Interfor Corporation
Fourth Quarter Report
For the three and twelve months ended December 31, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2016 ("Q4'16" and "2016", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2016, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 9, 2017.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2016 Annual Report.

Forward-Looking Statements

This MD&A contains information and statements that are forward-looking in nature, including, but not limited to, statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Interfor makes is forward-looking when it uses what is known today, to make a statement about the future. Forward-looking statements are included under the headings "Overview of 2016", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties", and such statements may include words such as "believes", "will", "could", "should", "expected", "anticipate", "intend", "forecast", "target", "outlook" and "strategy". Such forward-looking statements are based on Interfor's current expectations and certain assumptions, including assumptions regarding lumber, log and wood chip prices; the Company's ability to compete on a global basis; the availability and cost of log supply; the absence of natural or man-made disasters; currency exchange rates; no material changes in government regulation; the availability of the Company's allowable annual cut ("AAC"); the outcome of aboriginal claims and treaty settlements; the Company's ability to export its products; the outcome of the softwood lumber dispute between Canada and the U.S.; stumpage rates payable to the Province of British Columbia; environmental effects of the Company's operations; the absence of labour disruptions and the assumptions described under the heading "Critical Accounting Estimates" herein. Such forward-looking statements involve known and unknown risks and uncertainties that, if they eventuate, may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include lumber, log and wood chip price volatility; global competition; reduction of availability or increase in cost of log supply; natural or man-made disasters; foreign currency exchange rate fluctuations; changes in government regulation; reductions to the Company's AAC; aboriginal claims or treaty settlements impacting the Company's forest tenures; export and other trade barriers; the softwood lumber dispute between Canada and the U.S.; increases in stumpage rates payable to the Province of British Columbia; environmental effects of the Company's operations; labour disruptions; and other factors referenced herein. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except as required by law.

Overview of 2016

Q4'16 Results

Interfor recorded net earnings in Q4'16 of $26.6 million, or $0.38 per share, compared to $15.1 million, or $0.22 per share in Q3'16 and a loss of $3.5 million, or $0.05 per share in Q4'15. Adjusted net earnings in Q4'16 were $17.7 million or $0.25 per share, compared to $20.7 million, or $0.30 per share in Q3'16 and $4.5 million, or $0.06 per share in Q4'15.

Adjusted EBITDA was $51.3 million on sales of $442.3 million in Q4'16 versus $58.1 million on sales of $457.6 million in Q3'16.

For the year, net earnings were $65.6 million, or $0.94 per share, compared to a loss of $30.4 million or $0.44 per share in 2015. Adjusted EBITDA was a record $199.6 million, eclipsing the previous record set in 2014.

Notable items in the quarter included:

- Strong Cash Flow and Proceeds from Tacoma Sale contributes to $57.4 million in Net Debt Reduction
  - Interfor generated $49.0 million in cash from operations, after considering working capital changes in Q4'16.
  - The sale of the former sawmill property in Tacoma, Washington closed in Q4'16 with cash proceeds of US$31.5 million. The net proceeds are approximately US$20.4 million after taking account of transaction costs and the US$10.0 million due to the former owner that was paid in January, 2017.
  - Capital spending was $19.8 million in Q4'16.
  - The resulting free cash flow contributed to a reduction in net debt to $289.6 million, or 26.9% of invested capital. For the year, net debt was reduced by $162.8 million.
- Mixed Lumber Prices and Lower Canadian Dollar
  - Key benchmark lumber prices were mixed in Q4'16. The Southern Pine Composite increased US$11 to US$393 per mfbm as stronger prices for 2x4 and 2x8 more than offset weaker prices for 2x6, 2x10 and 2x12. At the same time, the Western SPF Composite and KD H-F Stud 2x4 9' benchmarks declined US$6 to US$305 per mfbm and US$18 to US$318 per mfbm respectively.
  - The Canadian Dollar weakened by 2.2% to US$0.750 quarter-over-quarter thereby offsetting, in part, the drop in SPF and H-F prices.
- Seasonal Operating Schedules Impact Production and Sales Volumes
  - In Q4'16, Interfor reduced its operating schedules across several regions in line with normal seasonal practice. Lumber production of 607 million board feet was 21 million board feet lower than the preceding quarter. Sales of Interfor–produced lumber were 598 million board feet in Q4'16 versus 627 million board feet in Q3'16.
  - In Q4'16, the B.C. and Northwest regions accounted for 209 million board feet (which equated to operating rates of 92% in the B.C. Interior and 47% on the B.C. Coast) and 137 million board feet (which equated to an operating rate of 86%) of production respectively in Q4'16 compared with 238 million board feet and 141 million board feet respectively in Q3'16. Operating rates in the South region were up slightly in Q4'16, with production increasing to 260 million board feet (which equated to an operating rate of 78%) from 248 million board feet in the preceding quarter.
  - In addition, severe winter weather conditions adversely impacted certain of the operations in B.C. and the Northwest during late December and continued into January, impacting productivity and conversion costs in those regions.
- Progress on Optimization Initiatives Sets the Foundation to Capture Target EBITDA Gains
  - In early 2016, Interfor launched a Business Optimization Initiative to capture additional

