Interfor Corporation
Third Quarter Report
For the three and nine months ended September 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 nine month periods ended September 30, 2014 ("Q3'14" and "YTD'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 nine month periods ended September 30, 2014, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 5, 2014.

All figures are stated in Canadian dollars, unless otherwise noted, and references to US$/USD 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 the Company's 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 Third Quarter 2014", "Outlook", "Summary of Third Quarter 2014 Financial Performance", "Summary of Year-to-Date 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 Third Quarter 2014

Financial Results

Interfor reported net earnings of $11.0 million, or $0.16 per share, and Adjusted EBITDA of $45.4 million for the third quarter of 2014. These figures compare with net earnings and Adjusted EBITDA of $7.4 million and $47.3 million respectively in the second quarter of 2014 and a loss of $130,000 and Adjusted EBITDA of $24.6 million in the third quarter of 2013. Sales revenue amounted to $373 million in the third quarter compared with $390 million in the second quarter and $273 million in the third quarter last year.

Lumber production in the third quarter was 567 million board feet, down 15 million board feet or 3% compared with the second quarter. Adjusting for the production of the Beaver-Forks operation which was closed permanently at the end of the second quarter, production was up 7 million board feet compared with the second quarter and up 143 million board feet relative to the third quarter of 2013.

Higher log costs in the BC Interior and Coastal regions affected margins in those areas in the third quarter while lower log prices positively impacted results in the US Pacific Northwest.

In the third quarter, Interfor generated $40.1 million of cash from operations before working capital changes and $69.0 million after working capital changes were considered. Capital spending amounted to $22.4 million during the quarter.

The Company reduced its net debt during the quarter to $203.6 million or 24.4% of invested capital, leaving $163.7 million of availability under its credit facilities.

Net earnings in the third quarter include $0.7 million of expenses associated with the wind-down of the Beaver-Forks operation.

Markets and Pricing

Average commodity lumber prices varied by species and dimension in the third quarter. The Western SPF 2x4 benchmark price increased US$22 to US$357, rebounding from a year-to-date low in June, while the SYP Eastside 2x4 benchmark price improved US$33 to US$438. Prices for wide dimension SYP fell US$15 to US$60 depending on width as demand for those products adjusted to seasonal factors. The HF Stud 2x4 9′ benchmark price dropped US$24 to US$385 as supply outpaced demand while 8′ was up US$13. Demand for lumber in China was steady in spite of tighter credit conditions while price levels softened by approximately 5%. Prices in Japan were off 5-7% as the market adjusted to the recent VAT increase as well as increases in domestic supply and a drop in the value of the Yen.

Lumber price levels remained above the relevant softwood lumber benchmark price in Q3'14 and enabled Canadian producers to ship lumber to U.S. markets without an export tax throughout the quarter. This export tax rate has been set at zero percent for October and November of 2014. The Company incurred $1.1 million of export taxes in the comparable period of 2013.

The U.S. dollar strengthened against the Canadian dollar during Q3'14, closing up 5.0% over June 30, 2014. The average rate of 1.0890 in Q3'14 was 4.9% higher than in the comparable quarter of 2013, which positively impacted Interfor's net earnings reported in Canadian dollars.

Castlegar Sawmill Upgrade

Interfor's Board of Directors has approved a $50 million capital project to upgrade the Company's sawmill in Castlegar, BC. The project will convert the Castlegar mill to a 2 line operation with state-of-the-art technology and optimization. The project will also eliminate the need for approximately $20 million in maintenance-related capital spending over the next four years. Rated capacity of the mill calculated on a full two shift basis will be in the range of 210 million board feet per year compared with the current level of 185 million board feet. Proforma cash payback on the project is less than three years.

Interfor has a long history with capital projects of a similar nature including rebuilds of the Company's sawmills at Port Angeles (2006), Adams Lake (2009), and most recently, Grand Forks (2012). Each of these projects was delivered on-time and on-budget and generated returns in excess of proforma.

The project is scheduled for completion in the fourth quarter of 2015 and will require approximately 30 days of operational downtime during the construction period. Full operating performance is targeted for the first quarter of 2016.

