News Release

FOR IMMEDIATE RELEASE

CANFOR REPORTS RESULTS FOR THIRD QUARTER OF 2014

October 30, 2014 - Vancouver, B.C. - Canfor Corporation (TSX: CFP) today reported net income attributable to shareholders ("shareholder net income") of $45.5 million, or $0.34 per share, for the third quarter of 2014, compared to $54.3 million, or $0.39 per share, for the second quarter of 2014 and $28.4 million, or $0.20 per share, for the third quarter of 2013. For the nine months ended September 30, 2014, the Company's shareholder net income was $145.3 million, or $1.05 per share, compared to shareholder net income of $200.6 million, or $1.41 per share, reported for the comparable period of 2013.

The following table summarizes selected financial information for the Company for the comparative periods:

(millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 838.0**	$ 907.3	**$ 2,487.2**	$ 755.9	$ 2,385.4
Operating income before amortization	**$ 132.7**	$ 141.3	**$ 402.9**	$ 94.1	$ 418.8
Operating income	**$ 85.6**	$ 97.3	**$ 267.3**	$ 49.3	$ 277.5
Net income attributable to equity shareholders of the Company	**$ 45.5**	$ 54.3	**$ 145.3**	$ 28.4	$ 200.6
Net income per share attributable to equity shareholders of the Company, basic and diluted	**$ 0.34**	$ 0.39	**$ 1.05**	$ 0.20	$ 1.41
Adjusted shareholder net income	**$ 50.7**	$ 56.7	**$ 153.8**	$ 26.2	$ 184.2
Adjusted shareholder net income per share, basic and diluted	**$ 0.38**	$ 0.41	**$ 1.11**	$ 0.18	$ 1.29

After adjusting for items affecting comparability with the prior periods, the Company's adjusted shareholder net income for the third quarter of 2014 was $50.7 million, or $0.38 per share, compared to an adjusted shareholder net income of $56.7 million, or $0.41 per share, for the second quarter of 2014. Canfor's adjusted shareholder net income for the third quarter of 2013 was $26.2 million, or $0.18 per share.

The Company reported operating income of $85.6 million for the third quarter of 2014, compared to operating income of $97.3 million for the second quarter of 2014. The decrease in operating income largely reflected higher-than-normal lumber shipments in the second quarter of 2014 following resolution of the transportation related challenges from earlier in the year. Lumber sales realizations were broadly in line with the previous quarter, as offshore sales realizations lagged North American gains. Further impacting the third quarter results were higher unit log costs principally due to increased logging and hauling costs and higher market-driven stumpage rates. These factors were mitigated somewhat by a modest improvement in the performance of the Company's pulp and paper segment, which for the most part reflected higher operating rates in the quarter.

In the third quarter of 2014, Western Spruce/Pine/Fir ("SPF") lumber prices saw a gradual improvement through most of the quarter driven in part by improving U.S housing starts which averaged 1,024,000 units SAAR (seasonally adjusted annual rate), up 4% from the previous quarter but still below historical levels. In Canada, housing starts were in line with the previous quarter at an average of 196,000 units SAAR in the third quarter of 2014. Offshore shipments were relatively stable during the quarter and returned to more normal levels following the release of excess inventory in the previous quarter.

The Company's lumber sales realizations were relatively unchanged compared to the previous quarter as the 7% improvement in the average North American Western SPF 2x4 #2&Btr price (up US$22 per Mfbm to US$357 per Mfbm) was offset by lower sales realizations in offshore markets, in part reflecting the nature of offshore pricing, much of which is negotiated monthly or quarterly in advance. Average sales realizations for Southern Yellow Pine ("SYP") products were up slightly compared to the previous quarter, as a US$33 per Mfbm, or 8%, increase in the benchmark SYP 2x4 #2 price was largely mitigated by price decreases in most wider dimension products.

Lumber shipments were down 9% from the previous quarter as shipments returned to more normal levels following improved railcar availability and resolution of the truckers' strike at the Vancouver Port in the second quarter of 2014. Lumber production was down slightly from the previous quarter, largely as a result of an additional statutory day in Canada, continued capital ramp-ups at several mills following major capital upgrades and semi-annual maintenance shuts at the Company's southern pine operations in the current quarter. Lumber unit manufacturing costs saw a modest increase from the previous quarter, largely due to higher unit log costs and, to a lesser extent, the unfavourable impact of lower production volumes on unit cash conversion costs.

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing to 27 days' supply in September 2014. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable to North America and Europe through the quarter, with the average NBSK pulp list price to North America remaining unchanged at US$1,030 per tonne. Overall sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia.

Pulp shipments were down 7% from the previous quarter principally as a result of higher-than-normal shipments in the second quarter of 2014 following resolution of the transportation related challenges earlier in the year. Pulp production levels were up 6% from the previous quarter reflecting the impact of scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills in the previous quarter, which reduced pulp production by 18,000 tonnes, partly offset by disruptions to operations in early July, which reduced pulp production by 10,000 tonnes. Pulp unit manufacturing costs were down moderately reflecting the higher production in the current quarter, while fibre costs were broadly in line with the second quarter of 2014.

During the third quarter of 2014, the Company completed the second phase of the purchase of Scotch & Gulf Lumber, LLC ("Scotch & Gulf"), increasing Canfor's interest in Scotch & Gulf to 33.3%. Canfor also announced the acquisitions of Balfour Lumber Company and Beadles Lumber Company, both located in Georgia, and Southern Lumber Company, located in Mississippi, which are currently anticipated to close in the first quarter of 2015. In regard to the recent investments, Canfor's President and Chief Executive Officer, Don Kayne, said, "We are pleased to acquire interests in additional high performing operations located in strong fibre regions. With the welcome additions of Balfour Lumber Company, Beadles Lumber Company and Southern Lumber Company to Canfor, we look forward to continuing to enhance our margins in the U.S. South."

Looking ahead, North American lumber consumption is forecast to ease somewhat with a seasonal slowdown in both residential construction and repair and remodeling sectors, although the underlying fundamentals of the U.S. housing market remain favourable and are anticipated to result in improving demand in early 2015. Offshore shipments are forecast to remain stable for the balance of the year with relatively steady volume to China and Japan. The Company anticipates NBSK pulp list prices will remain relatively stable for the fourth quarter of 2014.

Additional Information and Conference Call

A conference call to discuss the third quarter's financial and operating results will be held on Friday, October 31, 2014 at 7:30 AM Pacific time. To participate in the call, please dial 416-340-9534 or Toll-Free 800-952-6845. For instant replay access until November 14, 2014, please dial 800-408-3053 and enter participant pass code 8780382#. The conference call will be webcast live and will be available at www.canfor.com. This news release, the attached financial statements and a presentation used during the conference call can be accessed via the Company's website at http://www.canfor.com/investor-relations/webcasts.

Forward Looking Statements

Certain statements in this press release constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

Canfor is a leading integrated forest products company based in Vancouver, British Columbia ("BC") with interests in BC, Alberta, North and South Carolina and Alabama. Canfor produces primarily softwood lumber, and also produces bleached chemi-thermo mechanical pulp and specialized wood products. Canfor also owns a 50.5% interest in Canfor Pulp Products Inc., which is one of the largest producers of northern bleached softwood kraft pulp in Canada and a leading producer of high performance kraft paper. Canfor shares are traded on the Toronto Stock Exchange under the symbol CFP.

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Canfor Corporation
Third Quarter 2014
Management's Discussion and Analysis

This interim Management's Discussion and Analysis ("MD&A") provides a review of Canfor Corporation's ("Canfor" or "the Company") financial performance for the quarter ended September 30, 2014 relative to the quarters ended June 30, 2014 and September 30, 2013, and the financial position of the Company at September 30, 2014. It should be read in conjunction with Canfor's unaudited interim consolidated financial statements and accompanying notes for the quarters ended September 30, 2014 and 2013, as well as the 2013 annual MD&A and the 2013 audited consolidated financial statements and notes thereto, which are included in Canfor's Annual Report for the year ended December 31, 2013 (available at www.canfor.com). The financial information in this interim MD&A has been prepared in accordance with International Financial Reporting Standards ("IFRS"), which is the required reporting framework for Canadian publicly accountable enterprises.

Throughout this discussion, reference is made to Operating Income (Loss) before Amortization which Canfor considers to be a relevant indicator for measuring trends in the performance of each of its operating segments and the Company's ability to generate funds to meet its debt repayment and capital expenditure requirements. Reference is also made to Adjusted Shareholder Net Income (Loss) (calculated as Shareholder Net Income (Loss) less specific items affecting comparability with prior periods – for the full calculation, see reconciliation included in the section "Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income (Loss)") and Adjusted Shareholder Net Income (Loss) per Share (calculated as Adjusted Shareholder Net Income (Loss) divided by the weighted average number of shares outstanding during the period). Operating Income (Loss) before Amortization and Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share are not generally accepted earnings measures and should not be considered as an alternative to net income or cash flows as determined in accordance with IFRS. As there is no standardized method of calculating these measures, Canfor's Operating Income (Loss) before Amortization, Adjusted Shareholder Net Income (Loss) and Adjusted Shareholder Net Income (Loss) per Share may not be directly comparable with similarly titled measures used by other companies. Reconciliations of Operating Income (Loss) before Amortization to Operating Income (Loss) and Adjusted Shareholder Net Income (Loss) to Net Income (Loss) reported in accordance with IFRS are included in this MD&A.

Factors that could impact future operations are also discussed. These factors may be influenced by both known and unknown risks and uncertainties that could cause the actual results to be materially different from those stated in this discussion. Factors that could have a material impact on any future oriented statements made herein include, but are not limited to: general economic, market and business conditions; product selling prices; raw material and operating costs; currency exchange rates; interest rates; changes in law and public policy; the outcome of labour and trade disputes; and opportunities available to or pursued by Canfor.

All financial references are in millions of Canadian dollars unless otherwise noted. The information in this report is as at October 30, 2014.

Forward Looking Statements

Certain statements in this MD&A constitute "forward-looking statements" which involve known and unknown risks, uncertainties and other factors that may cause actual results to be materially different from any future results, performance or achievements expressed or implied by such statements. Words such as "expects", "anticipates", "projects", "intends", "plans", "will", "believes", "seeks", "estimates", "should", "may", "could", and variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are based on management's current expectations and beliefs and actual events or results may differ materially. There are many factors that could cause such actual events or results expressed or implied by such forward-looking statements to differ materially from any future results expressed or implied by such statements. Forward-looking statements are based on current expectations and the Company assumes no obligation to update such information to reflect later events or developments, except as required by law.

