International Forest Products Limited
First Quarter Report
For the three months ended March 31, 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 months ended March 31, 2014 ("Q1'14"). It should be read in conjunction with the unaudited consolidated financial statements of International Forest Products Company ("Interfor" or the "Company") for the three months ended March 31, 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 May 6, 2014.

All figures are stated in Canadian dollars, unless otherwise noted, and references to US$ and ¥ are to United States dollars 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 First Quarter 2014", "Outlook", "Summary of First Quarter 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 First Quarter 2014

Financial Results

Interfor generated sales of $294.8 million, net earnings of $27.5 million or $0.43 per share, and Adjusted EBITDA of $39.2 million in the first quarter of 2014. These represent improvements over the comparable quarter of 2013 in which the Company recorded sales of $242.5 million, net earnings of $15.2 million or $0.27 per share, and Adjusted EBITDA of $37.1 million.

Interfor achieved record lumber production of 495 million board feet in Q1'14, which reflects a realization on strategic capital investments over the past several years and production capacity added through the acquisition of six mills in the U.S. Southeast over the past 14 months. Earnings, however, were tempered by temporary logistical matters that delayed shipments and increased freight costs (discussed below), and by $1.1 million of non-recurring costs related to the Tolleson acquisition.

Lumber sales of 439 million board feet, including wholesale and agency volumes, lagged production by 11% during the quarter due to transportation bottlenecks, including a strike in the Port of Vancouver and limited availability of both trucks and railcars. Consequently, the Company held excess lumber inventory of approximately 70 million board feet at the end of the first quarter. Container truck drivers servicing the Port of Vancouver returned to work near the end of March 2014 and throughput volumes are expected to return to normal levels in the second quarter as congestion dissipates. Railcar availability should improve as weather in the U.S. returns to seasonal norms.

Net earnings includes a deferred income tax recovery of $16.6 million. In conjunction with recognizing a $24.3 million deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized $19.3 million of previously unrecognized deferred tax assets related to its U.S. operations.

Acquisition of Tolleson

On March 14, 2014, the Company completed the acquisition of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A., for total consideration preliminarily valued at $188.6 million, including issuance of 3,680,000 Class A Subordinate Voting Shares of the Company. Tolleson's operations include two sawmills in Perry and Preston, Georgia, plus a remanufacturing facility in Perry. This acquisition is consistent with Interfor's strategy of adding capacity in attractive regional markets and brings Interfor's annual capacity to more than 2.6 billion board feet.

Markets and Pricing

The North American lumber market was affected by both supply and demand factors in Q1'14 with commodity lumber prices remaining at relatively strong levels. Lumber demand was impacted by unseasonably cold weather in the U.S., as reflected in U.S. housing starts on a seasonally adjusted annual rate basis averaging 923,000 for the quarter, down 8.4% from the fourth quarter of 2013. Housing starts in January and February of 2014 were most impacted by the cold weather, with improvement to 946,000 starts in March prompted by the return of warmer weather and builder confidence. Lumber supply was disrupted by the temporary reduction in the availability of both trucks and railcars.

Lumber exports were temporarily disrupted by the strike at the Port of Vancouver, which ended near the end of March 2014. Demand for lumber in both Japan and China remained relatively stable throughout Q1'14. Despite the transportation strike in Vancouver, there was sufficient lumber and log inventory in China to sustain the market.

As reported by Random Lengths Publications, Inc., the Random Lengths Composite Price Index averaged US$391 per thousand board feet in Q1'14, up $2 from the preceding quarter and down $22 from the comparable quarter of 2013. Lumber price levels remained above the relevant softwood lumber benchmark price in Q1'14 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 April and May of 2014.

The U.S. dollar continued to strengthen during Q1'14, closing 3.9% higher than at year-end 2013 and 8.8% higher than at the end of the comparable quarter of 2013. This strengthening positively impacted Interfor's reported earnings for Q1'14 as a significant portion of sales are priced in U.S. dollars.