margin opportunities across the Company's operating platform, with a particular focus on the South region, where $35 million in annualized EBITDA gains were targeted by year-end 2017.

- o Good progress was made during Q4'16 with productivity levels across the South region up 9% versus Q1'16 and lumber recovery up more than 5%. Good progress is being made as well on the initiative to improve product mix and grade recovery.
- o The Company believes the target uplift in EBITDA will be realized over the course of 2017, as operating rates in the South region increase to 90% or more, which is expected by Q4'17.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term as the U.S. housing market recovers and market promotion efforts in North America and offshore take full effect. In addition, the Company is focused on a series of targeted initiatives related to margin improvement opportunities across its operations in both the U.S. and Canada that should contribute to Interfor's financial results.

Interfor's strategy of maintaining a diversified portfolio of lumber operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. Interfor will continue its disciplined approach to production, cost control, inventory management and capital spending. At the same time, Interfor will remain alert to growth opportunities to position the Company for long term success.

Financial and Operating Highlights (1)

		For the 3 months ended			For the year ended Dec. 31		
	Unit	Dec. 31 2016	Dec. 31 2015	Sept. 30, 2016	2016	2015	2014
Financial Highlights(2)							
Total sales	$MM	442.3	411.4	457.6	1,792.7	1,687.4	1,447.2
Lumber	$MM	363.5	325.0	374.8	1,458.3	1,361.2	1,177.3
Logs, residual products and other	$MM	78.8	86.4	82.8	334.4	326.2	269.9
Operating earnings (loss)	$MM	22.3	(6.3)	20.1	75.9	(35.9)	36.1
Net earnings (loss)	$MM	26.6	(3.5)	15.1	65.6	(30.4)	40.7
Net earnings (loss) per share, basic and diluted	$/share	0.38	(0.05)	0.22	0.94	(0.44)	0.62
Adjusted net earnings (loss) (3)	$MM	17.7	4.5	20.7	58.7	(18.9)	60.7
Adjusted net earnings (loss) per share, basic and diluted(3)	$/share	0.25	0.06	0.30	0.84	(0.27)	0.92
Adjusted EBITDA(3)	$MM	51.3	35.8	58.1	199.6	91.7	169.3
Adjusted EBITDA margin(3)	%	11.6%	8.7%	12.7%	11.1%	5.4%	11.7%
Total assets	$MM	1,300.1	1,389.8	1,326.8	1,300.1	1,389.8	1,068.5
Total debt	$MM	308.8	468.8	365.3	308.8	468.8	220.4
Pre-tax return on total assets(3)	%	7.4%	-1.0%	6.5%	6.2%	-1.9%	6.4%
Net debt to invested capital(3)	%	26.9%	38.4%	31.8%	26.9%	38.4%	24.1%
Operating Highlights							
Lumber production	million fbm	607	568	628	2,490	2,497	2,222
Total lumber sales	million fbm	619	615	647	2,561	2,652	2,282
Lumber sales - Interfor produced	million fbm	598	586	627	2,469	2,544	2,217
Lumber sales - wholesale and commission	million fbm	21	29	20	92	108	65
Lumber - average selling price(4)	$/thousand fbm	588	529	580	570	513	516

Notes:

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(4) Gross sales before export taxes.