Outlook

North American commodity lumber prices during the fourth quarter should continue to reflect the slow but steady increase in U.S. housing demand. Demand and prices in China are expected to remain stable in the fourth quarter. Japan is expected to remain soft as the housing market adjusts to the VAT increase and changes in currency values.

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)

		For the 3 months ended September 30,		For the 9 months ended September 30,	
	Unit	**2014**	**2013**	**2014**	**2013**
Financial Highlights (2)					
Total sales	$mm	373.1	272.7	1,058.2	789.9
Lumber	$mm	303.0	212.2	858.6	623.1
Logs	$mm	34.4	36.6	107.4	95.3
Wood chips and other residual products	$mm	28.3	18.4	76.4	52.5
Ocean freight and other	$mm	7.4	5.5	15.8	19.0
Operating earnings	$mm	20.1	2.3	37.2	38.8
Net earnings (loss)	$mm	11.0	(0.1)	45.9	30.8
Net earnings (loss) per share, basic and diluted	$/share	0.16	(0.00)	0.70	0.55
EBITDA(3)	$mm	40.9	18.4	121.1	84.3
Adjusted EBITDA(3)	$mm	45.4	24.6	131.9	97.8
Adjusted EBITDA margin(3)	%	12.2%	9.0%	12.5%	12.4%
Total assets	$mm	1,058.3	812.3	1,058.3	812.3
Total long-term debt	$mm	229.8	163.0	229.8	163.0
Pre-tax return on total assets(3)	%	7.8%	1.1%	8.6%	7.2%
Net debt to invested capital(3)	%	24.4%	23.1%	24.4%	23.1%
Operating Highlights					
Lumber production	million fbm	567	447	1,644	1,255
Lumber sales	million fbm	595	446	1,662	1,261
Lumber - average selling price(4)	$/thousand fbm	509	476	517	494
Log sales(5)	thousand cubic metres	380	353	1,083	943
Logs - average selling price(5)	$/cubic metre	75	93	85	87

Notes:
(1) Figures in this table may not add due to rounding.
(2) Financial information presented for interim 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 Third Quarter 2014 Financial Performance

Sales

Interfor realized $373.1 million of total sales, up 36.8% from $272.7 million in the third quarter of 2013, driven by the sale of 595 million board feet of lumber at an average price of $509 per mfbm. Lumber sales volume and average selling price increased 149 million board feet and 6.9%, respectively, over the same quarter of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 157 million board feet or 59.1% over the third quarter of 2013. This growth is mostly attributable to the acquisition of two sawmills in the first quarter of 2014, higher operating rates and the draw-down of lumber inventories.

The increase in the average selling price of lumber is primarily related to increased demand and strengthening of the U.S. dollar against the Canadian dollar by 4.9%, partially offset by an increased proportion of Southern Yellow Pine sales.

Log sales of $34.4 million represents a decrease of $2.2 million or 6.0% compared to the same quarter of 2013. An increased sales volume was more than offset by a 19.2% decrease in the average selling price on B.C. log sales, which accounted for 82.8% of total log sales revenue in the quarter.

Sales of wood chips and other residual products increased to $28.3 million, up $9.9 million over the comparable quarter of 2013. This increase mainly reflects the 26.8% increase in lumber production from Q3'13.

Operations

Production costs increased by $80.2 million or 33.5% over the third quarter of 2013, explained primarily by the 33.4% increase in lumber sales volume.

Depreciation of plant and equipment was $14.2 million, up 38.5% from the third quarter of 2013. The majority of this increase is explained by the inclusion of depreciation on the two sawmills acquired in the first quarter of 2014 and higher operating rates.

Depletion and amortization of timber, roads and other was $6.9 million, up 16.2% 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 $8.7 million, up $1.1 million from the third quarter of 2013. This increase reflects the growth of Interfor's operations in the U.S. Southeast.

The $3.6 million on long term incentive compensation reflects the impact of a higher market price for Interfor Common Shares during the quarter on the Company's share-based incentive compensation plans.

Income Taxes

The Company recorded income tax expense of $5.5 million, including $0.3 million related to current taxes, primarily in respect of its U.S. operations.