Outlook

The decline in U.S. housing starts reported for the first quarter of 2014 is considered temporary, with a gradual improvement in starts and associated lumber demand anticipated throughout the remainder of the year. Japan could see a moderate decline in housing activity following the implementation of a VAT increase in April 2014 as consumers adjust to higher housing prices. 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. Long term interest rates are expected to increase while continued weakness in the Canadian dollar relative to the U.S. dollar is anticipated.

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 March 31, 2014	2013
Financial Highlights [2]			
Total sales	$mm	294.8	242.5
Lumber	$mm	230.4	191.4
Logs	$mm	37.6	26.1
Wood chips and other residual products	$mm	22.4	16.6
Ocean freight and other	$mm	4.4	8.4
Operating earnings	$mm	13.3	17.2
Net earnings	$mm	27.5	15.2
Net earnings per share, basic and diluted	$/share	0.43	0.27
EBITDA [3]	$mm	32.3	30.6
Adjusted EBITDA [3]	$mm	39.2	37.1
Adjusted EBITDA margin [3]	%	13.3%	15.3%
Total assets	$mm	1,079.3	754.3
Total long-term debt	$mm	274.8	213.8
Pre-tax return on total assets [3]	%	4.4%	8.2%
Net debt to invested capital [3]	%	30.7%	34.0%
Operating Highlights			
Lumber production	million fbm	495	390
Lumber sales	million fbm	439	383
Lumber - average selling price [4]	$/thousand fbm	525	500
Log production [5]	thousand cubic metres	834	902
Log sales [5]	thousand cubic metres	398	289
Logs - average selling price [5]	$/cubic metre	82	76

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 First Quarter 2014 Financial Performance

Sales

Interfor realized $294.8 million of total sales, up 21.6% from $242.5 million in the first quarter of 2013, driven by the sale of 439 million board feet of lumber at an average price of $525 per mfbm. Lumber sales volume and average selling price increased 56 million board feet and 5.0%, respectively, over the same quarter of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 63 million board feet or 26.9% over the first quarter 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 9.5% and higher prices realized in China and Japan as compared to the first quarter of 2013, partially offset by a change in species sales mix with a higher proportion of Southern Yellow Pine.

Log sales of $37.6 million represent an increase of $11.5 million or 43.9% compared to the same quarter of 2013. Increases of 37.7% and 7.9% 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 $22.4 million, up $5.8 million over the comparable quarter of 2013. This increase mainly reflects the 26.9% increase in lumber production from Q1'13.

Operations

Production costs increased by $48.5 million or 24.5% over the first quarter of 2013, explained primarily by the 14.6% and 37.7% increases in lumber and B.C. log sales volumes, respectively. The remainder of the cost increase relates to generally higher log and conversion costs across our operations.

Amortization of plant and equipment was $12.3 million, up 44.0% from the first quarter 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 generally elevated operating rates.

Depletion and amortization of timber, roads and other was $6.3 million, up 37.2% from the similar quarter of 2013. This increase is mostly related to additional amortization of timber licenses in our B.C. Interior operations.

Corporate and Other

Selling and administration expenses were $8.9 million, up $1.8 million from the first quarter of 2013. This increase includes $1.1 million of non-recurring expenses related to the Tolleson acquisition.

Long term incentive compensation expense was $6.9 million, up $0.3 million from the comparable 2013 period, reflecting changes in the fair value of the Company's share-based incentive compensation plans.

Finance costs were $1.8 million, in-line with the first quarter of 2013 based on similar average debt levels for the two periods.

Income Taxes

The Company recorded an income tax recovery of $16.2 million, comprised of $0.4 million of current tax expense net of a $16.6 million deferred tax recovery. In conjunction with recognizing a $24.3 million deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized $19.3 million of previously unrecognized deferred tax assets related to its U.S. operations.

Net Earnings

The Company recorded net earnings of $27.5 million or $0.43 per share, higher compared to net earnings of $15.2 million or $0.27 per share in the first quarter of 2013. Lower operating earnings in Q1'14 were more than offset by the $16.6 million deferred tax recovery discussed above.