Summary of Fourth Quarter 2016 Financial Performance

Sales

Interfor recorded $442.3 million of total sales, up 7.5% from $411.4 million in the fourth quarter of 2015, driven by the sale of 619 million board feet of lumber at an average price of $588 per mfbm. Lumber sales volume increased 4 million board feet, or 0.7%, while average selling price increased $59 per thousand board feet, or 11.1%, as compared to the same quarter of 2015.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in Q4'16 as compared to Q4'15. The Southern Pine Composite and KD HF Stud 2x4 9' benchmark improved US$50 to US$393 per mfbm and US$24 to US$318 per mfbm, respectively. The Western SPF Composite was up US$49 to US$305 per mfbm.

Sales generated from logs, residual products and other decreased by $7.6 million or 8.8% compared to the same quarter of 2015. Nearly all of this decrease is related to the Q4'15 disposal of log inventories as the Tacoma sawmill wound down operations, partially offset by lower chip prices across all regions except the U.S. South in Q4'16.

Operations

Production costs increased by $15.5 million or 4.2% over Q4'15, primarily due to higher log costs on average in all regions except the U.S. South and higher conversion costs in the U.S. South operations as work continues on optimization initiatives.

Lumber production of 607 million board feet in Q4'16 was 39 million board feet higher than Q4'15.

Production from the Company's nine U.S. South sawmills totaled 260 million board feet in Q4'16, up 17 million board feet compared to Q4'15, primarily as a result of severe weather events which impacted the Georgetown mill significantly in Q4'15.

Canadian production totaled 209 million board feet in Q4'16, up 24 million board feet as compared to Q4'15. The increase in Canadian production primarily reflects efficiency gains at the rebuilt Castlegar sawmill, which was in start-up in Q4'15.

Production from the Company's U.S. Northwest operations totaled 137 million board feet in Q4'16, representing a decline of 1 million board feet from Q4'15.

Depreciation of plant and equipment was largely unchanged from Q4'15 as a result of comparable production levels in both periods. Depletion and amortization of timber, roads and other was down $2.9 million from the comparable quarter of 2015 as a result of reduced conventional logging on the B.C. Coast in Q4'16.

Corporate and Other

Selling and administration expenses were $9.6 million, down $0.7 million from the fourth quarter of 2015 which included certain IT infrastructure improvement costs.

The $0.2 million long term incentive compensation expense is due primarily to the vesting of awards in Q4'16. The Q4'15 long term incentive compensation expense of $9.3 million mostly reflects the impact of a 49.0% increase in the market price for Interfor Common Shares during the quarter.

Restructuring charges in Q4'16 relate to $1.2 million in impairment charges on surplus equipment, $0.6 million in costs associated with the closure of the Tacoma sawmill, and $0.5 million for the settlement of a defined benefit pension plan. In Q4'15, the Company took an impairment charge of $1.2 million on equipment replaced in 2016 as a result of changes to government regulations.

Finance costs decreased to $4.1 million from $5.5 million in the fourth quarter, 2015. Free cash flow was used to reduce the average debt level which decreased interest costs.

Other foreign exchange gains of $1.1 million in Q4'16 and $0.5 million in Q4'15 resulted primarily from unrealized gains on short-term intercompany funding.

Other income increased by $13.6 million in Q4'16, primarily as the result of the sale of the Tacoma sawmill property which completed on November 30, 2016.

Income Taxes

The Company recorded an income tax expense of $7.2 million in Q4'16, comprised of a $0.1 million current tax expense and a $7.1 million deferred tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q4'16 following full recognition of previously unrecognized assets for non-capital loss carry-forwards.