Net Earnings

The Company recorded net earnings of $11.0 million or $0.16 per share, higher compared to a net loss of $0.1 million or $0.00 per share in the third quarter of 2013. This improvement reflects sales growth and a higher profit margin on production.

Summary of Year-to-Date 2014 Financial Performance

Sales

Interfor realized $1,058.2 million of total sales, up 34.0% from $789.9 million in the first nine months of 2013, driven by the sale of 1.7 billion board feet of lumber at an average price of $517 per mfbm. Lumber sales volume and average selling price increased 400 million board feet and 4.7%, respectively, over the same period of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 376 million board feet or 49.4% over the first nine months of 2013. This growth is mostly attributable to the six sawmills in Georgia acquired since March of 2013 as well as increased demand.

The increase in the average selling price of lumber is primarily related to increased demand and the strengthening of the U.S. dollar against the Canadian dollar by 6.9%, partially offset by an increased proportion of Southern Yellow Pine sales.

Log sales of $107.4 million represents an increase of $12.1 million or 12.7% compared to the same period of 2013. This sales growth benefited from a 14.8% increase in B.C. log sales volume.

Sales of wood chips and other residual products increased to $76.4 million, up $23.9 million over the comparable period of 2013. This increase mainly reflects the 31.0% increase in lumber production over the same period in the prior year.

Operations

Production costs increased by $231.3 million or 34.6% over the first nine months of 2013, explained primarily by the 31.7% and 14.8% increases in lumber and B.C. log sales volumes, respectively. The stronger U.S. dollar as noted above also contributed to this increase.

Depreciation of plant and equipment was $40.5 million, up 43.6% from the year-to-date period 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.

Depletion and amortization of timber, roads and other was $20.2 million, up 20.3% from the similar period of 2013. Amortization of the non-competition agreement associated with the Tolleson acquisition contributed to this increase.

Corporate and Other

Selling and administration expenses were $26.6 million, up $4.7 million from the first nine months of 2013. This increase reflects the growth of our operations into the U.S. Southeast and includes $1.4 million of non-recurring expenses related to the Tolleson acquisition.

Long term incentive compensation expense was $10.1 million, down $3.6 million from the comparable 2013 period, reflecting changes in the fair value of the Company's share-based incentive compensation plans.

Income Taxes

The Company recorded an income tax recovery of $16.4 million, comprised of $1.2 million of current tax expense net of a $17.6 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 $45.9 million or $0.70 per share, higher compared to net earnings of $30.8 million or $0.55 per share in the year-to-date period of 2013. Excluding the $14.2 million 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 YTD'14 would have been $40.8 million.

Summary of Quarterly Results (1)

		2014			2013				2012
	Unit	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Performance (Unaudited)									
Total sales	$mm	373.1	390.2	294.8	315.3	272.7	274.7	242.5	222.4
Lumber	$mm	303.0	325.2	230.4	249.2	212.2	219.5	191.4	173.3
Logs	$mm	34.4	35.4	37.6	41.3	36.6	32.6	26.1	24.5
Wood chips and other residual products	$mm	28.3	25.8	22.4	20.0	18.4	17.4	16.6	15.9
Ocean freight and other	$mm	7.4	3.8	4.4	4.9	5.4	5.2	8.4	8.7
Operating earnings (loss)	$mm	20.1	3.8	13.3	13.7	2.3	19.3	17.2	(2.4)
Net earnings (loss)	$mm	11.0	7.4	27.5	11.4	(0.1)	15.8	15.2	(3.8)
Net earnings (loss) per share, basic and diluted	$/share	0.16	0.11	0.43	0.18	(0.00)	0.28	0.27	(0.07)
EBITDA(2)	$mm	40.9	47.8	32.3	31.4	18.4	35.3	30.6	13.0
Adjusted EBITDA(2)	$mm	45.4	47.3	39.2	36.2	24.6	36.1	37.1	19.3
Shares outstanding - end of period	million	66.7	66.7	66.7	63.1	63.1	55.9	55.9	55.9
Shares outstanding - weighted average	million	66.7	66.7	63.8	63.1	55.9	55.9	55.9	55.9
Operating Performance									
Lumber production	million fbm	567	582	495	470	447	418	390	347
Lumber sales	million fbm	595	628	439	500	446	433	383	384
Lumber - average selling price(3)	$/thousand fbm	509	518	525	498	476	507	500	452
Log sales(4)	thousand cubic metres	380	305	398	397	353	301	289	267
Logs - average selling price(4)	$/cubic metre	75	103	82	92	93	90	76	76
Average USD/CAD exchange rate(5)	1 USD in CAD	1.0890	1.0905	1.1033	1.0491	1.0385	1.0233	1.0080	0.9914
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.1208	1.0676	1.1053	1.0636	1.0303	1.0518	1.0160	0.9949

