (1,684)	$ 23,560	$ 30,936	$ 40,667

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the six months ended June 30, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	6 Months June 30, 2014	6 Months June 30, 2013
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 34,883	$ 30,938
Items not involving cash:		
Depreciation of plant and equipment	26,309	17,946
Depletion and amortization of timber, roads and other	13,325	10,878
Income tax expense (recovery)	(21,914)	51
Finance costs (note 11)	4,300	4,210
Reforestation liability	1,854	2,778
Other assets	465	45
Provisions and other liabilities	(1,628)	710
Write-down of plant and equipment (note 10)	20,468	-
Unrealized foreign exchange (gains) losses	(34)	977
Other	(163)	(117)
	77,865	68,416
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(7,315)	(6,927)
Inventories	(2,797)	(27,817)
Prepayments	(3,477)	(2,404)
Trade accounts payable and provisions	(3,862)	18,004
Income taxes paid	(2,708)	(419)
	57,706	48,853
Investing activities:		
Additions to property, plant and equipment	(17,692)	(14,194)
Additions to logging roads	(11,603)	(7,175)
Additions to timber and other intangible assets	(1,966)	(12,643)
Proceeds on disposal of property, plant, and equipment	2,087	152
Acquisition (note 4)	(124,421)	(86,641)
Deposit held in escrow for acquisition	-	(33,150)
Investments and other assets	(56)	(244)
	(153,651)	(153,895)
Financing activities:		
Bank indebtedness	4,400	-
Interest payments	(3,264)	(3,237)
Financing transaction costs	(736)	(1,394)
Additions to long-term debt (notes 4 and 7)	299,931	199,104
Repayments of long-term debt (note 7)	(197,467)	(100,334)
	102,864	94,139
Foreign exchange gain on cash and cash equivalents held in a foreign currency	3	435
Increase (decrease) in cash	6,922	(10,468)
Cash and cash equivalents, beginning of period	4,717	14,994
Cash and cash equivalents, end of period	$ 11,639	$ 4,526

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2014 and December 31, 2013 (unaudited)

(thousands of Canadian dollars)	June 30, 2014	Dec. 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 11,639	$ 4,717
Trade accounts receivable and other	75,647	62,735
Inventories (note 6)	161,652	149,509
Prepayments	16,134	11,374
	265,072	228,335
Employee future benefits	3,812	3,980
Other investments and assets	3,872	3,960
Property, plant and equipment (note 4, 10)	513,318	460,930
Logging roads and bridges	17,047	16,224
Timber licences	81,705	84,344
Other intangible assets (note 4)	24,400	2,420
Goodwill (note 4)	127,117	23,715
Deferred income taxes	-	218
	$ 1,036,343	$ 824,126
Liabilities and Equity		
Current liabilities:		
Bank indebtedness	$ 4,400	$ -
Trade accounts payable and provisions	113,096	98,017
Reforestation liability	12,108	11,754
Income taxes payable	554	395
	130,158	110,166
Reforestation liability	22,803	20,662
Long-term debt (note 7)	244,529	145,479
Employee future benefits	7,303	7,006
Provisions and other liabilities	22,917	25,676
Deferred income taxes (note 4, 10)	920	-
Equity:		
Share capital (note 8)	490,363	428,723
Contributed surplus	7,476	7,476
Translation reserve	(2,860)	561
Hedge reserve	(50)	167
Retained earnings	112,784	78,210
	607,713	515,137
	$ 1,036,343	$ 824,126

Commitment (note 15)

See accompanying notes to consolidated financial statements
On behalf of the Board:

L. Sauder
Director

D. Whitehead
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	Common Shares	Class B Share Capital	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2013	$ 428,723	$ -	$ 7,476	$ 561	$ 167	$ 78,210	$ 515,137
Net earnings for the period:	-	-	-	-	-	34,883	34,883
Other comprehensive loss:							
Foreign currency translation differences, net of tax	-	-	-	(3,421)	-	-	(3,421)
Defined benefit plan actuarial losses	-	-	-	-	-	(309)	(309)
Loss in fair value of interest rate swaps	-	-	-	-	(217)	-	(217)
Contributions:							
Shares issued in business combination (notes 4 and 8)	61,640	-	-	-	-	-	61,640
Balance at June 30, 2014	$ 490,363	$ -	$ 7,476	$ (2,860)	$ (50)	$ 112,784	$ 607,713
Balance at December 31, 2012	$ 342,285	$ 4,080	$ 7,476	$ (7,818)	$ (132)	$ 30,139	$ 376,030
Net earnings for the period:	-	-	-	-	-	30,938	30,938
Other comprehensive earnings:							
Foreign currency translation differences, net of tax	-	-	-	6,642	-	-	6,642
Defined benefit plan actuarial gain	-	-	-	-	-	2,507	2,507
Gain in fair value of interest rate swaps	-	-	-	-	580	-	580
Balance at June 30, 2013	$ 342,285	$ 4,080	$ 7,476	$ (1,176)	$ 448	$ 63,584	$ 416,697

See accompanying notes to consolidated financial statements

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

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia, the U.S. Pacific Northwest and the U.S. Southeast for sale to markets around the world.