Net Earnings (Loss)

The Company recorded net earnings of $26.6 million or $0.38 per share, compared to a net loss of $3.5 million or $0.05 per share in the comparable period, 2015. Adjusted net earnings were $17.7 million or $0.25 per share compared with $4.5 million or $0.06 per share in Q4'15.

Summary of 2016 Financial Performance

Sales

Interfor recorded $1.8 billion in total sales, up 6.2% from $1.7 billion in 2015, driven by the sale of 2.6 billion board feet of lumber at an average price of $570 per mfbm. Lumber sales volume decreased 91 million board feet, or 3.4%, while average selling price increased $57 per thousand board feet, or 11.0%, as compared to 2015.

The sales volume decline was affected by temporary operating shift modifications and down-time taken for capital and business optimization projects at several mills in the U.S. South, along with the closure of the Tacoma sawmill, partially offset by the inclusion of a full year of sales volume in 2016 from the sawmills acquired in 2015 and a full year of production from the rebuilt Castlegar sawmill.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in 2016 as compared to 2015. The Southern Pine Composite and KD HF Stud 2x4 9' benchmark improved US$25 to US$382 per mfbm and US$30 to US$335 per mfbm, respectively. The Western SPF Composite was up US$16 to US$295 per mfbm.

Sales realizations were also impacted by the strengthening of the U.S. Dollar against the Canadian dollar by 3.6% on average.

Sales generated from logs, residual products and other increased by $8.2 million or 2.5% compared to 2015 as a result of increased log exports in 2016 offsetting the impact of relatively low prices realized on the disposal of log inventories at the exited Tacoma sawmill.

Operations

Production costs declined by $4.1 million or 0.3% as compared to 2015, explained primarily by the 3.4% decrease in lumber sales volume, lower log costs at the Company's U.S. operations and lower conversion costs in the B.C. Interior, somewhat offset by higher log costs in Canadian operations, higher conversion costs in the U.S. South operations as they continue to work on optimization initiatives, and the stronger U.S. Dollar on average.

Lumber production of 2.5 billion board feet in 2016 was 7 million board feet lower than in 2015.

Production from the Company's nine U.S. South sawmills totaled 1.0 billion board feet in 2016, down 15 million board feet compared to 2015, with inclusion of a full year's production from the three sawmills acquired in 2015 offset by temporary adjustments to operating schedules across the U.S. South platform to implement a series of capital and optimization initiatives.

Canadian production totaled 877 million board feet in 2016, up 92 million board feet as compared to 2015. The increase in Canadian production primarily reflects efficiency gains at the Castlegar sawmill, after its rebuild was substantially completed in Q4'15.

Production from the Company's U.S. Northwest operations totaled 570 million board feet in 2016, representing a decline of 84 million board feet from 2015, resulting from closure of the Tacoma sawmill, and reduced operating hours at Molalla.

As the Softwood Lumber Agreement ("SLA") expired on October 12, 2015, there were no export taxes in 2016. Export taxes of $5.2 million in 2015 were incurred in respect of lumber shipments from the Company's Canadian operations to the U.S. under the SLA.

Depreciation of plant and equipment was $76.1 million, up 6.4% from 2015. The majority of this increase is explained by incremental depreciation on the rebuilt Castlegar sawmill and the inclusion of a full year's depreciation on four sawmills acquired in 2015.

Depletion and amortization of timber, roads and other was $34.9 million, down 6.9% as compared with 2015, as a result of a reduction in log production and a higher percentage of heli-logging on the B.C. Coast in 2016.

Corporate and Other

Selling and administration expenses were $43.1 million, down $3.7 million from 2015. 2015 included $2.1 million of non-recurring acquisition and integration costs and $0.9 million for certain IT infrastructure improvements.

The $4.6 million long term incentive compensation expense in 2016 mainly reflects a 7.6% increase in the market price of Interfor Common Shares over the same period, coupled with the impact of incentive awards maturing. The $5.4 million long term incentive compensation recovery in 2015 resulted from a 36.0% decrease in the market price of Interfor Common Shares over the same period, partially offset by the impact of incentive awards maturing.