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 USD/CAD foreign currency exchange rate.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, the Company's B.C. 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.

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. 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 permanent closure of the Beaver sawmill impacted production and sales in Q3'14.

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 translated to Canadian dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout the third quarter of 2014. Net debt at quarter-end of $203.6 million, or 24.4% of invested capital, was $62.8 million higher than at December 31, 2013, due primarily to borrowings for the Tolleson acquisition.

As at September 30, 2014, the Company had net working capital of $127.7 million and available capacity on operating and term facilities of $163.7 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

In the first nine months of 2014, the Company generated $118.0 million of cash flow from operations before changes in working capital, up $29.5 million from the comparable period of 2013. Incremental cash flow generated from increased sales was partially offset by a small reduction in profit margin on production and a $4.7 million increase in selling and administration costs. The increase in selling and administration costs includes $1.4 million of a non-recurring nature related to the Tolleson acquisition.

Total cash generated from operations after changes in working capital was $126.7 million, with $8.7 million of cash released from operating working capital. In the comparable period of 2013, $24.4 million of cash was used in operating working capital, leading to $64.1 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled $176.4 million in the year-to-date period of 2014, including $124.4 million related to the Tolleson acquisition, $31.5 million for mill improvements and $19.8 million for development of logging roads. Discretionary mill improvements of $15.0 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 $169.9 million in the comparable period of 2013, including $86.6 million related to the acquisition of Rayonier's Wood Products Business, $33.8 million for the acquisition of the Thomaston sawmill and $49.8 million on capital expenditures.

Cash Flow from Financing Activities

Net drawings on the Company's long-term debt facilities were $76.4 million over the first nine months of 2014, leading to total cash from financing activities of $70.5 million. This includes US$112.5 million drawn from the Company's Revolving Term Line and Operating Line to fund the Tolleson acquisition.

In the same period of 2013, net drawings on the Company's long-term debt facilities were $26.9 million with total cash from financing activities of $102.9 million. This includes $82.4 million of net cash proceeds raised from the issuance of 7,187,500 Common Shares.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 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	56,040	33,624	404,664
Less:					
Drawings	-	173,724	56,040	-	229,764
Outstanding letters of credit included in line utilization	10,606	-	-	633	11,239
Unused portion of facility	54,394	76,276	-	32,991	163,661

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 nine months ended September 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 September 30, 2014, such instruments aggregated $31.4 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.

Outstanding Shares

As of November 5, 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 September 30, 2014, that have materially affected, or are reasonably likely to materially affect, its ICFR. During this period, additional procedures were performed to ensure key financial internal controls remained in place during and after the conversion to a new financial reporting system.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 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 September 30, 2014, and have not been applied in preparing the Company's unaudited interim condensed consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