THIRD QUARTER 2014 OVERVIEW

Selected Financial Information and Statistics

(millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Operating income (loss) by segment:					
Lumber	**$ 59.6**	$ 74.1	**$ 190.1**	$ 43.8	$ 247.7
Pulp and Paper	**$ 33.1**	$ 30.9	**$ 100.5**	$ 11.5	$ 49.0
Unallocated and Other	**$ (7.1)**	$ (7.7)	**$ (23.3)**	$ (6.0)	$ (19.2)
Total operating income	**$ 85.6**	$ 97.3	**$ 267.3**	$ 49.3	$ 277.5
Add: Amortization	**$ 47.1**	$ 44.0	**$ 135.6**	$ 44.8	$ 141.3
Total operating income before amortization[1]	**$ 132.7**	$ 141.3	**$ 402.9**	$ 94.1	$ 418.8
Add (deduct):					
Working capital movements	**$ (0.2)**	$ 92.8	**$ (85.2)**	$ 4.6	$ 7.0
Defined benefit pension plan contributions	**$ (6.4)**	$ (5.9)	**$ (25.8)**	$ (12.9)	$ (39.0)
Income taxes paid, net	**$ (15.1)**	$ (9.5)	**$ (36.4)**	$ (0.5)	$ -
Other operating cash flows, net[2]	**$ 8.5**	$ (12.4)	**$ 20.2**	$ (10.0)	$ 4.7
Cash from operating activities	**$ 119.5**	$ 206.3	**$ 275.7**	$ 75.3	$ 391.5
Add (deduct):					
Finance expenses paid	**$ (3.3)**	$ (2.6)	**$ (8.7)**	$ (1.5)	$ (11.5)
Share purchases	**$ (1.2)**	$ (105.7)	**$ (108.9)**	$ -	$ -
Distributions paid to non-controlling interests	**$ (2.7)**	$ (2.9)	**$ (7.7)**	$ (2.4)	$ (6.9)
Capital additions, net	**$ (63.5)**	$ (63.0)	**$ (179.6)**	$ (74.6)	$ (169.8)
Proceeds from the sale of Daaquam operation	**$ 0.7**	$ 22.9	**$ 23.6**	$ -	$ -
Investment in Scotch & Gulf Lumber, LLC	**$ (9.9)**	$ -	**$ (9.9)**	$ (29.0)	$ (29.0)
Repayment from (Loan to) Scotch & Gulf Lumber, LLC	**$ 2.7**	$ 2.1	**$ 7.4**	$ (34.0)	$ (34.0)
Repayment of long-term debt	**$ -**	$ -	**$ -**	$ -	$ (73.2)
Proceeds from sale of Canfor-LP OSB	**$ -**	$ -	**$ -**	$ 1.3	$ 77.9
Other, net	**$ (5.6)**	$ 1.7	**$ (4.8)**	$ (16.9)	$ (11.0)
Change in cash / operating loans	**$ 36.7**	$ 58.8	**$ (12.9)**	$ (81.8)	$ 134.0
ROIC – Consolidated period-to-date[3]	**3.5%**	3.7%	**10.7%**	2.2%	15.9%
Average exchange rate (US$ per C$1.00)[4]	**$ 0.918**	$ 0.917	**$ 0.914**	$ 0.963	$ 0.977

[1] Amortization includes certain capitalized major maintenance costs.
[2] Further information on operating cash flows can be found in the Company's unaudited interim consolidated financial statements.
[3] Consolidated Return on Invested Capital ("ROIC") is equal to operating income/loss plus realized gains/losses on derivatives, equity income/loss from joint venture and other income/expense, all net of minority interest, divided by the average invested capital during the period. Invested capital is equal to capital assets, plus long-term investments and net non-cash working capital, all excluding minority interest components.
[4] Source – Bank of Canada (average noon rate for the period).

Analysis of Specific Material Items Affecting Comparability of Shareholder Net Income

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except per share amounts)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Shareholder net income, as reported	**$ 45.5**	$ 54.3	**$ 145.3**	$ 28.4	$ 200.6
(Gain) loss on derivative financial instruments	**$ 0.7**	$ (2.1)	**$ 0.7**	$ (2.2)	$ (3.4)
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration[5]	**$ 4.5**	$ 4.5	**$ 9.4**	$ 1.0	$ -
Gain on completion of sale of Canfor-LP OSB (including contingent consideration)[5]	**$ -**	$ -	**$ -**	$ -	$ (32.4)
Gain on sale of Daaquam operation	**$ -**	$ -	**$ (1.6)**	$ -	$ -
Foreign exchange loss on long-term debt	**$ -**	$ -	**$ -**	$ (1.0)	$ 3.1
Canfor's 50% interest in Canfor-LP OSB's income, net of tax[5]	**$ -**	$ -	**$ -**	$ -	$ 12.1
Change in substantively enacted tax rate	**$ -**	$ -	**$ -**	$ -	$ 4.2
Net impact of above items	**$ 5.2**	$ 2.4	**$ 8.5**	$ (2.2)	$ (16.4)
Adjusted shareholder net income	**$ 50.7**	$ 56.7	**$ 153.8**	$ 26.2	$ 184.2
Shareholder net income per share (EPS), as reported[6]	**$ 0.34**	$ 0.39	**$ 1.05**	$ 0.20	$ 1.41
Net impact of above items per share[6]	**$ 0.04**	$ 0.02	**$ 0.06**	$ (0.02)	$ (0.12)
Adjusted shareholder net income per share[6]	**$ 0.38**	$ 0.41	**$ 1.11**	$ 0.18	$ 1.29

[5] The Company completed the sale of its 50% share of the Canfor-LP OSB Limited Partnership ("Canfor-LP OSB") in the second quarter of 2013 and recorded a gain of $33.4 million (after tax). As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, based on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. An asset was recorded based on the fair value of this additional consideration and will be adjusted to current estimated fair value each reporting period. Based on the estimated fair value at September 30, 2014, a loss of $4.5 million (after tax) was recorded in the third quarter of 2014.

[6] The year-to-date net impact of the adjusting items per share and adjusted shareholder net income per share does not equal the sum of the quarterly per share amounts due to rounding and the weighted average common shares outstanding during the applicable period.

The Company reported operating income of $85.6 million for the third quarter of 2014, compared to operating income of $97.3 million for the second quarter of 2014. The decrease in operating income largely reflected higher-than-normal lumber shipments in the second quarter of 2014 following resolution of the transportation related challenges from earlier in the year. Lumber sales realizations were broadly in line with the previous quarter, as offshore sales realizations lagged North American gains. Further impacting the third quarter results were higher unit log costs principally due to increased logging and hauling costs and higher market-driven stumpage rates. These factors were mitigated somewhat by a modest improvement in the performance of the Company's pulp and paper segment, which for the most part reflected higher operating rates in the quarter.

In the third quarter of 2014, Western Spruce/Pine/Fir ("SPF") lumber prices saw a gradual improvement through most of the quarter driven in part by improving U.S housing starts which averaged 1,024,000 units SAAR (seasonally adjusted annual rate), up 4% from the previous quarter but still below historical levels. In Canada, housing starts were in line with the previous quarter at an average of 196,000 units SAAR in the third quarter of 2014. Offshore shipments were relatively stable during the quarter and returned to more normal levels following the release of excess inventory in the previous quarter.

The Company's lumber sales realizations were relatively unchanged compared to the previous quarter as the 7% improvement in the average North American Western SPF 2x4 #2&Btr price (up US$22 per Mfbm to US$357 per Mfbm) was offset by lower sales realizations in offshore markets, in part reflecting the nature of offshore pricing, much of which is negotiated monthly or quarterly in advance. Average sales realizations for Southern Yellow Pine ("SYP") products were up slightly compared to the previous quarter, as a US$33 per Mfbm, or 8%, increase in the benchmark SYP 2x4 #2 price was largely mitigated by price decreases in most wider dimension products.

Lumber shipments were down 9% from the previous quarter as shipments returned to more normal levels following improved railcar availability and resolution of the truckers' strike at the Vancouver Port in the second quarter of 2014. Lumber production was down slightly from the previous quarter, largely as a result of an additional statutory day in Canada, continued capital ramp-ups at several mills following major capital upgrades and semi-annual maintenance shuts at the Company's southern pine operations in the current quarter. Lumber unit manufacturing costs saw a modest increase from the previous quarter, largely due to higher unit log costs and, to a lesser extent, the unfavourable impact of lower production volumes on unit cash conversion costs.

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing to 27 days' supply in September 2014. Average Northern Bleached Softwood Kraft ("NBSK") pulp list prices were relatively stable to North America and Europe through the quarter, with the average NBSK pulp list price to North America remaining unchanged at US$1,030 per tonne. Overall sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia.

Pulp shipments were down 7% from the previous quarter principally as a result of higher-than-normal shipments in the second quarter of 2014 following resolution of the transportation related challenges earlier in the year. Pulp production levels were up 6% from the previous quarter reflecting the impact of scheduled maintenance outages at the Intercontinental and Prince George Pulp Mills in the previous quarter, which reduced pulp production by 18,000 tonnes, partly offset by disruptions to operations in early July, which reduced pulp production by 10,000 tonnes. Pulp unit manufacturing costs were down moderately reflecting the higher production in the current quarter, while fibre costs were broadly in line with the second quarter of 2014.

Compared to the third quarter of 2013, operating income was up $36.3 million, reflecting a $15.8 million increase in earnings in the lumber segment and a $21.6 million increase in the pulp and paper segment. Both segments benefitted from gains in unit sales realizations, as a result of higher lumber and pulp market prices, as well as a 5% weaker Canadian dollar. The lumber segment sales realizations were further bolstered by the absence of export taxes on U.S. bound shipments in the current quarter compared to 5% in the third quarter of 2013. The increase in lumber segment sales realizations were partly offset by higher unit manufacturing costs reflecting both higher unit log costs and unit cash conversion costs. Contributing to the increase in the pulp and paper segment operating income were higher pulp shipment and production volumes as well as increased energy revenue, mostly due to the recently completed turbine generator upgrades at the Northwood Pulp Mill.