Summary of Quarterly Results [1]

		2014	2013				2012		
	Unit	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Financial Performance (Unaudited)									
Total sales	$mm	294.8	315.3	272.7	274.7	242.5	222.4	214.7	225.4
Lumber	$mm	230.4	249.2	212.2	219.5	191.4	173.3	161.9	162.4
Logs	$mm	37.6	41.3	36.6	32.6	26.1	24.5	26.8	35.6
Wood chips and other residual products	$mm	22.4	20.0	18.4	17.4	16.6	15.9	17.5	17.8
Ocean freight and other	$mm	4.4	4.9	5.4	5.2	8.4	8.7	8.5	9.6
Operating earnings (loss)	$mm	13.3	13.7	2.3	19.3	17.2	(2.4)	2.3	2.6
Net earnings (loss)	$mm	27.5	11.4	(0.1)	15.8	15.2	(3.8)	0.9	0.1
Net earnings (loss) per share, basic and diluted	$/share	0.43	0.18	0.00	0.28	0.27	(0.07)	0.02	0.00
Operating Performance									
Lumber production	million fbm	495	470	447	418	390	347	350	333
Lumber sales	million fbm	439	500	446	433	383	384	366	363
Lumber - average selling price[2]	$/thousand fbm	525	498	476	507	500	452	442	448
Log production[3]	thousand cubic metres	834	965	895	854	902	748	817	840
Log sales[3]	thousand cubic metres	398	397	353	301	289	267	345	379
Logs - average selling price[3]	$/cubic metre	82	92	93	90	76	76	75	75
Average US$/CAD$ exchange rate[4]	1 US$ in CAD$	1.1033	1.0491	1.0385	1.0233	1.0080	0.9914	0.9954	1.0104
Closing US$/CAD$ exchange rate[4]	1 US$ in CAD$	1.1053	1.0636	1.0303	1.0518	1.0160	0.9949	0.9832	1.0181

Notes:

(1) Figures in this table may not add due to rounding.
(2) Gross sales before export taxes.
(3) For B.C. operations.
(4) 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 thaw 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. Record lumber sales of 500 million board feet were achieved in the fourth quarter of 2013 on strong demand.

The three sawmills acquired on March 1, 2013, and one sawmill acquired on July 1, 2013, contributed to the increased lumber production and sales throughout 2013, and were accretive to net earnings immediately. The two sawmills acquired on March 14, 2014, had positive contributions to lumber production, sales and earnings in the first quarter of 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 first quarter of 2014 in a strong financial position, with $269.5 million of net debt representing 30.7% of invested capital. Net debt increased $128.8 million from December 31, 2013, primarily due to borrowings for the acquisition of Tolleson.

As at March 31, 2014, the Company had net working capital of $130.9 million and available capacity on operating and term facilities of $119.1 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

The Company generated $32.1 million of cash flow from operations, before changes in working capital, down $0.8 million from the comparable quarter of 2013. Higher sales were offset by log and conversion cost increases. A $1.8 million increase in selling and administration costs also contributed to the decline, with $1.1 million of this being of a non-recurring nature related to the Tolleson acquisition.

Total cash generated from operations after changes in working capital was $16.0 million, up from $9.4 million in the comparable quarter of 2013. This improvement is attributable to a net working capital increase of $16.1 million, down from the $23.4 million increase during the same quarter of 2013.

Cash Flow from Investing Activities

Investing activities totaled $137.4 million in Q1’14, including $122.3 million related to the Tolleson acquisition, $10.1 million for mill improvements and $4.4 million for development of logging roads. Discretionary mill improvements during the quarter included work on a new kiln at the Thomaston sawmill and a Weinig moulder at the Gilchrist sawmill.

Investing activities totaled $90.7 million in Q1’13, including $82.8 million related to the Rayonier acquisition, $5.2 million for improvements primarily at the Grand Forks and Castlegar sawmills, and $2.6 million for development of logging roads.

Cash Flow from Financing Activities

During Q1’14, the Company funded its acquisition of Tolleson in part with total drawings of US$112.5 million from its Revolving Term Line and Operating Line. Interfor also utilized its credit facilities in operating activities for total net drawings of $123.8 million.

In Q1’13, Interfor funded its acquisition of Rayonier’s Wood Products Business with total drawings of $79.3 million from its Revolving Term Line and Operating Line.