IFRS 9, *Financial Instruments*, will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements. Application is required for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet completed an assessment of the impact, if any, of this standard on its financial statements.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: 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 September 30, 2014	2013	For the 9 months ended September 30, 2014	2013
Adjusted EBITDA				
Net earnings (loss)	10,994	(130)	45,877	30,808
Add:				
Depreciation of plant and equipment	14,151	10,220	40,460	28,166
Depletion and amortization of timber, roads and other	6,888	5,930	20,213	16,808
Restructuring costs, capital asset and timber write-downs	26	-	23,272	322
Finance costs	2,347	2,762	6,647	6,972
Other foreign exchange loss (gain)	1,015	(524)	1,005	1,039
Income tax expense (recovery)	5,524	180	(16,390)	231
EBITDA	40,945	18,438	121,084	84,346
Add:				
Long term incentive compensation	3,579	6,139	10,069	13,636
Other expense (income)	213	(19)	40	(227)
Beaver sawmill post-closure wind-down costs	712	-	712	-
Adjusted EBITDA	45,449	24,558	131,905	97,755
Pre-tax return on total assets				
Operating earnings before restructuring and capital asset write-downs	20,119	2,269	60,451	39,145
Total assets(1)	1,036,343	794,316	941,236	722,173
Pre-tax return on total assets(2)	7.8%	1.1%	8.6%	7.2%
Net debt to invested capital				
Net debt				
Long term debt	229,764	162,993	229,764	162,993
Cash and cash equivalents	(26,194)	(12,736)	(26,194)	(12,736)
Total net debt	203,570	150,257	203,570	150,257
Invested capital				
Net debt	203,570	150,257	203,570	150,257
Shareholders' equity	629,874	498,974	629,874	498,974
Total invested capital	833,444	649,231	833,444	649,231
Net debt to invested capital	24.4%	23.1%	24.4%	23.1%

Notes:
(1) Opening total assets for three month periods; average of opening and closing total assets for nine month periods.
(2) 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 nine month period ended September 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.

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the three and nine months ended September 30, 2014 and 2013 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Sales	$ 373,124	$ 272,707	$ 1,058,183	$ 789,904
Costs and expenses:				
Production	319,706	239,462	900,391	669,132
Selling and administration	8,681	7,540	26,599	21,871
Long term incentive compensation expense	3,579	6,139	10,069	13,636
Export taxes	-	1,147	-	1,146
Depreciation of plant and equipment (note 9)	14,151	10,220	40,460	28,166
Depletion and amortization of timber, roads and other (note 9)	6,888	5,930	20,213	16,808
	353,005	270,438	997,732	750,759
Operating earnings before restructuring costs	20,119	2,269	60,451	39,145
Restructuring costs (note 10)	(26)	-	(23,272)	(322)
Operating earnings	20,093	2,269	37,179	38,823
Finance costs (note 11)	(2,347)	(2,762)	(6,647)	(6,972)
Other foreign exchange gain (loss)	(1,015)	524	(1,005)	(1,039)
Other income (expense)	(213)	19	(40)	227
	(3,575)	(2,219)	(7,692)	(7,784)
Earnings before income taxes	16,518	50	29,487	31,039
Income tax expense (recovery):				
Current	272	217	1,208	96
Deferred (note 4)	5,252	(37)	(17,598)	135
	5,524	180	(16,390)	231
Net earnings (loss)	$ 10,994	$ (130)	$ 45,877	$ 30,808
Net earnings (loss) per share, basic and diluted (note 12)	$ 0.16	$ (0.00)	$ 0.70	$ 0.55

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2014 and 2013 (unaudited)

	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Net earnings (loss)	$ 10,994	$ (130)	$ 45,877	$ 30,808
Other comprehensive income (loss):				
Items that will not be reclassified subsequently to Net earnings:				
Defined benefit plan actuarial gain (loss)	(2,223)	2,383	(2,532)	4,890
Items that are or may be reclassified subsequently to Net earnings:				
Foreign currency translation differences – foreign operations	13,062	(2,022)	9,641	4,408
Gain (loss) in fair value of interest rate swaps (note 14)	328	(362)	111	218
Reclassification of loss in fair value of interest rate swaps to net earnings (loss) (note 14)	-	58	-	58
Deferred income tax recovery on other comprehensive income	-	-	-	212
Total items that are or may be reclassified subsequently to Net earnings	13,390	(2,326)	9,752	4,896
Total other comprehensive income, net of tax	11,167	57	7,220	9,786
Total comprehensive income (loss)	$ 22,161	$ (73)	$ 53,097	$ 40,594