OPERATING RESULTS BY BUSINESS SEGMENT

Lumber

Selected Financial Information and Statistics – Lumber

(millions of Canadian dollars unless otherwise noted)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 570.5**	$ 614.5	**$ 1,680.7**	$ 529.4	$ 1,658.5
Operating income before amortization	**$ 88.7**	$ 102.2	**$ 275.2**	$ 71.4	$ 332.5
Operating income	**$ 59.6**	$ 74.1	**$ 190.1**	$ 43.8	$ 247.7
Average SPF 2x4 #2&Btr lumber price in US$[7]	**$ 357**	$ 335	**$ 353**	$ 328	$ 351
Average SPF price in Cdn$	**$ 389**	$ 365	**$ 386**	$ 340	$ 359
Average SYP 2x4 #2 lumber price in US$[8]	**$ 438**	$ 405	**$ 415**	$ 393	$ 412
Average SYP price in Cdn$	**$ 477**	$ 442	**$ 454**	$ 408	$ 422
U.S. housing starts (thousand units SAAR)[9]	**1,024**	985	**978**	882	898
Production – SPF lumber (MMfbm)[10]	**926.3**	935.0	**2,842.2**	1,007.8	3,113.3
Production – SYP lumber (MMfbm)[10]	**150.4**	153.6	**439.4**	128.0	391.0
Shipments – SPF lumber (MMfbm)[11]	**956.2**	1,062.6	**2,798.2**	1,027.9	3,066.7
Shipments – SYP lumber (MMfbm)[11]	**162.2**	168.4	**473.8**	138.7	402.8
Shipments – wholesale lumber (MMfbm)	**6.0**	5.4	**16.1**	5.2	19.1

[7] Western Spruce/Pine/Fir, per thousand board feet (Source – Random Lengths Publications, Inc.).
[8] Southern Yellow Pine, Eastside, per thousand board feet (Source – Random Lengths Publications, Inc.).
[9] Source – U.S. Census Bureau, seasonally adjusted annual rate ("SAAR").
[10] Excluding production of trim blocks.
[11] Canfor-produced lumber, including lumber purchased for remanufacture and excluding trim blocks.

Overview

Operating income for the lumber segment was $59.6 million for the third quarter of 2014, a decrease of $14.5 million compared to operating income of $74.1 million in the previous quarter, and a $15.8 million improvement from operating income of $43.8 million reported for the third quarter of 2013.

Current quarter results compared to the previous quarter reflected higher-than-normal volumes in the second quarter of 2014 following resolution of transportation constraints from earlier in the year. Also contributing to the reduction in earnings compared to the second quarter of 2014 were modestly higher unit log costs during the quarter reflecting higher logging and hauling costs and to a lesser extent market-driven stumpage rate increases. Sales realizations were relatively stable with stronger North American lumber prices offset by lower offshore sales realizations.

The improvement in lumber segment earnings compared to the third quarter of 2013 was principally the result of stronger sales realizations driven by higher market prices in most grades and dimensions, a weaker Canadian dollar and the absence of export taxes on U.S. bound shipments in the current quarter. Partly offsetting these gains were higher unit manufacturing costs reflecting increased unit log costs, largely attributable to increased hauling and logging costs and higher purchased log costs, coupled with higher cash conversion costs, mainly due to disruptions associated with several major capital upgrades. Compared to the same period in 2013, shipments and production volumes in the current quarter were impacted by the closure of the Company's Quesnel Sawmill and sale of the Company's Daaquam Sawmill in the first quarter of 2014.

Markets

During the third quarter of 2014, Western SPF lumber prices to the U.S. saw moderate increases reflecting improved housing activity. The U.S. housing market recovery continued as sales of new single-family homes reached its fastest pace in six years in the quarter[12]. Notwithstanding total housing starts remained below historical levels, averaging 1,024,000 units[13] SAAR, up 4% from the second quarter of 2014 and 16% higher than the same period in 2013. Single-family starts, which consume a higher proportion of lumber, increased modestly, up 3% compared to the second quarter of 2014, to 646,000 units[13] SAAR. Demand in the repair and remodeling sector also improved as a result of an increase in home improvement projects in North America.

In Canada, housing starts were in line with the previous quarter at an average of 196,000 units[14] SAAR in the third quarter of 2014.

Offshore shipments were relatively stable during the quarter and returned to more normal levels following the release of excess inventory in the previous quarter.

Sales

Sales for the lumber segment for the third quarter of 2014 were $570.5 million, compared to $614.5 million in the previous quarter and $529.4 million in the third quarter of 2013. The decrease in sales from the second quarter of 2014 was largely the result of lower shipments in the current quarter after higher-than-normal levels in the previous quarter following relief of the aforementioned transportation channel challenges earlier in year while sales realizations were consistent with the second quarter of 2014. Compared to the third quarter of 2013, the increase in sales revenue for the lumber segment reflected higher sales realizations offset by lower finished production available for sale. Current quarter sales also reflected seasonally higher log sales compared to the previous quarter.

Total shipments in the third quarter of 2014, at just over 1.1 billion board feet, were down 9% from the previous quarter as lumber shipments returned to more normal levels following improved railcar availability and resolution of the truckers' strike at the Vancouver Port in the second quarter of 2014. Compared to the third quarter of 2013, shipments were down 4% largely due to the closure of the Quesnel Sawmill and sale of Daaquam Sawmill in the first quarter of 2014.

Overall lumber sales realizations were largely unchanged from the second quarter of 2014, with stronger prices in North American markets offset by weaker realizations in offshore markets. North American Western SPF sales realizations were broadly in line with the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price which increased by 7% quarter-over-quarter, up US$22 per Mfbm, to US$357 per Mfbm. North American sales realizations also benefitted from more marked increases on certain wider dimension products. Offsetting these gains were lower sales realizations in offshore markets, in part reflecting the nature of offshore pricing, much of which is negotiated monthly or quarterly in advance. Overall sales realizations for SYP products were up slightly compared to the previous quarter, as a US$33 per Mfbm, or 8%, increase in the benchmark SYP 2x4 #2 price was largely mitigated by price decreases in most wider dimension products.

[12] U.S. Department of Housing and Urban Development and the U.S. Census Bureau
[13] U.S. Census Bureau
[14] CMHC – Canada Mortgage and Housing Corporation

Compared to the third quarter of 2013, lumber sales realizations showed a significant improvement benefiting from higher market prices for most grades and dimensions, a weaker Canadian dollar and, to a lesser extent, the absence of export taxes on U.S. bound shipments. Gains in North American sales realizations, reflected a US$29 per Mfbm, or 9%, increase in the benchmark North American Random Lengths Western SPF 2x4 #2&Btr price, partly offset by less pronounced price increases in most offshore markets. Current quarter sales realizations also included the favourable impact of a higher percentage of prime products, in part reflecting the closure of the Company's Quesnel Sawmill in the first quarter of 2014. Sales realizations for SYP products were moderately higher than the same quarter in the previous year with the benchmark SYP 2x4 #2 price up US$45 per Mfbm, or 11%, with similar increases seen in several wider dimension products. Overall sales realizations also benefitted from a 5 cent, or 5%, weaker Canadian dollar compared to the third quarter of 2013, as well as zero export taxes on U.S. bound shipments compared to 5% in the comparative period.

Total residual fibre revenue was slightly higher compared to the second quarter of 2014, largely reflecting somewhat higher shipments of sawmill residual chips during the current quarter while sawmill residual chip prices were relatively stable. Compared to the third quarter of 2013, total residual fibre revenue was up, principally due to a market-driven increase in sawmill residual chip prices, tied in part to higher NBSK pulp sales realizations.

Operations

Lumber production, at just under 1.1 billion board feet, was down slightly from the previous quarter, largely as a result of an additional statutory day in Canada, continued capital ramp-ups at several mills following major capital upgrades and semi-annual maintenance shuts at the Company's southern pine operations in the current quarter. Partly offsetting these factors were quarter-over-quarter productivity gains and additional shifting at certain sawmills as well as capital related downtime in the previous quarter. Compared to the third quarter of 2013, lumber production was down 5%, largely due to the closures of the Company's Quesnel Sawmill and sale of the Company's Daaquam Sawmill in the first quarter of 2014. Excluding the impact of the Quesnel and Daaquam Sawmills, the Company's production was up 3% principally due to additional shifts and productivity improvements, mitigated somewhat by capital related downtime and processing smaller-profile logs at certain operations.

Unit manufacturing costs saw a modest increase from the previous quarter largely due to increased unit log costs and, to a lesser extent, higher unit cash conversion costs. The increase in unit log costs mostly reflected logging and hauling cost increases and market-driven increases in stumpage. Log costs are anticipated to continue to trend higher through the balance of 2014 and into next year. The increase in unit cash conversion costs was principally the result of lower overall production volumes in the current quarter due to the aforementioned factors, as well as ongoing dust control efforts and to a lesser extent smaller-profile logs at certain operations.

Compared to the third quarter of 2013, unit manufacturing costs were well up reflecting both higher unit log costs and cash conversion costs. The increase in unit log costs was primarily the result of increased logging and hauling costs coupled with higher purchased log costs in 2014. Higher unit cash conversion costs principally reflected lower production volume in the current quarter, ongoing dust management efforts and higher labour costs.

Pulp and Paper

Selected Financial Information and Statistics – Pulp and Paper[15]

(millions of Canadian dollars unless otherwise noted)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Sales	**$ 267.5**	$ 292.8	**$ 806.5**	$ 224.6	$ 723.6
Operating income before amortization[16]	**$ 49.9**	$ 46.6	**$ 149.5**	$ 28.5	$ 104.8
Operating income	**$ 33.1**	$ 30.9	**$ 100.5**	$ 11.5	$ 49.0
Average pulp price delivered to U.S. – US$[17]	**$ 1,030**	$ 1,030	**$ 1,026**	$ 947	$ 927
Average price in Cdn$	**$ 1,122**	$ 1,123	**$ 1,123**	$ 983	$ 949
Production – pulp (000 mt)	**305.3**	288.7	**904.4**	274.8	893.4
Production – paper (000 mt)	**35.9**	35.4	**108.0**	33.8	103.9
Shipments – pulp (000 mt)	**291.0**	314.4	**861.4**	267.5	883.5
Shipments – paper (000 mt)	**35.7**	39.7	**106.7**	35.5	107.7

[15] Includes the Taylor Pulp Mill and 100% of Canfor Pulp Products Inc., which is consolidated in Canfor's results. Pulp production and shipment volumes presented are for both NBSK and bleached chemi-thermo mechanical pulp ("BCTMP").
[16] Amortization includes certain capitalized major maintenance costs.
[17] Per tonne, NBSK pulp list price delivered to U.S. (Resource Information Systems, Inc.).

Overview

Operating income for the pulp and paper segment was $33.1 million for the third quarter of 2014, up $2.2 million from the previous quarter, and up $21.6 million from the third quarter of 2013.

Lower shipments in the current quarter reflected higher-than-normal shipments in the second quarter of 2014 following resolution of transportation related challenges earlier in 2014. Despite NBSK pulp list prices to North America and Europe holding up relatively well through the quarter, sales realizations to Asia showed a modest decline in part reflecting downward price pressure through the middle of the second quarter of 2014 and into the current quarter. Partly mitigating the lower sales revenue in the current quarter were moderately lower pulp unit manufacturing costs, reflecting the higher costs in the previous quarter due to maintenance outages. In addition, current quarter results were boosted by improved results for the Company's paper operation reflecting lower manufacturing costs and modestly higher unit sales realizations partly offset by lower shipments compared to the second quarter of 2014.