Capital Resources

In conjunction with the acquisition of Tolleson, Interfor increased the credit available on two of its facilities to ensure sufficient liquidity and flexibility post-transaction. On March 31, 2014, the Company increased the credit available under its Revolving Term Line from $200 million to $250 million, without change to other terms and conditions. On March 21, 2014, the Company increased the credit available under its U.S. Operating Line from US$20 million to US$30 million, without significant change to other terms and conditions. The following table summarizes Interfor’s credit facilities and availability as of March 31, 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	55,265	33,159	403,424
Less:					
Drawings	31,443	188,122	55,265	-	274,830
Outstanding letters of credit included in line utlization	8,882	-	-	608	9,490
Unused portion of facility	24,675	61,878	-	32,551	119,104

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 quarter ended March 31, 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 March 31, 2014, such instruments aggregated $28.5 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 May 6, 2014, Interfor had 66,730,455 Class A Subordinate Voting Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.A.

Controls and Procedures

There have been no changes in the Company’s internal controls over financial reporting (“ICFR”) during the three months ended March 31, 2014, that have materially affected, or are reasonably likely to materially affect, its ICFR.

As of March 31, 2014, the scope of our design of disclosure controls and procedures (“DC&P”) and ICFR has been limited to exclude controls, policies and procedures of Tolleson, as we have not yet completed evaluating these controls and procedures or designing and implementing any necessary changes. The Company intends to include such controls, policies and procedures within the design of DC&P and ICFR during 2014. Tolleson accounted for less than 2.0% and 3.0%, respectively, of the Company’s total consolidated sales and net earnings before income tax for the first quarter of 2014. Additional information about the acquisition is provided in Note 4 to Interfor’s consolidated financial statements as at and for the quarter ended March 31, 2014.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 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 March 31, 2014, and have not been applied in preparing the Company's 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 consolidated financial statements prepared in accordance with IFRS:

Thousands of Canadian dollars	For the 3 months ended March 31, 2014	2013
Adjusted EBITDA		
Net earnings	27,488	15,179
Add:		
Depreciation of plant and equipment	12,331	8,564
Depletion and amortization of timber, roads and other	6,309	4,599
Restructuring costs	329	103
Finance costs	1,763	1,788
Other foreign exchange loss	274	715
Income tax recovery	(16,197)	(355)
EBITDA	32,297	30,593
Add:		
Long term incentive compensation	6,917	6,620
Other income	(56)	(89)
Adjusted EBITDA	39,158	37,124
Pre-tax return on total assets		
Earnings before income taxes	11,291	14,824
Add:		
Restructuring costs	329	103
Other foreign exchange loss	274	715
Other income	(56)	(89)
	11,838	15,553
Total assets, period end	1,079,282	754,347
Pre-tax return on total assets(1)	4.4%	8.2%
Net debt to invested capital		
Net debt		
Long term debt	274,830	213,835
Cash and cash equivalents	(8,051)	(10,998)
Current bank indebtedness	2,764	-
Total net debt	269,543	202,837
Invested capital		
Net debt	269,543	202,837
Shareholders' equity	609,397	393,137
Total invested capital	878,940	595,974
Net debt to invested capital	30.7%	34.0%

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. There have been no significant changes to the Company's risks and uncertainties during the three month period ended March 31, 2014.

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 months ended March 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Sales	$ 294,840	$ 242,499
Costs and expenses:		
Production	246,800	198,302
Selling and administration	8,882	7,075
Long term incentive compensation	6,917	6,620
Export taxes (recovery)	-	(2)
Depreciation of plant and equipment (note 10)	12,331	8,564
Depletion and amortization of timber, roads and other (note 10)	6,309	4,599
	281,239	225,158
Operating earnings before restructuring costs	13,601	17,341
Restructuring costs	(329)	(103)
Operating earnings	13,272	17,238
Finance costs (note 9)	(1,763)	(1,788)
Other foreign exchange loss	(274)	(715)
Other income	56	89
	(1,981)	(2,414)
Earnings before income taxes	11,291	14,824
Income tax expense (recovery):		
Current	394	(269)
Deferred (note 4)	(16,591)	(86)
	(16,197)	(355)
Net earnings	$ 27,488	$ 15,179
Net earnings per share, basic and diluted (note 11)	$ 0.43	$ 0.27