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 10,994	$ (130)	$ 45,877	$ 30,808
Items not involving cash:				
Depreciation of plant and equipment (note 9)	14,151	10,220	40,460	28,166
Depletion and amortization of timber, roads and other (note 9)	6,888	5,930	20,213	16,808
Income tax expense (recovery)	5,524	180	(16,390)	231
Finance costs (note 11)	2,347	2,762	6,647	6,972
Reforestation liability	(1,834)	(739)	20	2,039
Other assets	112	(1)	577	44
Provisions and other liabilities	1,384	2,703	(244)	3,413
Write-down of plant and equipment (note 10)	-	-	20,468	-
Unrealized foreign exchange (gain) loss	365	(851)	331	126
Other	213	(4)	50	(121)
	40,144	20,070	118,009	88,486
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	6,514	2,143	(801)	(4,784)
Inventories	14,042	(7,876)	11,245	(35,693)
Prepayments	174	(650)	(3,303)	(3,054)
Trade accounts payable and provisions	8,371	1,621	4,509	19,625
Income taxes paid	(237)	(93)	(2,945)	(512)
	69,008	15,215	126,714	64,068
Investing activities:				
Additions to property, plant and equipment	(13,778)	(10,084)	(31,470)	(24,278)
Additions to logging roads	(8,178)	(5,112)	(19,781)	(12,287)
Additions to timber and other intangible assets	(474)	(581)	(2,440)	(13,224)
Proceeds on disposal of property, plant and equipment	(447)	219	1,640	371
Acquisition (note 4)	-	(33,766)	(124,421)	(120,407)
Deposit held in escrow for acquisition	-	33,150	-	-
Investments and other assets	154	171	98	(73)
	(22,723)	(16,003)	(176,374)	(169,898)
Financing activities:				
Bank indebtedness	(4,400)	-	-	-
Issuance of capital stock	-	82,350	-	82,350
Interest payments	(1,870)	(1,715)	(5,134)	(4,952)
Financing transaction costs	-	(51)	(736)	(1,445)
Additions to long-term debt (notes 4 and 7)	62,076	90,666	362,007	289,770
Repayments of long-term debt (note 7)	(88,167)	(162,532)	(285,634)	(262,866)
	(32,361)	8,718	70,503	102,857
Foreign exchange gain on cash and cash equivalents held in a foreign currency	631	280	634	715
Increase (decrease) in cash	14,555	8,210	21,477	(2,258)
Cash and cash equivalents, beginning of period	11,639	4,526	4,717	14,994
Cash and cash equivalents, end of period	$ 26,194	$ 12,736	$ 26,194	$ 12,736

See accompanying notes to consolidated financial statements

INTERFOR

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

(thousands of Canadian dollars)	Sept. 30, 2014	Dec. 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 26,194	$ 4,717
Trade accounts receivable and other	71,640	62,735
Inventories (note 6)	151,131	149,509
Prepayments	16,583	11,374
	265,548	228,335
Employee future benefits	2,541	3,980
Other investments and assets	3,530	3,960
Property, plant and equipment (notes 4 and 10)	527,980	460,930
Logging roads and bridges	20,984	16,224
Timber licences	80,391	84,344
Other intangible assets (note 4)	24,573	2,420
Goodwill (note 4)	132,799	23,715
Deferred income taxes	-	218
	$ 1,058,346	$ 824,126
Liabilities and Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 124,834	$ 98,017
Reforestation liability	12,475	11,754
Income taxes payable	562	395
	137,871	110,166
Reforestation liability	21,095	20,662
Long-term debt (note 7)	229,764	145,479
Employee future benefits	8,350	7,006
Provisions and other liabilities	25,003	25,676
Deferred income taxes (notes 4 and 10)	6,389	-
Equity:		
Share capital (note 8)	490,363	428,723
Contributed surplus	7,476	7,476
Translation reserve	10,202	561
Hedge reserve	278	167
Retained earnings	121,555	78,210
	629,874	515,137
	$ 1,058,346	$ 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 nine months ended September 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	-	-	-	-	-	45,877	45,877
Other comprehensive earnings (loss):							
Foreign currency translation differences, net of tax	-	-	-	9,641	-	-	9,641
Defined benefit plan actuarial loss	-	-	-	-	-	(2,532)	(2,532)
Loss in fair value of interest rate swaps (note 14)	-	-	-	-	111	-	111
Contributions:							
Shares issued in business combination (notes 4 and 8)	61,640	-	-	-	-	-	61,640
Balance at September 30, 2014	$ 490,363	$ -	$ 7,476	$ 10,202	$ 278	$ 121,555	$ 629,874
Balance at December 31, 2012	$ 342,285	$ 4,080	$ 7,476	$ (7,818)	$ (132)	$ 30,139	$ 376,030
Net earnings for the period	-	-	-	-	-	30,808	30,808
Other comprehensive earnings:							
Foreign currency translation differences, net of tax	-	-	-	4,620	-	-	4,620
Defined benefit plan actuarial gain	-	-	-	-	-	4,890	4,890
Gain in fair value of interest rate swaps (note 14)	-	-	-	-	218	-	218
Reclassification of loss in fair value of interest rate swaps to net earnings (note 14)	-	-	-	-	58	-	58
Contributions:							
Share issuance, net of share issue expenses	82,350	-	-	-	-	-	82,350
Share exchange	4,080	(4,080)	-	-	-	-	-
Balance at September 30, 2013	$ 428,715	$ -	$ 7,476	$ (3,198)	$ 144	$ 65,837	$ 498,974