Compared to the third quarter of 2013, pulp segment results benefitted from a 9% increase in pulp shipments, driven by a similar increase in production, as well as strong gains in unit sales realizations, reflecting marked improvements in NBSK pulp prices across all regions coupled with the favourable impact of the 5% weaker Canadian dollar. Unit manufacturing costs were in line with the same period in 2013, as market-driven increases to fibre costs, and increased chemical and energy costs were offset by higher production levels and reduced maintenance spending, mainly due to the outages in the comparable period of 2013. Higher energy revenue further contributed to the improved pulp and paper results compared to the third quarter of 2013.

Markets

Global softwood pulp markets remained stable during the seasonally slower summer period, supported by solid demand through the third quarter of 2014. Global softwood pulp producer inventory levels returned to balanced levels during the quarter, increasing 2 days from the end of June 2014 to 27 days' supply in September 2014[18]. Market conditions are generally considered balanced when inventories are in the 27-30 days of supply range.

Global shipments of bleached softwood kraft pulp were broadly in line with the second quarter of 2014, reflecting stable shipments to most regions in the current quarter[19].

[18] World 20 data is based on twenty producing countries representing 80% of world chemical market pulp capacity and is based on information compiled and prepared by the Pulp and Paper Products Council ("PPPC").
[19] As reported by PPPC statistics.

Sales

The Company's pulp shipments in the third quarter of 2014 totalled 291,000 tonnes, a decrease of 23,400 tonnes, or 7%, from the previous quarter, and up 23,500 tonnes, or 9%, from the same period in 2013. Decreased pulp shipments compared to the previous quarter principally reflected higher-than-normal shipments in the second quarter of 2014 following resolution of the aforementioned transportation related challenges earlier in the year. Compared to the third quarter of 2013, the 9% increase in shipments was driven by a relatively similar increase in production volumes largely due to the scheduled and weather-related maintenance outages in the comparable period of 2013.

Reflecting stable global softwood pulp markets, the average North American NBSK pulp list price remained at the three-year high of US$1,030 per tonne, in line with the second quarter of 2014. Discount levels were consistent with the previous quarter. The NBSK pulp list price to Europe also remained relatively unchanged, averaging US$932 per tonne, an increase of US$7 per tonne from the previous quarter. Overall current quarter sales realizations were down modestly compared to the previous quarter, in part reflecting downward price pressure on shipments into Asia through the middle of the second quarter of 2014 and into the current quarter. Energy sales were up slightly from the second quarter of 2014, reflecting increased power generation from the Company's turbines. Bleached chemi-thermo mechanical pulp ("BCTMP") average sales realizations decreased slightly from the previous quarter as market prices for BCTMP declined through the third quarter of 2014.

Compared to the third quarter of 2013, NBSK pulp sales realizations continued to experience strong gains largely as a result of increases in average NBSK pulp list prices, the 5% weaker Canadian dollar and, to a lesser extent, increased shipments to higher-margin regions. The North American NBSK pulp list price increased US$83 per tonne, or 9%, and the list price to Europe was up 8% from the same period in 2013. Partially offsetting the full impact of these gains were increased discounts in North American markets and less pronounced increases in sales realizations to Asia. Energy revenue was also well up compared to the same period in 2013, reflecting the upgrades to the Northwood Pulp Mill turbines completed earlier in 2014 as well as increased power generation from the turbine at the Company's Prince George operation. BCTMP sales realizations also experienced strong gains compared to the third quarter of 2013, reflecting higher market pricing and the weaker Canadian dollar.

Operations

Pulp production in the current quarter was 305,300 tonnes, up 16,600 tonnes, or 6%, from the previous quarter, and up 30,500 tonnes, or 11%, from the third quarter of 2013. Pulp production in the current quarter reflected some disruptions to operations early in the quarter, but thereafter operating rates quickly returned to normal levels and productivity improved as the quarter progressed. Production in the second quarter of 2014 included the impact of maintenance outages at the Intercontinental and Prince George Pulp Mills, which reduced market pulp production by 18,000 tonnes, and a five day maintenance outage at the Company's BCTMP Taylor pulp mill. In the comparative third quarter of 2013, production levels were impacted by a maintenance outage at the Northwood Pulp Mill and severe thunderstorms, which reduced pulp production by 32,000 tonnes and 10,000 tonnes, respectively.

Pulp unit manufacturing costs were down moderately compared to the second quarter of 2014, reflecting the higher costs in the previous quarter attributable to the maintenance outages and, to a lesser degree, seasonally lower energy costs. Fibre costs were broadly in line with the previous quarter, as slightly lower prices for sawmill residual chips (linked to lower NBSK market pulp sales realizations) and lower freight costs were offset by an increased proportion of higher-cost whole log chips and seasonal adjustments.

Compared to the third quarter of 2013, unit manufacturing costs were largely unchanged, primarily reflecting the impact of higher fibre and energy costs, offset by higher production levels and reduced maintenance spending. The increase in fibre costs was largely attributable to market-driven increases to sawmill residual and whole log chip prices and higher freight costs, while the higher energy costs reflected higher natural gas prices and increased fuel costs related to the incremental energy generation.

Unallocated and Other Items

Selected Financial Information

(millions of Canadian dollars)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Operating income (loss) of Panels operations[20]	**$ (0.7)**	$ (1.1)	**$ (3.1)**	$ 0.1	$ (1.2)
Corporate costs	**$ (6.4)**	$ (6.6)	**$ (20.2)**	$ (6.1)	$ (18.0)
Finance expense, net	**$ (4.8)**	$ (4.4)	**$ (13.6)**	$ (6.4)	$ (21.5)
Foreign exchange gain (loss) on long-term debt	**$ -**	$ -	**$ -**	$ 2.3	$ (5.5)
Gain (loss) on derivative financial instruments	**$ (1.1)**	$ 3.1	**$ (1.5)**	$ 4.0	$ 4.6
Gain on sale of Canfor–LP OSB joint venture	**$ -**	$ -	**$ -**	$ -	$ 38.3
Other income (expense), net	**$ 0.2**	$ (10.8)	**$ (7.3)**	$ (3.9)	$ 4.6

[20] The Panels operations include the Company's PolarBoard oriented strand board ("OSB") plant, which is currently indefinitely idled and its Tackama plywood plant, which was closed in January 2012.

Corporate costs at $6.4 million for the third quarter of 2014 were relatively consistent with both comparable periods.

Net finance expense for the third quarter of 2014 was $4.8 million, up slightly from the previous quarter and down $1.6 million from the third quarter of 2013. Finance expense during the current period included one-time fees related to the extension of the maturity date of Canfor's operating loan facility to February 28, 2019. The decrease in net finance expense compared to the third quarter of 2013 reflected lower overall debt levels and lower employee future benefit net interest costs, due in part to the improved financial position of most of the Company's defined benefit plans.

The Company uses a variety of derivative financial instruments as partial economic hedges against unfavourable changes in foreign exchange rates, energy costs, lumber prices, pulp prices and interest rates. In the third quarter of 2014, the Company recorded a net loss of $1.1 million related to its derivative instruments, principally reflecting unrealized losses on energy hedges as a result of a decrease in fuel costs during the quarter and, to a lesser extent, unrealized losses on US dollar foreign exchange collars as a result of the weakening of the Canadian dollar at the close of the current quarter relative to the exchange rate at the close of the second quarter of 2014. These losses were partly offset by realized gains on the settlement of lumber futures contracts during the quarter.

Other income, net of $0.2 million in the third quarter of 2014 included a $6.1 million negative fair value adjustment to the Canfor-LP OSB contingent consideration asset, reflecting continued weakness in forecast OSB prices over the contingent consideration period. This adjustment reduced the fair value of the Canfor-LP OSB contingent consideration asset to nil at September 30, 2014. Also included in other income, net in the current quarter were foreign exchange gains on US dollar denominated working capital of $5.7 million resulting from the weakening of the Canadian dollar relative to the US dollar over the course of the quarter.

Other Comprehensive Income (Loss)

The following table summarizes Canfor's Other Comprehensive Income (Loss) for the comparable periods:

(millions of Canadian dollars)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Foreign exchange translation differences for foreign operations, net of tax	**$ 11.2**	$ (10.0)	**$ 11.8**	$ (5.6)	$ 7.0
Defined benefit actuarial gains (losses), net of tax	**$ 11.7**	$ (26.2)	**$ (38.8)**	$ 17.1	$ 51.3
Other comprehensive income (loss), net of tax	**$ 22.9**	$ (36.2)	**$ (27.0)**	$ 11.5	$ 58.3

In the third quarter of 2014, the Company recorded an after-tax gain of $11.7 million in relation to changes in the valuation of the Company's employee future benefit plans. The gain principally reflected a modest return on plan assets during the quarter coupled with slightly higher discount rates used to value the net defined benefit obligation. In the previous quarter, an after-tax loss of $26.2 million was recorded in part due to actuarial assumption and experience adjustments stemming from the actuarial funding valuation completed in the quarter. In the third quarter of 2013, an after-tax actuarial gain of $17.1 million was recorded in Other Comprehensive Income.

In addition, the Company recorded $11.2 million of other comprehensive gain in the quarter for foreign exchange differences for foreign operations, reflecting favourable foreign exchange movements during the quarter. This compared to a foreign exchange loss of $10.0 million in the previous quarter and $5.6 million in the third quarter of 2013.

SUMMARY OF FINANCIAL POSITION

The following table summarizes Canfor's cash flow and selected ratios for and as at the end of the following periods:

(millions of Canadian dollars, except for ratios)	Q3 2014	Q2 2014	YTD 2014	Q3 2013	YTD 2013
Increase (decrease) in cash and cash equivalents	**$ 38.7**	$ 19.8	**$ 56.9**	$ (81.8)	$ 107.0
Operating activities	**$ 119.5**	$ 206.3	**$ 275.7**	$ 75.3	$ 391.5
Financing activities	**$ (7.2)**	$ (150.2)	**$ (57.5)**	$ (21.6)	$ (147.6)
Investing activities	**$ (73.6)**	$ (36.3)	**$ (161.3)**	$ (135.5)	$ (136.9)
Ratio of current assets to current liabilities			**1.7:1**		1.6:1
Net debt to capitalization			**8.5%**		7.5%
ROIC - Consolidated period-to-date	**3.5%**	3.7%	**10.7%**	2.2%	15.9%
ROCE - Canfor solid wood business[21] period-to-date	**3.1%**	4.1%	**9.9%**	2.5%	15.3%

[21] Return on Capital Employed ("ROCE") for the Canfor solid wood business represents consolidated ROCE adjusted to remove the Company's interest in Canfor-LP OSB and pulp and paper operations, including CPPI and the Taylor Pulp Mill. Consolidated ROCE is equal to shareholder net income for the period plus finance expense, after tax, divided by the average capital employed during the period (which consists of current and long-term debt and operating loans, and shareholders' equity, less cash and temporary investments).