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

These condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2014, comprise the Company and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These condensed consolidated interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These condensed consolidated interim financial statements were approved by the Board of Directors on July 31, 2014.

(b) Basis of measurement:

These 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) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

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

3. Significant accounting policies:

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2013, annual consolidated financial statements, which are available on www.sedar.com.

4. Acquisition:

On March 14, 2014, a wholly-owned subsidiary of Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A. ("Ilim"), pursuant to a Share Purchase Agreement for total consideration estimated to value $188,545,000. Tolleson, through its wholly-owned subsidiary, owns and operates two sawmills in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. This acquisition is consistent with Interfor's strategy of adding capacity in attractive regional markets.

The acquisition has been accounted for as a business combination and the estimated value of consideration transferred is allocated on a preliminary basis as follows:

Assets acquired:	
Cash and cash equivalents	$ 2,484
Other current assets	16,790
Property, plant and equipment	86,561
Other intangible assets	22,190
Goodwill	107,419
	235,444
Liabilities assumed:	
Current liabilities	(15,929)
Long term provisions and other liabilities	(6,697)
Deferred income taxes	(24,273)
	$ 188,545
Consideration funded by:	
Current liabilities	$ 2,086
Operating Line	24,964
Revolving Term Line	99,855
Share capital (3,680,000 Class A Subordinate Shares)	61,640
	$ 188,545

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

4. Acquisition (continued):

As part of the acquisition, the Company entered into a non-competition agreement with Ilim under which Ilim and its associates are prohibited from carrying on various activities within Canada and the U.S. that would be in competition with the Company's operating activities for a period of five years from the acquisition date. An intangible asset of $22,190,000 was recognized in respect of this non-competition agreement, which will be amortized to expense over its five year term.

The goodwill of $107,419,000 recognized in the transaction is calculated as the excess of the estimated purchase consideration transferred over the preliminary fair values of the identifiable assets acquired and liabilities assumed. The factors that contribute to the recognition of goodwill include Tolleson's historical cash flows and income levels, reputation in its markets, management team strength, efficiency of operations, and future cash flows and income growth projections. None of the goodwill is expected to be tax deductible.

In conjunction with recognizing a $24,273,000 deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized $19,253,000 of previously unrecognized deferred tax assets related to its U.S. operations. The recognition of these deferred income tax assets is included within the $16,591,000 deferred income tax recovery in the Company's Consolidated Statements of Earnings in the first quarter, 2014.

The Company incurred acquisition related costs of $180,000 during the second quarter, 2014, and $1,304,000 for the first six months, 2014, which are included in Selling and administration expenses in the Company's Consolidated Statements of Earnings.

5. Seasonality of operating results:

Quarterly trends normally reflect the seasonality of the Company's operations. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season woods closures. Generally, the Company's B.C. Coastal logging divisions experience higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring break-up and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs 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.

6. Inventories:

	June 30, 2014	Dec. 31, 2013
Logs	$ 72,246	$ 89,170
Lumber	78,601	51,449
Other	10,805	8,890
	$ 161,652	$ 149,509

Inventory expensed in the period includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at June 30, 2014 was $9,298,000 (December 31, 2013 - $7,926,000).

7. Cash and borrowings:

June 30, 2014	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 250,000	$ 53,380	$ 32,028	$ 400,408
Drawings	4,657	186,492	53,380	-	244,529
Outstanding letters of credit included in line utilization	9,896	-	-	597	10,493
Unused portion of line	$ 50,447	$ 63,508	$ -	$ 31,431	$ 145,386
December 31, 2013					
Available line of credit	$ 65,000	$ 200,000	$ 53,180	$ 21,272	$ 339,452
Drawings	936	90,619	53,180	744	145,479
Outstanding letters of credit included in line utilization	7,529	-	-	-	7,529
Unused portion of line	$ 56,535	$ 109,381	$ -	$ 20,528	$ 186,444

(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[1]. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

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

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

7. Cash and borrowings (continued):

(a) Operating Line (continued):

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. The Operating Line matures on February 27, 2017.