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months ended March 31, 2014 and 2013 (unaudited)

	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Net earnings	$ 27,488	$ 15,179
Other comprehensive income:		
Items that will not be reclassified subsequently to Net earnings:		
Defined benefit plan actuarial losses	(141)	(394)
Items that are or may be reclassified subsequently to Net earnings:		
Foreign currency translation differences – foreign operations	5,241	2,752
Gain (loss) in fair value of interest rate swaps (note 13)	32	(375)
Income tax expense on other comprehensive income	-	(55)
Total items that are or may be reclassified subsequently to Net earnings	5,273	2,322
Total other comprehensive income, net of tax	5,132	1,928
Total comprehensive income for the period	$ 32,620	$ 17,107

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 27,488	$ 15,179
Items not involving cash:		
Depreciation of plant and equipment (note 10)	12,331	8,564
Depletion and amortization of timber, roads and other (note 10)	6,309	4,599
Income tax recovery	(16,197)	(355)
Finance costs (note 9)	1,763	1,788
Other assets	281	152
Reforestation liability	2,739	2,662
Provisions and other liabilities	(2,457)	(6)
Unrealized foreign exchange losses (gains)	(90)	338
Other	(46)	(48)
	32,121	32,873
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	16,186	(22,154)
Inventories	(24,257)	(19,038)
Prepayments	(4,370)	(1,820)
Trade accounts payable and provisions	(3,373)	19,956
Income taxes paid	(264)	(368)
	16,043	9,449
Investing activities:		
Additions to property, plant and equipment	(10,108)	(5,180)
Additions to logging roads	(4,423)	(2,615)
Additions to timber and other intangible assets	(799)	(245)
Proceeds on disposal of property, plant, and equipment	353	62
Acquisition of subsidiary, net of cash acquired (note 4)	(122,335)	(82,766)
Investments and other assets	(69)	20
	(137,381)	(90,724)
Financing activities:		
Increase in bank indebtedness	2,764	-
Interest payments	(1,309)	(1,482)
Debt refinancing costs	(809)	(799)
Additions to long-term debt (notes 4 and 7)	208,911	84,418
Repayments of long-term debt (note 7)	(85,154)	(5,083)
	124,403	77,054
Foreign exchange gain on cash and cash equivalents held in a foreign currency	269	225
Increase (decrease) in cash	3,334	(3,996)
Cash and cash equivalents, beginning of period	4,717	14,994
Cash and cash equivalents, end of period	$ 8,051	$ 10,998

See accompanying notes to consolidated financial statements

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

(thousands of Canadian dollars)	Mar. 31, 2014	Dec. 31, 2013
Assets		
Current assets:		
Cash and cash equivalents	$ 8,051	$ 4,717
Trade accounts receivable and other	53,983	62,735
Inventories (note 6)	185,394	149,509
Prepayments	17,430	11,374
	264,858	228,335
Employee future benefits	4,463	3,980
Other investments and assets	4,326	3,960
Property, plant and equipment (note 4)	550,444	460,930
Logging roads and bridges	16,427	16,224
Timber licences	82,532	84,344
Other intangible assets (note 4)	25,089	2,420
Goodwill (note 4)	131,143	23,715
Deferred income taxes	-	218
	$ 1,079,282	$ 824,126
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness	$ 2,764	$ -
Trade accounts payable and provisions	115,957	98,017
Reforestation liability	12,638	11,754
Income taxes payable	2,641	395
	134,000	110,166
Reforestation liability	23,544	20,662
Long-term debt (note 7)	274,830	145,479
Employee future benefits	7,649	7,006
Provisions and other liabilities	22,413	25,676
Deferred income taxes (note 4)	7,449	-
Equity:		
Share capital (note 8)	490,363	428,723
Contributed surplus	7,476	7,476
Translation reserve	5,802	561
Hedge reserve	199	167
Retained earnings	105,557	78,210
	609,397	515,137
	$ 1,079,282	$ 824,126