Changes in Financial Position

Cash generated from operating activities was $119.5 million in the third quarter of 2014, compared to cash generated of $206.3 million in the previous quarter and $75.3 million in the same quarter of 2013. The decrease in operating cash flows from the previous quarter principally reflected lower cash earnings and a significant drawdown of log and finished inventories in the second quarter of 2014. Non-cash working capital movements in the current quarter included a modest increase in log and finished product inventories offset by a decrease in trade accounts receivable driven by the lower sales volumes in the current quarter. Also contributing to the reduction in operating cash flows in current quarter were income tax installment payments for both Canfor and Canfor Pulp. Compared to the third quarter of the 2013, the increase in operating cash flows was mostly attributable to higher cash earnings offset by the timing of income tax installment payments in the third quarter of 2014.

Cash used for financing activities was $7.2 million in the current quarter, compared to $150.2 million in the previous quarter and $21.6 million in the third quarter of 2013. Finance expenses paid in the current quarter were $3.3 million, up $0.7 million from the previous quarter and up $1.8 million from the third quarter of 2013, in part reflecting one-time fees paid associated with the extension of the Company's operating loan facility and higher amounts drawn on the facility during the current quarter. Cash used for financing activities in the current quarter also included $2.0 million for share purchases made by Canfor Pulp under its Normal Course Issuer Bid and $1.2 million paid related to share purchases made by Canfor in the previous quarter (see further discussion of the shares purchased under the Normal Course Issuer Bids in the following "Liquidity and Financial Requirements" section). This compares to cash paid for Normal Course Issuer Bid share purchases of $105.7 million in the previous quarter and $17.7 million in the same quarter of 2013. During the current quarter, Canfor drew an additional $2.0 million on its operating loan facility, compared to a $39.0 million repayment in the previous quarter. Canfor had $145.0 million outstanding against the operating loan facility at the end of the quarter.

Cash used for investing activities was $73.6 million in the third quarter of 2014, compared to $36.3 million in the previous quarter and $135.5 million in the same quarter of 2013. Cash used for capital additions was $63.5 million, consistent with the previous quarter and down from $74.6 million in the same quarter of 2013. Current quarter capital expenditures included spending on the Company's Polar Sawmill rebuild and the initial phases of construction of the recently announced pellet plants in Chetwynd and Fort St. John (see further discussion on the pellet plants in the following "Commitments" section). In the pulp and paper segment, capital expenditures related primarily to the Intercontinental Pulp Mill turbine upgrade, scheduled for completion in early 2015. Investing activities in the current quarter also included the second payment of $9.9 million for the phased purchase of Scotch & Gulf, increasing Canfor's interest in Scotch & Gulf to 33.3% (in the comparable third quarter of 2013, Canfor completed the first phase of the purchase of Scotch & Gulf for $29.0 million and loaned Scotch & Gulf an additional $34.0 million under a term loan agreement). In the previous quarter, cash flow from investing activities included $22.9 million received from the sale of the Daaquam operation with an additional $0.7 million received in the current quarter relating to working capital amounts.

Liquidity and Financial Requirements

At September 30, 2014, the Company on a consolidated basis had cash of $146.4 million, $145.0 million drawn on its operating loans, and an additional $25.9 million reserved for several standby letters of credit. Total available undrawn operating loans were $309.1 million. During the third quarter of 2014, Canfor extended the maturity date of its principal operating loan facility from February 28, 2018 to February 28, 2019.

Canfor has $100.0 million of floating interest rate term debt, repayable in February 2017 and CPPI has $50.0 million of floating interest rate term debt, repayable in November 2018.

The Company and CPPI remained in compliance with the covenants relating to their operating loans and long-term debt during the quarter, and expect to remain so for the foreseeable future.

The Company's consolidated net debt to total capitalization at the end of the third quarter of 2014 was 8.5%. For Canfor, excluding CPPI, net debt to capitalization at the end of the third quarter of 2014 was 9.2%.

On March 5, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,995,228 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. During the third quarter of 2014, no common shares were purchased under the Normal Course Issuer Bid. For the nine months ended September 30, 2014, Canfor purchased 4,527,600 common shares for $108.9 million (an average of $24.05 per common share). Under a separate Normal Course Issuer Bid, CPPI purchased shares from non-controlling shareholders during the third quarter of 2014 increasing Canfor's ownership of CPPI to 50.5% by quarter end.

Commitments

In August 2014, the Company entered into a phased purchase agreement with Beadles Lumber Company and Balfour Lumber Company, Inc. ("Beadles & Balfour"). The transaction will involve the phased purchase of the operating assets of Beadles & Balfour over a 2 year period, at an aggregate purchase price, excluding working capital, of US$62.0 million. The first phase of the acquisition is currently anticipated to close in the first quarter of 2015 with an initial equity interest of 55% which will increase to 100% after two years. The transaction is subject to standard closing conditions.

In September 2014, the Company entered into a purchase agreement with Southern Lumber Company ("Southern"). The transaction will involve the purchase of all operating assets of Southern, at an aggregate purchase price, excluding working capital, of US$48.7 million. The transaction is subject to standard closing conditions and is currently anticipated to close in the first quarter of 2015.

In September 2014, the Company also announced plans to construct a pellet plant at both the Chetwynd and Fort St. John Sawmill sites, in the Northern British Columbia interior ("the Pellet Plants"). The total investment cost is estimated to be $58.0 million and production is scheduled to commence in the second half of 2015. In October 2014, Canfor and Pacific BioEnergy Corporation, a pellet plant operator in British Columbia, entered into a Limited Partnership Agreement ("the Agreement") to construct and operate the Pellet Plants. Upon execution of the Agreement, Canfor owns an approximate 95% interest in the Pellet Plants. Pacific BioEnergy Corporation has an option under the Agreement to increase its ownership interest in the Pellet Plants up to a total of 30% over a three year period.

OUTLOOK

Lumber

For the fourth quarter of 2014, North American lumber consumption is forecast to ease somewhat with a seasonal slowdown in both residential construction and repair and remodeling sectors, although the underlying fundamentals of U.S. housing market remain favourable and are anticipated to boost demand in the beginning of 2015. Offshore shipments are forecast to remain stable for the balance of the year with relatively steady volume to China and Japan.

Pulp and Paper

The Company anticipates NBSK pulp list prices will remain relatively stable for the fourth quarter of 2014. For the month of October 2014, Canfor Pulp has announced a NBSK pulp list price of US$1,030 per tonne in North America, unchanged from September 2014, and list prices to other regions remained largely unchanged.

A scheduled maintenance outage at Canfor Pulp's Northwood Pulp Mill has been substantially completed in the fourth quarter of 2014 and resulted in reduced pulp production of approximately 17,000 tonnes.

OUTSTANDING SHARES

At October 30, 2014, there were 135,376,993 common shares outstanding.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the amounts recorded in the financial statements. On an ongoing basis, management reviews its estimates, including those related to useful lives for amortization, impairment of long-lived assets, certain accounts receivable, pension and other employee future benefit plans and asset retirement and deferred reforestation obligations based upon currently available information. While it is reasonably possible that circumstances may arise which cause actual results to differ from these estimates, management does not believe it is likely that any such differences will materially affect the Company's financial condition.

ACCOUNTING STANDARDS ISSUED AND NOT APPLIED

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is still in the process of assessing the impact, if any, on the financial statements of this new standard.

Further details of the new accounting Standards and the potential impact on Canfor can be found in the Company's Annual Report for the year ended December 31, 2013.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2014, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risks and uncertainties is included in the Company's 2013 annual statutory reports which are available on www.canfor.com or www.sedar.com.

On June 26, 2014 the Supreme Court of Canada ("SCC") handed down its decision regarding *Tsilhqot'in v. British Columbia* ("the William case"). The SCC has recognized that Aboriginal title to land exists and the decision also provides guidance on the extensive evidence Aboriginal groups must provide to establish title, including sufficiency, continuity and exclusivity of use. The decision has implications for the treaty negotiation process and it is unclear how government will respond.

Canfor does not have any forest tenures in the area involved in the William case and although Aboriginal groups have asserted title over substantial portions of BC, Aboriginal title has not been established in areas overlapping with Canfor's forest tenures. The process of establishing title can be lengthy and complex and in the meantime, Canfor's operations can continue under the existing requirements for Aboriginal consultation and accommodation.

Government administrative processes are adjusting to the new information provided by the SCC in the William Case, and Canfor has been working closely with government to limit disruption to permitting through this adjustment. As such, risks and uncertainties remain consistent with those discussed in the above-referenced risks and uncertainties section of the 2013 annual statutory report, specifically titled "Aboriginal Issues".

Canfor builds mutually beneficial and lasting relationships with local First Nations whose traditional territories overlap Canfor's areas of operations. The Company communicates frequently with Aboriginal groups in the areas that Canfor operates in and, where appropriate, develops business relationships and evolves strategy, especially in the areas of timber harvesting and silviculture.

SELECTED QUARTERLY FINANCIAL INFORMATION

	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Sales and income (millions of Canadian dollars)								
Sales	**$ 838.0**	$ 907.3	$ 741.9	$ 809.5	$ 755.9	$ 843.2	$ 786.3	$ 700.3
Operating income	**$ 85.6**	$ 97.3	$ 84.4	$ 53.8	$ 49.3	$ 128.2	$ 100.0	$ 49.0
Net income	**$ 58.2**	$ 64.5	$ 58.6	$ 35.1	$ 33.6	$ 114.3	$ 67.5	$ 24.7
Shareholder net income	**$ 45.5**	$ 54.3	$ 45.5	$ 28.0	$ 28.4	$ 110.3	$ 61.9	$ 21.3
Per common share (Canadian dollars)								
Shareholder net income – basic and diluted	**$ 0.34**	$ 0.39	$ 0.33	$ 0.20	$ 0.20	$ 0.77	$ 0.43	$ 0.15
Book value[22]	**$ 10.24**	$ 9.75	$ 10.05	$ 9.82	$ 9.47	$ 9.25	$ 8.29	$ 7.79
Statistics								
Lumber shipments (MMfbm)	**1,124**	1,236	927	1,109	1,172	1,224	1,093	1,110
Pulp shipments (000 mt)	**291**	314	256	330	268	308	308	298
Average exchange rate – US$/Cdn$	**$ 0.918**	$ 0.917	$ 0.906	$ 0.953	$ 0.963	$ 0.977	$ 0.991	$ 1.009
Average Western SPF 2x4 #2&Btr lumber price (US$)	**$ 357**	$ 335	$ 367	$ 370	$ 328	$ 335	$ 391	$ 335
Average SYP (East) 2x4 #2 lumber price (US$)	**$ 438**	$ 405	$ 403	$ 415	$ 393	$ 392	$ 452	$ 386
Average NBSK pulp list price delivered to U.S. (US$)	**$ 1,030**	$ 1,030	$ 1,017	$ 983	$ 947	$ 937	$ 897	$ 863

[22] Book value per common share is equal to shareholders' equity at the end of the period, divided by the number of common shares outstanding at the end of the period.