As at June 30, 2014, the Operating Line was drawn by $14,553,000, including outstanding letters of credit (December 31, 2013 – drawings of $8,465,000).

During the first quarter, 2014, the Company drew US$22,500,000 under its Operating Line to fund its acquisition in the U.S. (see note 4), which it designated as a hedge against the Company's investment in its U.S. operations and recognized unrealized foreign exchange gains of $72,000 in Other comprehensive income for the first quarter, 2014 (2013 - $nil), after which this borrowing was transferred to the Revolving Term Line facility.

(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[1]. The Revolving Term Line matures on February 27, 2017.

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

On March 31, 2014, the Company increased the credit available under its Revolving Term Line from $200,000,000 to $250,000,000. All other terms and conditions of this line remained unchanged.

As at June 30, 2014, the Revolving Term Line was drawn by CAD$5,000,000 and by US$170,000,000 (December 31, 2013 – US$85,200,000), revalued at the quarter-end exchange rate to $181,492,000 (December 31, 2013 – $90,619,000), for a total of $186,492,000.

During the first quarter, 2014, the Company drew US$90,000,000 under its Revolving Term Line to fund its acquisition in the U.S. (see note 4), which it designated as a hedge against the Company's investment in its U.S. operations. As at June 30, 2014, total drawings under the Revolving Term Line designated as hedges against the Company's investment in its U.S. operations totalled US$170,000,000. Unrealized foreign exchange gains of $3,724,000 for the six months ended June 30, 2014, (June 30, 2013 - $4,641,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income. For the second quarter, 2014, unrealized exchange gains of $6,952,000 (Quarter 2, 2013 - $5,082,000 loss) were recognized in Other comprehensive income.

(c) Senior Secured Notes:

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

As at June 30, 2014, Senior Secured Notes of US$50,000,000 were outstanding (December 31, 2013 – US$50,000,000) and revalued at the quarter-end exchange rate to $53,380,000 (December 31, 2013 - $53,180,000).

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $200,000 (June 30, 2013 - $45,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the six months ended June 30, 2014. For the second quarter, 2014, an unrealized exchange gain of $1,885,000 (Quarter 2, 2013 - $45,000 loss) was recognized in Other comprehensive income.

(d) U.S. Operating Line

The U.S. Operating Line is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc., and matures on April 28, 2015. The U.S. Operating Line is subject to a minimum net worth calculation, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories.

On March 21, 2014, the Company increased the credit available under this agreement from US$20,000,000 to US$30,000,000.

As at June 30, 2014, the U.S. Operating Line was drawn by US$560,000 representing outstanding letters of credit, revalued at the quarter-end exchange rate to $597,000 (December 31, 2013 – $744,000).

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

Twelve months ending	
June 30, 2015	$ -
June 30, 2016	-
June 30, 2017	191,149
June 30, 2018	-
June 30, 2019	-
	$ 191,149

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

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

8. Share capital:

The transactions in share capital are described below:

	Number			
	Common	Class B	Total	Amount
Balance, December 31, 2012	54,847,176	1,015,779	55,862,955	$ 346,365
Share exchange	1,015,779	(1,015,779)	-	-
Shares issued for cash, net of share issue costs	7,187,500	-	7,187,500	82,358
Balance, December 31, 2013	63,050,455	-	63,050,455	428,723
Shares issued in business combination (see Note 4)	3,680,000	-	3,680,000	61,640
Balance, June 30, 2014	66,730,455	-	66,730,455	$ 490,363

On August 23, 2013, the Company's controlling shareholder, Sauder Industries Limited ("SIL") exercised its right under the Company's Articles to exchange its Class B Common Shares for Class A Subordinate Voting Shares on a share for share basis without any cash or non-cash consideration. As a result of the exchange by SIL, all remaining Class B Shares were automatically converted to Class A Shares.

On June 30, 2013, the Company closed a public offering of 7,187,500 Class A Subordinate Voting shares at a price of $12.00 per share for net cash proceeds of $82,358,000.

On March 14, 2014, the Company issued 3,680,000 Class A Subordinate Voting shares as a result of the acquisition of Tolleson Lumber Company (see note 4) at the listed share price of $16.75 per share as at March 14, 2014.

On May 6, 2014, the Company eliminated its Class B Common Shares, known as Multiple Voting Shares, and redesignated its Class A Subordinate Voting Shares as Common Shares.