In 2015, the Company recognized restructuring charges of $10.1 million, including severance, an onerous contract, site closure costs and write-downs of inventories related to closure of the Tacoma sawmill. An additional impairment charge of $2.8 million was recorded on equipment to be replaced in 2016 as a result of changes to government regulations. Interfor also sold substantially all of the assets of its Beaver-Forks operation, located on the Olympic Peninsula in Washington, resulting in a reversal of a $1.2 million impairment previously recorded.

In 2016, Interfor recorded additional restructuring charges of $4.3 million for the Tacoma site, including further site closure costs and write-downs of inventories, and an impairment of buildings. Additional restructuring charges of $3.0 million relate to a number of costs, the most significant of which is a $1.2 million impairment charge on surplus equipment.

Finance costs increased to $18.6 million from $17.6 million in 2015 as a result of a higher average level of debt outstanding in 2016 as compared to 2015, together with the impact of a stronger U.S. Dollar.

Other foreign exchange gain of $1.5 million is comprised primarily of foreign exchange gains on short term intercompany funding. Other foreign exchange loss of $1.7 million in 2015 is comprised primarily of foreign exchange losses on foreign exchange forward contracts.

Other income of $14.1 million is comprised primarily of a gain on the sale of the Tacoma sawmill property which completed on November 30, 2016. Other income of $0.8 million in 2015 is comprised primarily of the gain on sale of timber tenures in the B.C. Interior.

Income Taxes

The Company recorded an income tax expense of $7.2 million in 2016, comprised of $0.9 million of current taxes and a $6.4 million deferred income tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q4'16 following full recognition of previously unrecognized assets for non-capital loss carry-forwards.

Net Earnings (Loss)

The Company recorded net earnings of $65.6 million or $0.94 per share, compared to a net loss of $30.4 million or $0.44 per share in 2015. Adjusted net earnings were $58.7 million or $0.84 per share compared with an Adjusted net loss of $18.9 million or $0.27 per share in 2015.

Summary of Quarterly Results[1]

	Unit	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3	2015 Q2	2015 Q1
Financial Performance (Unaudited)									
Total sales	$MM	442.3	457.6	458.8	433.9	411.4	430.8	429.7	415.4
Lumber	$MM	363.5	374.8	371.1	348.9	325.0	343.3	352.2	340.7
Logs, residual products and other	$MM	78.8	82.8	87.7	85.0	86.4	87.5	77.5	74.7
Operating earnings (loss)	$MM	22.3	20.1	30.0	3.5	(6.3)	(11.6)	(25.8)	7.8
Net earnings (loss)	$MM	26.6	15.1	23.2	0.8	(3.5)	(6.1)	(20.6)	(0.2)
Net earnings (loss) per share, basic and diluted	$/share	0.38	0.22	0.33	0.01	(0.05)	(0.09)	(0.29)	(0.00)
Adjusted net earnings (loss)[2]	$MM	17.7	20.7	17.5	2.7	4.5	(16.6)	(10.3)	3.5
Adjusted net earnings (loss) per share, basic and diluted[2]	$/share	0.25	0.30	0.25	0.04	0.06	(0.24)	(0.15)	0.05
Adjusted EBITDA[2]	$MM	51.3	58.1	56.9	33.4	35.8	11.5	12.7	31.8
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	67.8
Operating Performance									
Lumber production	million fbm	607	628	637	618	568	618	672	639
Total lumber sales	million fbm	619	647	658	637	615	686	719	632
Lumber sales - Interfor produced	million fbm	598	627	634	609	586	663	688	607
Lumber sales - wholesale and commission	million fbm	21	20	24	28	29	23	31	25
Lumber - average selling price[3]	$/thousand fbm	588	580	564	548	529	500	490	539
Average USD/CAD exchange rate[4]	1 USD in CAD	1.3341	1.3050	1.2886	1.3732	1.3354	1.3089	1.2297	1.2412
Closing USD/CAD exchange rate[4]	1 USD in CAD	1.3427	1.3117	1.3009	1.2971	1.3840	1.3394	1.2474	1.2683

Notes:

(1) Figures in this table may not add due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(3) Gross sales before export taxes.
(4) Based on Bank of Canada foreign exchange rates.