In addition to exposure to changes in product prices and foreign exchange, the Company's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for lumber products, is generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

Other material factors that impact the comparability of the quarters are noted below:

After-tax impact, net of non-controlling interests (millions of Canadian dollars, except for per share amounts)	Q3 2014	Q2 2014	Q1 2014	Q4 2013	Q3 2013	Q2 2013	Q1 2013	Q4 2012
Shareholder net income, as reported	**$ 45.5**	$ 54.3	$ 45.5	$ 28.0	$ 28.4	$ 110.3	$ 61.9	$ 21.3
(Gain) loss on derivative financial instruments	**$ 0.7**	$ (2.1)	$ 2.1	$ 0.1	$ (2.2)	$ 1.0	$ (2.2)	$ 6.5
Mark-to-market adjustment to Canfor-LP OSB sale contingent consideration	**$ 4.5**	$ 4.5	$ 0.4	$ 3.6	$ 1.0	$ -	$ -	$ -
Gain on sale of Canfor-LP OSB (including contingent consideration)	**$ -**	$ -	$ -	$ -	$ -	$ (33.4)	$ -	$ -
Gain on sale of Daaquam operation	**$ -**	$ -	$ (1.6)	$ -	$ -	$ -	$ -	$ -
Foreign exchange (gain) loss on long-term debt and investments, net	**$ -**	$ -	$ -	$ 1.5	$ (1.0)	$ 1.8	$ 2.3	$ 1.2
Mill closure provisions	**$ -**	$ -	$ -	$ 14.8	$ -	$ -	$ -	$ -
One-time costs associated with collective agreements for the lumber business	**$ -**	$ -	$ -	$ 0.8	$ -	$ -	$ -	$ -
Canfor's 50% interest in Canfor-LP OSB's income, net of tax	**$ -**	$ -	$ -	$ -	$ -	$ 3.8	$ 8.3	$ -
Change in substantively enacted tax rate	**$ -**	$ -	$ -	$ -	$ -	$ 4.2	$ -	$ -
Net gain on post retirement and pension plan amendments	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ (8.7)
Restructuring charges for management changes	**$ -**	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net impact of above items	**$ 5.2**	$ 2.4	$ 0.9	$ 20.8	$ (2.2)	$ (22.6)	$ 8.4	$ (1.0)
Adjusted shareholder net income	**$ 50.7**	$ 56.7	$ 46.4	$ 48.8	$ 26.2	$ 87.7	$ 70.3	$ 20.3
Shareholder net income per share (EPS), as reported	**$ 0.34**	$ 0.39	$ 0.33	$ 0.20	$ 0.20	$ 0.77	$ 0.43	$ 0.15
Net impact of above items per share	**$ 0.04**	$ 0.02	$ 0.01	$ 0.15	$ (0.02)	$ (0.16)	$ 0.06	$ (0.01)
Adjusted net income per share	**$ 0.38**	$ 0.41	$ 0.34	$ 0.35	$ 0.18	$ 0.61	$ 0.49	$ 0.14

Canfor Corporation
Condensed Consolidated Balance Sheets

(millions of Canadian dollars, unaudited)		**As at September 30, 2014**		As at December 31, 2013
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**146.4**	$	89.5
Accounts receivable - Trade		**110.7**		112.6
- Other		**40.4**		39.3
Inventories (Note 2)		**506.3**		471.9
Prepaid expenses and other assets		**57.5**		39.1
Total current assets		**861.3**		752.4
Property, plant and equipment		**1,198.0**		1,151.9
Timber licenses		**523.3**		534.6
Goodwill and other intangible assets		**101.1**		93.5
Retirement benefit surplus (Note 5)		**16.3**		42.2
Long-term investments and other (Note 3)		**108.7**		112.5
Deferred income taxes, net		**5.1**		6.2
Total assets	**$**	**2,813.8**	$	2,693.3
LIABILITIES				
Current liabilities				
Operating loans (Note 4)	**$**	**145.0**	$	74.6
Accounts payable and accrued liabilities		**305.6**		321.8
Current portion of deferred reforestation obligations		**43.8**		44.1
Total current liabilities		**494.4**		440.5
Long-term debt		**153.4**		153.1
Retirement benefit obligations (Note 5)		**215.2**		200.5
Deferred reforestation obligations		**71.0**		69.8
Other long-term liabilities		**17.1**		14.9
Deferred income taxes, net		**229.6**		217.1
Total liabilities	**$**	**1,180.7**	$	1,095.9
EQUITY				
Share capital	**$**	**1,068.0**	$	1,103.7
Contributed surplus		**31.9**		31.9
Retained earnings		**270.5**		234.2
Accumulated foreign exchange translation differences		**16.3**		4.5
Total equity attributable to equity holders of the Company		**1,386.7**		1,374.3
Non-controlling interests		**246.4**		223.1
Total equity	**$**	**1,633.1**	$	1,597.4
Total liabilities and equity	**$**	**2,813.8**	$	2,693.3

Commitments (Note 14)

The accompanying notes are an integral part of these condensed consolidated financial statements.

APPROVED BY THE BOARD

"R.S. Smith"	*"M.J. Korenberg"*
Director, R.S. Smith	Director, M.J. Korenberg

Canfor Corporation
Condensed Consolidated Statements of Income

(millions of Canadian dollars, except per share data, unaudited)	3 months ended September 30, **2014**	2013	9 months ended September 30, **2014**	2013
Sales	**$ 838.0**	$ 755.9	**$ 2,487.2**	$ 2,385.4
Costs and expenses				
Manufacturing and product costs	**544.4**	507.6	**1,610.3**	1,508.0
Freight and other distribution costs	**140.7**	132.2	**410.9**	403.1
Export taxes	**-**	6.5	**-**	6.5
Amortization	**47.1**	44.8	**135.6**	141.3
Selling and administration costs	**19.0**	15.0	**58.0**	46.1
Restructuring, mill closure and severance costs	**1.2**	0.5	**5.1**	2.9
	752.4	706.6	**2,219.9**	2,107.9
Operating income	**85.6**	49.3	**267.3**	277.5
Finance expense, net	**(4.8)**	(6.4)	**(13.6)**	(21.5)
Foreign exchange gain (loss) on long-term debt	**-**	2.3	**-**	(5.5)
Gain (loss) on derivative financial instruments (Note 6)	**(1.1)**	4.0	**(1.5)**	4.6
Gain on sale of Canfor-LP OSB joint venture (Note 12)	**-**	-	**-**	38.3
Other income (expense), net	**0.2**	(3.9)	**(7.3)**	4.6
Net income before income taxes	**79.9**	45.3	**244.9**	298.0
Income tax expense (Note 7)	**(21.7)**	(11.7)	**(63.6)**	(82.6)
Net income	**$ 58.2**	$ 33.6	**$ 181.3**	$ 215.4
Net income attributable to:				
Equity shareholders of the Company	**$ 45.5**	$ 28.4	**$ 145.3**	$ 200.6
Non-controlling interests	**12.7**	5.2	**36.0**	14.8
Net income	**$ 58.2**	$ 33.6	**$ 181.3**	$ 215.4
Net income per common share: (in Canadian dollars)				
Attributable to equity shareholders of the Company				
- Basic and diluted (Note 8)	**$ 0.34**	$ 0.20	**$ 1.05**	$ 1.41

The accompanying notes are an integral part of these condensed consolidated financial statements.

Canfor Corporation
Condensed Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars, unaudited)	3 months ended September 30, **2014**	3 months ended September 30, 2013	9 months ended September 30, **2014**	9 months ended September 30, 2013
Net income	**$ 58.2**	$ 33.6	**$ 181.3**	$ 215.4
Other comprehensive income (loss)				
Items that will not be recycled through net income:				
Defined benefit plan actuarial gains (losses) (Note 5)	**15.8**	23.1	**(52.5)**	69.3
Income tax recovery (expense) on defined benefit plan actuarial gains (losses) (Note 7)	**(4.1)**	(6.0)	**13.7**	(18.0)
	11.7	17.1	**(38.8)**	51.3
Items that may be recycled through net income:				
Foreign exchange translation differences for foreign operations, net of tax	**11.2**	(5.6)	**11.8**	7.0
Other comprehensive income (loss), net of tax	**22.9**	11.5	**(27.0)**	58.3
Total comprehensive income	**$ 81.1**	$ 45.1	**$ 154.3**	$ 273.7
Total comprehensive income attributable to:				
Equity shareholders of the Company	**$ 67.5**	$ 38.3	**$ 121.7**	$ 253.9
Non-controlling interests	**13.6**	6.8	**32.6**	19.8
Total comprehensive income	**$ 81.1**	$ 45.1	**$ 154.3**	$ 273.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

Canfor Corporation
Condensed Consolidated Statements of Changes in Equity

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2014	3 months ended September 30, 2013	9 months ended September 30, 2014	9 months ended September 30, 2013
Share capital				
Balance at beginning of period	**$ 1,068.0**	$ 1,120.2	**$ 1,103.7**	$ 1,126.2
Share purchases (Note 8)	**-**	(4.8)	**(35.7)**	(10.8)
Balance at end of period	**$ 1,068.0**	$ 1,115.4	**$ 1,068.0**	$ 1,115.4
Contributed surplus				
Balance at beginning and end of period	**$ 31.9**	$ 31.9	**$ 31.9**	$ 31.9
Retained earnings				
Balance at beginning of period	**$ 214.6**	$ 159.5	**$ 234.2**	$ (35.1)
Net income attributable to equity shareholders of the Company	**45.5**	28.4	**145.3**	200.6
Defined benefit plan actuarial gains (losses), net of tax	**10.8**	15.5	**(35.4)**	46.3
Share purchases (Note 8)	**-**	(7.7)	**(73.2)**	(15.8)
Acquisition of non-controlling interests (Note 8)	**(0.4)**	(0.2)	**(0.4)**	(0.5)
Balance at end of period	**$ 270.5**	$ 195.5	**$ 270.5**	$ 195.5
Accumulated foreign exchange translation differences				
Balance at beginning of period	**$ 5.1**	$ 2.1	**$ 4.5**	$ (10.5)
Foreign exchange translation differences for foreign operations	**11.2**	5.6	**11.8**	7.0
Balance at end of period	**$ 16.3**	$ (3.5)	**$ 16.3**	$ (3.5)
Total equity attributable to equity holders of the Company	**$ 1,386.7**	$ 1,339.3	**$ 1,386.7**	$ 1,339.3
Non-controlling interests				
Balance at beginning of period	**$ 237.1**	$ 206.7	**$ 223.1**	$ 199.4
Net income attributable to non-controlling interests	**12.7**	5.2	**36.0**	14.8
Defined benefit plan actuarial gains (losses) attributable to non-controlling interests, net of taxes	**0.9**	1.6	**(3.4)**	5.0
Distributions to non-controlling interests	**(2.7)**	(2.4)	**(7.7)**	(6.9)
Acquisition of non-controlling interests	**(1.6)**	(0.7)	**(1.6)**	(1.9)
Balance at end of period	**$ 246.4**	$ 210.4	**$ 246.4**	$ 210.4
Total equity	**$ 1,633.1**	$ 1,549.7	**$ 1,633.1**	$ 1,549.7

The accompanying notes are an integral part of these condensed consolidated financial statements.