9. Depreciation, depletion and amortization:

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

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Production	$ 19,749	$ 15,400	$ 38,024	$ 28,303
Selling and administration	1,245	261	1,610	521
	$ 20,994	$ 15,661	$ 39,634	$ 28,824

10. Restructuring costs:

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Write-down of plant and equipment	$ 20,468	$ -	$ 20,468	$ -
Severance	776	219	1,105	322
Other	1,673	-	1,673	-
	$ 22,917	$ 219	$ 23,246	$ 322

During the second quarter, 2014, the Company curtailed its Beaver-Forks operation, located on the Olympic Peninsula in Washington, indefinitely. As a result, the Company recorded provisions for severance, remediation, and an onerous contract totaling $2,242,000, an impairment charge of $20,468,000 on the plant and equipment to reduce the carrying value of these assets to estimated fair values, partially offset by a deferred tax recovery of $8,487,000.

During the first six months, 2014, the Company also recorded other severance costs of $536,000 (June 30, 2013 - $322,000), and $207,000 for the second quarter, 2014 (Quarter 2, 2013 - $219,000).

11. Finance costs:

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Interest on borrowing	$ 2,178	$ 1,903	$ 3,629	$ 3,416
Interest (income) on defined benefit obligations	(16)	48	(34)	96
Accretion expense	169	107	339	203
Amortization of prepaid finance costs	206	364	366	495
	$ 2,537	$ 2,422	$ 4,300	$ 4,210

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

12. Net earnings per share:

	3 Months June 30, 2014			3 Months June 30, 2013		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at April 1, 2014		66,730			55,863	
Basic and diluted earnings per share	$ 7,395	66,730	$ 0.11	$ 15,759	55,863	$ 0.28

	6 Months June 30, 2014			6 Months June 30, 2013		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at January 1		63,050			55,863	
Effect of shares issued on March 14, 2014		2,217			-	
Basic and diluted earnings per share	$ 34,883	65,267	$ 0.53	$ 30,938	55,863	$ 0.55

The Company has no dilutive securities.

13. Segmented information:

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

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

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
United States	$ 220,835	$ 137,862	$ 388,412	$ 263,654
Canada	57,452	55,763	110,966	110,915
China/Taiwan	50,104	30,776	83,585	54,336
Japan	39,147	32,424	68,358	58,592
Other export	22,681	17,873	33,738	29,700
	$ 390,219	$ 274,698	$ 685,059	$ 517,197

Sales by product line are as follows:

	3 Months June 30, 2014	3 Months June 30, 2013	6 Months June 30, 2014	6 Months June 30, 2013
Lumber	$ 325,152	$ 219,479	$ 555,616	$ 410,885
Logs	35,407	32,625	72,995	58,753
Wood chips and other by-products	25,779	17,421	48,179	34,018
Ocean freight and other	3,881	5,173	8,269	13,541
	$ 390,219	$ 274,698	$ 685,059	$ 517,197

14. Financial instruments:

At June 30, 2014, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of $244,529,000 (December 31, 2013 - $145,479,000) measured based on Level 2 of the fair value hierarchy.

As at June 30, 2014, the Company has outstanding obligations to sell a maximum of US$9,300,000 at an average rate of CAD$1.0805 to US$1.00 during 2014 and ¥253,880,000 at an average rate of ¥101.55 to US$1.00 during 2014. All foreign currency gains or losses to June 30, 2014, have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of these foreign currency contracts, being an asset of $118,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2013 - $136,000 asset).

On April 14, 2014, the Company entered into two new interest rate swaps, each with a notional value of US$25 million and maturing on April 14, 2016. Under the terms of these swaps, the Company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates. The intent of the interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense.

At June 30, 2014, the fair value of the Company's four interest rate swaps, designated as cash flow hedges, being a liability of $51,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts payable and provisions (December 31, 2013 - $166,000 asset) and a loss of $217,000 (June 30, 2013 - $580,000 gain) has been recognized in Other comprehensive income for the first six months of 2014. For the second quarter, 2014, a loss of $249,000 (Quarter 2, 2013 - $955,000 gain) was recognized in Other comprehensive income.

15. Commitment:

On acquisition of the Thomaston sawmill operations from Keadle Lumber Enterprises, Inc., the Company agreed to pay an additional US$7,000,000, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift. Receipt of this approval was received on February, 28, 2014, with the payment to be made February 27, 2015. The liability, revalued at the quarter-end exchange rate to $7,473,000, is included in Trade accounts payable and provisions as at June 30, 2014.

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