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

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

Four sawmills acquired on March 1, 2015, and one sawmill acquired on June 19, 2015, have all contributed to the growth in production and sales. The permanent closure of the Tacoma sawmill impacted production and sales subsequent to May 22, 2015.

The volatility of the Canadian Dollar against the U.S. Dollar also impacted results. A weaker Canadian Dollar increases the lumber sales realizations of Canadian operations and increases net earnings or losses of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout 2016, with strong cash flow generated from operations and proceeds received from the monetization of the Tacoma sawmill property used to repay debt and fund capital projects. Net debt at December 31, 2016 was $289.6 million, or 26.9% of invested capital, representing a decrease of $162.8 million from the level of net debt at December 31, 2015.

A strengthening of the Canadian Dollar against the U.S. Dollar by 3.0% contributed $16.1 million to the net debt reduction in 2016 over 2015 as all debt held was denominated in U.S. Dollars.

	For the 3 months ended December 31,		For the year ended December 31,	
Thousands of dollars	2016	2015	2016	2015
Net debt				
Net debt, period opening, CAD	$ 346,929	$ 461,474	$ 452,303	$ 202,553
Net drawing (repayment) on credit facilities, CAD	(66,178)	(19,207)	(143,882)	182,949
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	9,678	14,592	(16,056)	65,391
Decrease (increase) in cash and equivalents, CAD	(878)	(4,556)	(2,814)	1,410
Net debt, period ending, CAD	$ 289,551	$ 452,303	$ 289,551	$ 452,303
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$ 274,709	$ 345,957	$ 338,699	$ 190,000
Net drawing (repayment) on credit facilities, USD	(44,709)	(7,258)	(108,699)	148,699
U.S. Dollar debt, period ending, USD	230,000	338,699	230,000	338,699
Spot rate, period end			1.3427	1.3840
U.S. Dollar debt expressed in CAD			308,821	468,759
Canadian Dollar debt, including bank indebtedness, CAD			-	-
Canadian Dollar operating line, CAD			-	-
Total debt, CAD			308,821	468,759
Cash and cash equivalents, CAD			(19,270)	(16,456)
Net debt, period ending, CAD			$ 289,551	$ 452,303

As at December 31, 2016, the Company had net working capital of $136.1 million and available liquidity of $296.3 million, including cash and borrowing capacity on operating and term line facilities.

On February 9, 2016, the Company extended the maturity of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019 and amended certain other terms, resulting in an increase in the maximum borrowing available under the financing agreement. On June 15, 2016, the Company extended the maturity of its U.S. Operating Line from May 1, 2017 to May 1, 2018.

These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $192.6 million of cash flow from operations before changes in working capital in 2016, or a $125.7 million increase over 2015. Incremental cash flow generated from increased sales margins coupled with the strengthened U.S. Dollar, elimination of export taxes and reductions in selling and administration costs were slightly offset by a reduction in sales volumes. In 2015, increased sales volumes were offset by reduced sales margins and increases in export taxes and selling and administration costs.

There was a net cash inflow from operations after changes in working capital of $199.3 million in 2016, with $6.7 million of cash generated from operating working capital. In 2015, $34.5 million of cash was generated from operating working capital, with $101.4 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled $36.2 million in 2016, net of $41.4 million in proceeds on the disposal of property, plant and equipment, resulting primarily from the monetization of the Tacoma sawmill property. Spending included $52.1 million for property, plant and equipment, timber licenses and other intangibles, and $24.6 million for development of logging roads. Discretionary improvements of $17.8 million during 2016 included $7.6 million for the finalization of the Castlegar sawmill rebuild.

In 2015, total investing activities of $333.3 million included $170.8 million for the Simpson acquisition, $43.7 million for the Monticello acquisition, $8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., $95.3 million for property, plant and equipment, timber licences and other intangibles and $26.1 million for development of logging roads.