Canfor Corporation
Condensed Consolidated Statements of Cash Flows

(millions of Canadian dollars, unaudited)	3 months ended September 30, 2014	3 months ended September 30, 2013	9 months ended September 30, 2014	9 months ended September 30, 2013
Cash generated from (used in):				
Operating activities				
Net income	**$ 58.2**	$ 33.6	**$ 181.3**	$ 215.4
Items not affecting cash:				
Amortization	**47.1**	44.8	**135.6**	141.3
Income tax expense	**21.7**	11.7	**63.6**	82.6
Long-term portion of deferred reforestation obligations	**(3.9)**	(10.5)	**0.3**	(9.3)
Foreign exchange gain (loss) on long-term debt	**-**	(2.3)	**-**	5.5
Changes in mark-to-market value of derivative financial instruments	**1.3**	(3.2)	**1.7**	(4.6)
Employee future benefits	**3.3**	3.6	**9.7**	10.3
Net finance expense	**4.8**	6.4	**13.6**	21.5
Gain on sale of joint venture (Note 12)	**-**	-	**-**	(38.3)
Other, net	**8.7**	-	**17.3**	(0.9)
Defined benefit pension plan contributions	**(6.4)**	(12.9)	**(25.8)**	(39.0)
Income taxes paid, net	**(15.1)**	(0.5)	**(36.4)**	-
	119.7	70.7	**360.9**	384.5
Net change in non-cash working capital (Note 9)	**(0.2)**	4.6	**(85.2)**	7.0
	119.5	75.3	**275.7**	391.5
Financing activities				
Change in operating bank loans (Note 4)	**2.0**	-	**69.8**	(27.0)
Proceeds from long-term debt	**-**	-	**-**	3.1
Repayment of long-term debt	**-**	-	**-**	(76.3)
Finance expenses paid	**(3.3)**	(1.5)	**(8.7)**	(11.5)
Share purchases (Note 8)	**(1.2)**	(16.3)	**(108.9)**	(26.6)
Acquisition of non-controlling interests	**(2.0)**	(1.4)	**(2.0)**	(2.4)
Cash distributions paid to non-controlling interests	**(2.7)**	(2.4)	**(7.7)**	(6.9)
	(7.2)	(21.6)	**(57.5)**	(147.6)
Investing activities				
Additions to property, plant and equipment and intangible assets, net	**(63.5)**	(74.6)	**(179.6)**	(169.8)
Proceeds on sale of Daaquam operation (Note 13)	**0.7**	-	**23.6**	-
Investment in Scotch & Gulf Lumber, LLC (Note 11)	**(9.9)**	(29.0)	**(9.9)**	(29.0)
Repayment from (loan to) Scotch & Gulf Lumber, LLC (Note 11)	**2.7**	(34.0)	**7.4**	(34.0)
Proceeds on sale of Canfor-LP OSB joint venture (Note 12)	**-**	1.3	**-**	77.9
Other, net	**(3.6)**	0.8	**(2.8)**	18.0
	(73.6)	(135.5)	**(161.3)**	(136.9)
Increase (decrease) in cash and cash equivalents*	**38.7**	(81.8)	**56.9**	107.0
Cash and cash equivalents at beginning of period*	**107.7**	171.7	**89.5**	(17.1)
Cash and cash equivalents at end of period*	**$ 146.4**	$ 89.9	**$ 146.4**	$ 89.9

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these condensed consolidated financial statements.

Canfor Corporation
Notes to the Condensed Consolidated Financial Statements
(unaudited, millions of Canadian dollars unless otherwise noted)

1. Basis of Preparation

These condensed consolidated interim financial statements (the "financial statements") have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim Financial Reporting*, and include the accounts of Canfor Corporation and its subsidiary entities, hereinafter referred to as "Canfor" or "the Company".

These financial statements do not include all of the disclosures required by International Financial Reporting Standards ("IFRS") for annual financial statements. Additional disclosures relevant to the understanding of these financial statements, including the accounting policies applied, can be found in Canfor's Annual Report for the year ended December 31, 2013, available at www.canfor.com or www.sedar.com.

Canfor's financial results are impacted by seasonal factors such as weather and building activity. Adverse weather conditions can cause logging curtailments, which can affect the supply of raw materials to sawmills and pulp mills. Market demand also varies seasonally to some degree. For example, building activity and repair and renovation work, which affects demand for solid wood products, are generally stronger in the spring and summer months. Shipment volumes are affected by these factors as well as by global supply and demand conditions.

Accounting Standards Issued and Not Applied

In May 2011, the International Accounting Standards Board ("IASB") issued IFRS 9, *Financial Instruments*. The required adoption date for IFRS 9 is January 1, 2018 and the Company is in process of assessing the impact, if any, on the financial statements of this new standard.

In May 2014, the IASB issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of assessing the impact, if any, on the financial statements of this new standard.

2. Inventories

(millions of Canadian dollars)		**As at September 30, 2014**		As at December 31, 2013
Logs	**$**	**113.5**	$	134.5
Finished products		**283.4**		222.3
Residual fibre		**6.4**		14.9
Processing materials and supplies		**103.0**		100.2
	$	**506.3**	$	471.9

3. Long-Term Investments and Other

(millions of Canadian dollars)		**As at September 30, 2014**		As at December 31, 2013
Investments	**$**	**65.2**	$	53.8
Term loan to Scotch & Golf Lumber, LLC (Note 11)		**27.1**		33.0
Contingent consideration (Note 12)		**-**		11.4
Other deposits, loans and advances		**16.4**		14.3
	$	**108.7**	$	112.5

Included in Long-Term Investments and Other is Canfor's 33.3% interest in Scotch & Gulf Lumber, LLC ("Scotch Gulf") and a term loan receivable from Scotch Gulf (Note 11). Investments also include the Company's 33.3% investment in Lakeland Mills Ltd. and Winton Global Lumber Ltd for which the Company does not exercise significant influence. During the third quarter of 2014, the Company recorded a negative fair value adjustment of $6.1 million reducing the fair value of the Peace Valley OSB contingent consideration to nil at September 30, 2014 (Note 12).

4. Operating Loans

Available Operating Loans

(millions of Canadian dollars)	**As at September 30, 2014**	As at December 31, 2013
Canfor (excluding CPPI)		
Available Operating Loans:		
Total operating loans - Canfor (excluding CPPI)	**$ 350.0**	$ 350.0
Drawn	**(145.0)**	(64.0)
Letters of credit (principally unregistered pension plans)	**(13.7)**	(14.8)
Total available operating loans - Canfor (excluding CPPI)	**$ 191.3**	$ 271.2
CPPI		
Available Operating Loans:		
Operating loan facility	**$ 110.0**	$ 110.0
Facility for letters of credit related to energy agreements	**20.0**	20.0
Total operating loans - CPPI	**130.0**	130.0
Drawn	**-**	(10.6)
Energy letters of credit	**(12.2)**	(12.2)
Total available operating loans - CPPI	**$ 117.8**	$ 107.2
Consolidated:		
Total operating loans	**$ 480.0**	$ 480.0
Total available operating loans	**$ 309.1**	$ 378.4

During the third quarter, Canfor extended the maturity date of its principal operating loan facility from February 28, 2018 to February 28, 2019. All other terms of the operating loan facility remained unchanged. Interest is payable at floating rates based on the lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin that varies with the Company's net debt to total capitalization ratio.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of net debt to total capitalization and is based on lenders' Canadian prime rate, bankers acceptances, US dollar base rate or US dollar LIBOR rate, plus a margin. The maturity date of this facility is January 31, 2018.

Both Canfor's and CPPI's operating loan facilities have certain financial covenants that stipulate maximum net debt to total capitalization ratios and minimum net worth amounts based on shareholders' equity.

CPPI has a separate facility with a maturity date of June 30, 2015 to cover energy-related letters of credit. At September 30, 2014, $9.4 million of energy-related letters of credit were covered under this facility with the balance of $2.8 million covered under CPPI's general operating loan facility.

As at September 30, 2014, the Company and CPPI were in compliance with all covenants relating to their operating loans. Substantially all borrowings of CPPI (operating loans and long-term debt) are non-recourse to other entities within the Company.

5. Employee Future Benefits

For the three months ended September 30, 2014, a defined benefit actuarial gain of $15.8 million (before-tax) was recognized in other comprehensive income. The defined benefit actuarial gain recorded in the third quarter of 2014 reflects a slightly higher discount rate used to value the net retirement benefit obligations, coupled with a return on plan assets. For the nine months ended September 30, 2014, a defined benefit actuarial loss of $52.5 million (before-tax) was recognized in other comprehensive income. During the second quarter of 2014, actuarial funding valuations were completed for a number of the Company's employee future benefit plans resulting in revisions to actuarial assumptions and adjustments for plan member experience. For the three and nine months ended September 30, 2013 gains of $23.1 million (before-tax) and $69.3 million (before-tax) were recognized in other comprehensive income, respectively.

For the Company's employee future benefit plans, a one percentage point increase in the discount rate used in calculating the actuarial estimate of future liabilities would decrease the accrued benefit obligation by an estimated $96.9 million.

The discount rate assumptions used to estimate the changes in net retirement benefit obligations were as follows:

	Pension Benefit Plans	Other Benefit Plans
September 30, 2014	**4.40%**	**4.40%**
June 30, 2014	4.30%	4.40%
December 31, 2013	4.80%	4.90%
September 30, 2013	4.70%	4.80%
June 30, 2013	4.60%	4.70%
December 31, 2012	4.20%	4.40%

6. Financial Instruments

Canfor's cash and cash equivalents, accounts receivable, other deposits, loans and advances, operating loans, accounts payable and accrued liabilities, and long-term debt are measured at amortized cost subsequent to initial measurement. At September 30, 2014, the fair value of the Company's long-term debt approximates its amortized cost of $153.4 million (December 31, 2013 - $153.1 million).