Commitment (note 14)

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 three months ended March 31, 2014 and 2013 (unaudited)

(thousands of Canadian dollars)	Class A Share Capital	Class B Share Capital	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total
Balance at December 31, 2013	$ 428,723	$ -	$ 7,476	$ 561	$ 167	$ 78,210	$ 515,137
Net earnings for the period:	-	-	-	-	-	27,488	27,488
Other comprehensive earnings:							
Foreign currency translation differences, net of tax	-	-	-	5,241	-	-	5,241
Defined benefit plan actuarial losses						(141)	(141)
Gain in fair value of interest rate swaps					32	-	32
Contributions:							
Shares issued in business combination (notes 4 and 8)	61,640	-	-	-	-	-	61,640
Balance at March 31, 2014	$ 490,363	$ -	$ 7,476	$ 5,802	$ 199	$ 105,557	$ 609,397
Balance at December 31, 2012	$ 342,285	$ 4,080	$ 7,476	$ (7,818)	$ (132)	$ 30,139	$ 376,030
Net earnings for the period:	-	-	-	-	-	15,179	15,179
Other comprehensive earnings:							
Foreign currency translation differences, net of tax	-	-	-	2,697	-	-	2,697
Defined benefit plan actuarial losses	-	-	-	-	-	(394)	(394)
Loss in fair value of interest rate swaps	-	-	-	-	(375)	-	(375)
Balance at March 31, 2013	$ 342,285	$ 4,080	$ 7,476	$ (5,121)	$ (507)	$ 44,924	$ 393,137

See accompanying notes to consolidated financial statements

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

1. Nature of operations:

International Forest Products Limited 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.

The Company 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.

The condensed consolidated interim financial statements of the Company as at and for the three months ended March 31, 2014, comprise the Company and its subsidiaries. The consolidated financial statements of the Company as at and for the year ended December 31, 2013, are available on www.sedar.com.

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 May 6, 2014.

(b) Basis of measurement:

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

(i) Derivative financial instruments are measured at fair value;

(ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(iii) 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.

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 $188,627,000. 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 preliminarily allocated 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	(15,847)
Long term provisions and other liabilities	(6,697)
Deferred income taxes	(24,273)
	$ 188,627
Consideration funded by:	
Current liabilities	$ 2,168
Operating Line	24,964
Revolving Term Line	99,855
Share capital (3,680,000 Class A Subordinate Voting Shares)	61,640
	$ 188,627

(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.

The Company incurred acquisition related costs of approximately $1,100,000 during the three months ended March 31, 2014, which are included in Selling and administration expenses in the Company's Consolidated Statements of Earnings.

Tolleson accounted for less than 2.0% and 3.0%, respectively, of the Company's total consolidated sales and net earnings before income tax for the three months ended March 31, 2014.

5. Seasonality of operating results:

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

6. Inventories:

	Mar. 31, 2014	Dec. 31, 2013
Logs	$ 90,633	$ 89,170
Lumber	84,779	51,449
Other	9,982	8,890
	$ 185,394	$ 149,509

Inventory expensed in the period includes production costs, amortization of plant and equipment, and depletion and amortization of timber, roads and other. The inventory writedown in order to record inventory at the lower of cost and net realizable value at March 31, 2014, was $7,534,000 (December 31, 2013 - $7,926,000).

7. Cash and borrowings:

March 31, 2014	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	$ 55,265	$ 33,159	$ 403,424
Drawings	31,443	188,122	55,265	-	274,830
Outstanding letters of credit included in line utilization	8,882	-	-	608	9,490
Unused portion of facility	$ 24,675	$ 61,878	$ -	$ 32,551	$ 119,104
December 31, 2013					
Available line of credit and maximum borrowing available	$ 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 facility	$ 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 March 31, 2014, the Operating Line was drawn by $15,456,000 and US$22,500,000, revalued at the quarter-end exchange rate to $24,869,000, for a total of $40,325,000, including outstanding letters of credit (December 31, 2013 – drawings of $8,465,000).

During the first quarter of 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 unrealized foreign exchange gains of $72,000 for the three months ended March 31, 2014, (March 31, 2013 - $nil) were recognized in Foreign currency translation differences in Other comprehensive income.