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 nine months ended September 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 November 5, 2014.

(b) Basis of measurement:

These condensed consolidated interim financial statements have been prepared on the historical cost basis except for the following 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 the Canadian Dollar.

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. The adoption of new accounting standards or interpretations under IFRS had no effect on these financial statements.

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 Common 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 $99,000 during the third quarter, 2014, and $1,403,000 for the first nine 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 division experiences higher production levels in the latter half of the first quarter, throughout the second and third quarters and in the first half of the fourth quarter. Logging activity in the B.C. Interior is generally higher in the first half of the first quarter, slows during spring break-up and increases in the third and fourth quarters. Sawmill operations are less seasonal than logging operations but are dependent on the availability of logs 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:

	Sept. 30, 2014	Dec. 31, 2013
Logs	$ 65,938	$ 89,170
Lumber	74,272	51,449
Other	10,921	8,890
	$ 151,131	$ 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 September 30, 2014 was $10,553,000 (December 31, 2013 - $7,926,000).

7. Cash and borrowings:

September 30, 2014	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 250,000	$ 56,040	$ 33,624	$ 404,664
Drawings	-	173,724	56,040	-	229,764
Outstanding letters of credit included in line utilization	10,606	-	-	633	11,239
Unused portion of line	$ 54,394	$ 76,276	$ -	$ 32,991	$ 163,661
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 September 30, 2014, the Operating Line was drawn by $10,606,000, being 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 September 30, 2014, the Revolving Term Line was drawn by US$155,000,000 (December 31, 2013 – US$85,200,000), revalued at the quarter-end exchange rate to $173,724,000 (December 31, 2013 – $90,619,000). 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 September 30, 2014, total drawings under the Revolving Term Line designated as hedges against the Company's investment in its U.S. operations totalled US$155,000,000. Unrealized foreign exchange losses of $4,943,000 for the nine months ended September 30, 2014, (September 30, 2013 - $2,190,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income. For the third quarter, 2014, an unrealized exchange loss of $8,668,000 (Quarter 3, 2013 - $2,451,000 gain) was 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 September 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 $56,040,000 (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 $2,860,000 (September 30, 2013 - $1,030,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the nine months ended September 30, 2014. For the third quarter, 2014, an unrealized exchange loss of $2,660,000 (Quarter 3, 2013 - $1,075,000 gain) 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 September 30, 2014, the U.S. Operating Line was drawn by US$565,000 representing outstanding letters of credit, revalued at the quarter-end exchange rate to $633,000 (December 31, 2013 – $744,000).

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

Twelve months ending	
September 30, 2015	$ -
September 30, 2016	-
September 30, 2017	173,724
September 30, 2018	-
September 30, 2019	-
	$ 173,724

[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, September 30, 2014	66,730,455	-	66,730,455	$ 490,363

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 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 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 Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Production	$ 19,555	$ 15,920	$ 57,579	$ 44,223
Selling and administration	1,484	230	3,094	751
	$ 21,039	$ 16,150	$ 60,673	$ 44,974

10. Restructuring costs:

	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Write-down of plant and equipment	$ -	$ -	$ 20,468	$ -
Severance	26	-	1,131	322
Other	-	-	1,673	-
	$ 26	$ -	$ 23,272	$ 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. The Beaver-Forks operation was permanently closed in the third quarter, 2014.