Derivative instruments are measured at fair value. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

The following table summarizes Canfor's financial instruments measured at fair value at September 30, 2014 and December 31, 2013, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars)	Fair Value Hierarchy Level	**As at September 30, 2014**	As at December 31, 2013
Financial assets			
Derivative financial instruments – held for trading	Level 2	**$ -**	$ 0.6
Royalty receivable – available for sale	Level 3	**3.5**	5.3
Contingent consideration – available for sale (Note 12)	Level 3	**-**	12.8
		$ 3.5	$ 18.7
Financial liabilities			
Derivative financial instruments – held for trading	Level 2	**1.5**	0.3
		$ 1.5	$ 0.3

The royalty receivable and contingent consideration are measured at fair value at each reporting period and are presented in Other Accounts Receivable and Long-Term Investments and Other on the consolidated balance sheet, depending on their respective liquidity. The fair value of the royalty receivable is determined by discounting future expected cash flows based on energy price assumptions and future sales volume assumptions until the termination of the royalty agreement in September 2015. The fair value of the contingent consideration is determined by discounting future expected cash flows based on forecast oriented strand board ("OSB") prices, sales volumes, foreign exchange rates and margins for the Peace Valley OSB operation (Note 12).

The Company uses a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, pulp prices, energy costs, and floating interest rates on long-term debt.

At September 30, 2014, the fair value of derivative financial instruments was a net liability of $1.5 million (December 31, 2013 - net asset of $0.3 million). The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine month periods ended September 30, 2014 and 2013:

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Foreign exchange collars and forward contracts	**$ (0.7)**	$ 3.9	**$ (1.1)**	$ (0.1)
Energy derivatives	**(0.9)**	0.3	**(0.3)**	0.1
Lumber futures	**0.6**	0.4	**1.4**	4.0
Pulp futures	**(0.1)**	-	**(0.8)**	-
Interest rate swaps	**-**	(0.6)	**(0.7)**	0.6
	$ (1.1)	$ 4.0	**$ (1.5)**	$ 4.6

7. Income Taxes

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Current	**$ (15.0)**	$ 1.9	**$ (38.4)**	$ (11.6)
Deferred	**(6.7)**	(13.6)	**(25.2)**	(71.0)
Income tax expense	**$ (21.7)**	$ (11.7)	**$ (63.6)**	$ (82.6)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Income tax expense at statutory rate 2014 – 26.0% (2013 – 25.75%)[1]	**$ (20.8)**	$ (11.7)	**$ (63.7)**	$ (76.7)
Add (deduct):				
Non-taxable income related to non-controlling interests in limited partnerships	**0.2**	0.2	**0.5**	0.3
Entities with different income tax rates and other tax adjustments	**(1.3)**	(0.4)	**(0.4)**	(4.9)
Permanent difference from capital gains and losses and other non-deductible items	**0.2**	0.2	**-**	4.1
Change in substantively enacted tax rate[1]	**-**	-	**-**	(5.4)
Income tax expense	**$ (21.7)**	$ (11.7)	**$ (63.6)**	$ (82.6)

[1]In the second quarter of 2013, the Provincial Government of British Columbia increased the corporate tax rate from 10% to 11%.

In addition to the amounts recorded to net income, a tax expense of $4.1 million was recorded to other comprehensive income for the three month period ended September 30, 2014 (three months ended September 30, 2013 – tax expense of $6.0 million) in relation to the actuarial gains (losses) on defined benefit employee compensation plans. For the nine months ended September 30, 2014, the tax recovery was $13.7 million (nine months ended September 30, 2013 – tax expense of $18.0 million).

8. Earnings Per Share and Normal Course Issuer Bid

Basic net income per share is calculated by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period.

	3 months ended September 30,		9 months ended September 30,	
	2014	2013	**2014**	2013
Weighted average number of common shares	**135,376,993**	141,607,876	**137,941,437**	142,245,452

On March 5, 2014, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,995,228 common shares or approximately 5% of its issued and outstanding common shares as of February 28, 2014. The renewed normal course issuer bid is set to expire on March 4, 2015. During the third quarter of 2014, no common shares were purchased under the normal course issuer bid. For the nine months ended September 30, 2014, Canfor purchased 4,527,600 common shares for $108.9 million (an average of $24.05 per common share). Under a separate normal course issuer bid, CPPI purchased shares from non-controlling shareholders increasing Canfor's ownership from 50.4% at June 30, 2014 to 50.5% at September 30, 2014. As at October 30, 2014, there were 135,376,993 common shares outstanding.

9. Net Change in Non-Cash Working Capital

	3 months ended September 30,		9 months ended September 30,	
(millions of Canadian dollars)	**2014**	2013	**2014**	2013
Accounts receivable	**$ 33.0**	$ 30.3	**$ (0.4)**	$ (10.4)
Inventories	**(23.3)**	(41.1)	**(53.7)**	(16.1)
Prepaid expenses and other assets	**(9.5)**	(3.1)	**(25.4)**	(14.5)
Accounts payable, accrued liabilities and current portion of deferred reforestation obligations	**(0.4)**	18.5	**(5.7)**	48.0
Net decrease (increase) in non-cash working capital	**$ (0.2)**	$ 4.6	**$ (85.2)**	$ 7.0

10. Segment Information

Canfor has two reportable segments (lumber segment and pulp and paper segment) which offer different products and are managed separately because they require different production processes and marketing strategies.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process.

The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in Unallocated & Other below.

(millions of Canadian dollars)		Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment		Consolidated
3 months ended September 30, 2014							
Sales to external customers	**$**	**570.5**	**267.5**	**-**	**-**	**$**	**838.0**
Sales to other segments	**$**	**33.2**	**-**	**-**	**(33.2)**	**$**	**-**
Operating income (loss)	**$**	**59.6**	**33.1**	**(7.1)**	**-**	**$**	**85.6**
Amortization	**$**	**29.1**	**16.8**	**1.2**	**-**	**$**	**47.1**
Capital expenditures	**$**	**46.3**	**16.2**	**1.0**	**-**	**$**	**63.5**
3 months ended September 30, 2013							
Sales to external customers	$	529.4	224.6	1.9	-	$	755.9
Sales to other segments	$	32.7	-	-	(32.7)	$	-
Operating income (loss)	$	43.8	11.5	(6.0)	-	$	49.3
Amortization	$	27.6	17.0	0.2	-	$	44.8
Capital expenditures	$	45.5	26.8	2.3	-	$	74.6
9 months ended September 30, 2014							
Sales to external customers	**$**	**1,680.7**	**806.5**	**-**	**-**	**$**	**2,487.2**
Sales to other segments	**$**	**103.1**	**-**	**-**	**(103.1)**	**$**	**-**
Operating income (loss)	**$**	**190.1**	**100.5**	**(23.3)**	**-**	**$**	**267.3**
Amortization	**$**	**85.1**	**49.0**	**1.5**	**-**	**$**	**135.6**
Capital expenditures	**$**	**125.0**	**46.5**	**8.1**	**-**	**$**	**179.6**
Identifiable assets	**$**	**1,821.7**	**782.5**	**209.6**	**-**	**$**	**2,813.8**
9 months ended September 30, 2013							
Sales to external customers	$	1,658.5	723.6	3.3	-	$	2,385.4
Sales to other segments	$	99.3	-	-	(99.3)	$	-
Operating income (loss)	$	247.7	49.0	(19.2)	-	$	277.5
Amortization	$	84.8	55.8	0.7	-	$	141.3
Capital expenditures	$	121.2	42.5	6.1	-	$	169.8
Identifiable assets	$	1,706.7	784.7	150.5	-	$	2,641.9

11. Phased Purchase of Scotch & Gulf Lumber, LLC

On August 9, 2013, the Company completed the first phase of the purchase of Scotch Gulf for $29.5 million, representing an initial 25% interest in Scotch Gulf, plus transaction closing costs and a proportionate share of working capital. On August 1, 2014 Canfor completed the second phase of the acquisition for $9.9 million increasing Canfor's interest to 33.3%. The next phase is scheduled to close in the first quarter of 2015 (50% interest) and the final phase is scheduled to close in the third quarter of 2016 (100% interest). Scotch Gulf has an option under the purchase agreement to accelerate the final closing of the phased purchase to a date earlier than August 2016 under certain conditions. The aggregate purchase price for Scotch Gulf is US$80.0 million, plus working capital.

As part of the transaction, Scotch Gulf borrowed $34.0 million from Canfor in the form of a term loan that will be repaid from the distribution of cash earnings over the course of the phased purchase agreement with any net outstanding amount at August 2016 applied against the final phase purchase price payment. The term loan has an interest rate equal to the floating rate on Canfor's principal operating loans plus 1.0% and is secured by Scotch Gulf's operating assets. At September 30, 2014, $27.1 million was outstanding on the term loan receivable which is included in Long-Term Investments and Other on the balance sheet (Note 3).

12. Sale of Canfor-LP OSB Joint Venture

On May 31, 2013, the Company completed the sale of its 50% share in Canfor-LP OSB, which owns the Peace Valley OSB mill, to Louisiana-Pacific Corporation ("LP") for cash proceeds of $77.9 million including working capital. A pre-tax gain on sale of $38.3 million was recorded in the second quarter of 2013 which included recognition of Canfor's share of the operating income for the first half of 2013.

As part of the sale, Canfor may receive additional annual consideration over a 3 year period, starting June 1, 2013, contingent on Peace Valley OSB's annual adjusted earnings before interest, tax, depreciation and amortization. At September 30, 2014, the fair value of the contingent consideration is nil (Note 3). During the third quarter of 2014, Canfor recognized a $6.1 million negative fair value adjustment on the contingent consideration in Other Expense.

13. Sale of Daaquam Operation

On March 28, 2014, the Company completed the sale of its Daaquam operation. Total gross proceeds related to the disposition of the Daaquam operation were $25.0 million. A pre-tax gain of $2.2 million was recorded in the first quarter of 2014 in Other Income.

14. Commitments

In August 2014, the Company entered into a phased purchase agreement with Beadles Lumber Company and Balfour Lumber Company, Inc. ("Beadles & Balfour"). The transaction will involve the phased purchase of the operating assets of Beadles & Balfour over a 2 year period, at an aggregate purchase price, excluding working capital, of US$62.0 million. The first phase of the acquisition is currently anticipated to close in the first quarter of 2015 with an initial equity interest of 55% which will increase to 100% after two years. The transaction is subject to standard closing conditions.

In September 2014, the Company entered into a purchase agreement with Southern Lumber Company ("Southern"). The transaction will involve the purchase of all operating assets of Southern, at an aggregate purchase price, excluding working capital, of US$48.7 million. The transaction is subject to standard closing conditions and is currently anticipated to close in the first quarter of 2015.

In September 2014, the Company announced plans to construct a pellet plant at both the Chetwynd and Fort St. John Sawmill sites, in the Northern British Columbia interior ("the Pellet Plants"). The total investment cost is estimated to be $58.0 million and production is scheduled to commence in the second half of 2015. In October 2014, Canfor and Pacific BioEnergy Corporation, a pellet plant operator in British Columbia, entered into a Limited Partnership Agreement ("the Agreement") to construct and operate the Pellet Plants. Upon execution of the Agreement, Canfor owns an approximate 95% interest in the Pellet Plants. Pacific BioEnergy Corporation has an option under the Agreement to increase its ownership interest in the Pellet Plants up to a total of 30% over a three year period.