(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 March 31, 2014, the Revolving Term Line was drawn by US$170,200,000 (December 31, 2013 – US$85,200,000), revalued at the quarter-end exchange rate to $188,122,000 (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, bringing total drawings under the Revolving Term Line designated as hedges against the Company's investment in its U.S. operations to US$170,200,000. Unrealized foreign exchange losses of $3,228,000 for the three months ended March 31, 2014, (March 31, 2013 - $441,000 gain) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences 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 March 31, 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 $55,265,000 (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 $2,085,000 (March 31, 2013 - $nil) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the three months ended March 31, 2014.

(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 March 31, 2014, the U.S. Operating Line was drawn by US$550,000 representing outstanding letters of credit, revalued at the quarter-end exchange rate to $608,000 (December 31, 2013 – $744,000).

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

Twelve months ending	
March 31, 2015	$ -
March 31, 2016	-
March 31, 2017	219,565
March 31, 2018	-
March 31, 2019	-
	$ 219,565

[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			
	Class A	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, March 31, 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 Multiple Voting Shares were automatically converted to Class A Shares.

On March 31, 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.

9. Finance costs:

	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Interest on borrowing	$ 1,451	$ 1,513
Interest (income) on defined benefit obligations	(18)	48
Accretion expense	170	96
Amortization of prepaid finance costs	160	131
	$ 1,763	$ 1,788

10. Depreciation, depletion and amortization:

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

	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Production	$ 18,275	$ 12,903
Selling and administration	365	260
	$ 18,640	$ 13,163

11. Net earnings per share:

	3 Months March 31, 2014			3 Months March 31, 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		736			-	
Basic and diluted earnings per share	$ 27,488	63,786	$ 0.43	$ 15,179	55,863	$ 0.27

The Company has no dilutive securities.

12. Segmented information:

The Company manages its business as a single operating segment, solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada and the Pacific Northwest and Southeast regions of the United States.

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

12. Segmented information (continued):

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

	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Canada	$ 53,514	$ 55,152
United States	167,577	125,792
China/Taiwan	33,481	23,560
Japan	29,211	26,168
Other export	11,057	11,827
	$ 294,840	$ 242,499

Sales by product line are as follows:

	3 Months Mar. 31, 2014	3 Months Mar. 31, 2013
Lumber	$ 230,464	$ 191,406
Logs	37,588	26,128
Wood chips and other by products	22,400	16,597
Ocean freight and other	4,388	8,368
	$ 294,840	$ 242,499

13. Financial instruments:

At March 31, 2014, the fair value of the Company's long-term debt and bank indebtedness approximated its carrying value of $277,594,000 (December 31, 2013 - $145,479,000) measured based on Level 2 of the fair value hierarchy.

As at March 31, 2014, the Company has outstanding obligations to sell a maximum of US$9,065,000 at an average rate of CAD$1.1132 to US$1.00 during 2014 and ¥153,220,000 at an average rate of ¥102.15 to US$1.00 during 2014. All foreign currency gains or losses to March 31, 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 $85,000 (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).

As at March 31, 2014, the Company had obligations under two interest rate swaps, each with notional value of US$25,000,000 and maturing February 27, 2017. Under the terms of these swaps the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. The intent of the interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense.

As these swaps have been designated as cash flow hedges, the fair value of these interest rate swaps at March 31, 2014, being an asset of $198,000 (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 $32,000 (March 31, 2013 - $375,000 loss) has been recognized in Other comprehensive income for the first quarter of 2014.

The Company trades lumber futures to manage price risk. These were designated as held for trading with changes in fair value recorded in Other income in Net earnings. At March 31, 2014, the Company recognized $10,000 in Trade accounts receivable and other in respect of the fair value of the outstanding contracts measured based on Level 2 of the fair value hierarchy (December 31, 2013 - $nil) and a gain of $10,000 was recognized in Other income for the first quarter of 2014 (March 31, 2013 - gain of $41,000).

14. 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 $7,737,000, is included in Trade accounts payable and provisions as at March 31, 2014.

INTERFOR

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