During the first nine months, 2014, the Company also recorded other severance costs of $562,000 (September 30, 2013 - $322,000), and $26,000 for the third quarter, 2014 (Quarter 3, 2013 - $nil).

11. Finance costs:

	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Interest on borrowing	$ 1,975	$ 2,260	$ 5,604	$ 5,676
Interest (income) on defined benefit obligations	(10)	48	(44)	144
Loss in fair value of interest rate swaps	-	124	-	124
Accretion expense	151	168	490	371
Amortization of prepaid finance costs	231	162	597	657
	$ 2,347	$ 2,762	$ 6,647	$ 6,972

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

12. Net earnings per share:

	3 Months Sept. 30, 2014			3 Months Sept. 30, 2013		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings (loss)	Weighted Average Number of Shares	Per share
Issued shares at June 30		66,730			55,863	
Effect of shares issued on:						
September 30, 2013		-			78	
Basic and diluted earnings per share	$ 10,994	66,730	$ 0.16	$ (130)	55,941	$ (0.00)

	9 Months Sept. 30, 2014			9 Months Sept. 30, 2013		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		63,050			55,863	
Effect of shares issued on:						
September 30, 2013		-			26	
March 14, 2014		2,710			-	
Basic and diluted earnings per share	$ 45,877	65,760	$ 0.70	$ 30,808	55,889	$ 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 Pacific Northwest and Southeast regions of the U.S.A.

Sales by market are as follows:

	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
United States	$ 229,196	$ 130,385	$ 617,608	$ 394,039
Canada	64,989	54,364	175,955	165,279
China/Taiwan	47,037	37,490	130,622	91,826
Japan	27,533	30,318	95,891	88,910
Other export	4,369	20,150	38,107	49,850
	$ 373,124	$ 272,707	$ 1,058,183	$ 789,904

Sales by product line are as follows:

	3 Months Sept. 30, 2014	3 Months Sept. 30, 2013	9 Months Sept. 30, 2014	9 Months Sept. 30, 2013
Lumber	$ 303,020	$ 212,222	$ 858,636	$ 623,107
Logs	34,380	36,592	107,375	95,345
Wood chips and other by-products	28,262	18,446	76,441	52,464
Ocean freight and other	7,462	5,447	15,731	18,988
	$ 373,124	$ 272,707	$ 1,058,183	$ 789,904

14. Financial instruments:

At September 30, 2014, the fair value of the Company's long-term debt approximated its carrying value of $229,764,000 (December 31, 2013 - $145,479,000) measured based on Level 2 of the fair value hierarchy.

As at September 30, 2014, the Company has outstanding obligations to sell a maximum of US$13,200,000 at an average rate of CAD$1.1001 to US$1.00 during 2014 and ¥101,155,000 at an average rate of ¥101.155 to US$1.00 during 2014. Unrealized foreign currency gains or losses to September 30, 2014, have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of these foreign currency contracts, being a liability of $183,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts payable and provisions (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.

14. Financial instruments (continued):

At September 30, 2014, the fair value of the Company's four interest rate swaps, designated as cash flow hedges, being an asset of $277,000 (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (December 31, 2013 - $166,000 asset) and a gain of $111,000 (September 30, 2013 - $218,000 gain) has been recognized in Other comprehensive income for the first nine months of 2014. For the third quarter, 2014, a gain of $328,000 was recognized in Other comprehensive income (Quarter 3, 2013 - $362,000 loss recognized in Other comprehensive income, and a loss of $124,000 recognized in Finance costs including the reclassification of a loss in fair value of interest rate swaps of $58,000 from Other comprehensive income to Finance costs).

15. Commitment:

Upon 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 $7,846,000, is included in Trade accounts payable and provisions as at September 30, 2014.

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