Spending of $11.3 million on investments and other assets in 2016 related primarily to fixed income and equity investments purchased for treasury management purposes, the majority of which were disposed of within the year, resulting in proceeds on the disposal of investments of $10.3 million.

Cash Flow from Financing Activities

Net repayments under the Company's credit facilities were $143.9 million, as the Company utilized surplus cash generated from operations and the proceeds from the Tacoma sawmill property sale to reduce debt. Cash used for financing activities totaled $162.2 million in 2016.

In 2015, net drawings on the Company's credit facilities were $182.9 million and net proceeds from issuance of 3.3 million shares were $63.2 million, leading to total cash from financing activities of $229.7 million in 2015. This includes $151.3 million drawn on the Company's credit facilities to fund the Simpson and Monticello acquisitions.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2016, including major capital improvements are summarized as follows:

		Payments due by Period			
Thousands of Canadian dollars	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and accrued liabilities	$ 112,592	$ 112,592	$ -	$ -	$ -
Income taxes payable	317	317	-	-	-
Contingent future payment(1)	13,427	13,427	-	-	-
Reforestation liability	39,419	11,609	10,226	8,141	9,443
Long term debt	308,821	-	40,281	44,756	223,784
Provisions and other liabilities	38,817	11,008	5,662	2,150	19,997
Operating leases and capital commitments	66,820	19,570	23,320	10,220	13,710
Total obligations	$ 580,213	$ 168,523	$ 79,489	$ 65,267	$ 266,934

Notes:

(1) Relates to Simpson acquisition and was paid on January 13, 2017.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2016:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 268,540	$ 67,135	$ 600,675
Maximum borrowing available	$ 65,000	$ 200,000	$ 268,540	$ 65,627	$ 599,167
Less:					
Drawings	-	40,281	268,540	-	308,821
Outstanding letters of credit included in line utilization	10,026	-	-	3,296	13,322
Unused portion of facility	$ 54,974	$ 159,719	$ -	$ 62,331	$ 277,024
Add cash and cash equivalents					19,270
Available liquidity at Dec. 31, 2016					$ 296,294

As of December 31, 2016, the Company had commitments for capital expenditures totaling $7.9 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 2016.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber purchases. At December 31, 2016, such instruments aggregated $45.7 million (December 31, 2015 - $47.4 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency contracts, to manage exposure to fluctuations in interest rates and foreign currency exchange rates. The Company's policy is to not use derivatives for trading or speculative purposes. Risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items. The counter-parties for all derivative contracts existing at December 31, 2016, are the Company's Canadian bankers who are highly-rated, thereby mitigating the risk of credit loss on such instruments.

Interest Rate Swaps

As at December 31, 2016, Interfor had drawn a total of $40.3 million of floating rate debt, excluding letters of credit, on its credit facilities. The Company's facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at LIBOR for U.S. Dollar loans, in all cases dependent upon a financial ratio.

Two of the Company's interest rate swaps matured on April 14, 2016. Two interest rate swaps remained outstanding at December 31, 2016 each with a notional value of US$25,000,000. Under these two interest rate swaps, maturing February 27, 2017, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates

These interest rate swaps convert a portion of the Company's floating-rate interest expense to fixed-rate interest expense and have been designated as cash flow hedges. The fair value of these interest rate swaps at December 31, 2016, being an asset of less than $0.1 million (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (2015 - $0.1 million) and a negligible loss (2015 – $0.1 million) has been recognized in Other comprehensive income.

Based on the Company's average debt level during 2016, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.3 million in Net earnings.

Foreign Currency Contracts

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, accounts payable and provisions and long term debt that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations, primarily Canadian and U.S. Dollars, but also the Euro, Sterling and Yen. The Company uses foreign currency exchange contracts to manage its currency risk from time to time. The Company routinely assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

As at December 31, 2016, the Company had no outstanding foreign currency exchange contract obligations (2015 – nil). All foreign currency gains or losses on foreign currency contracts in 2016 have been recognized in Other foreign exchange gain (loss) in Net earnings.

Unrealized gains and losses arising upon translation of net foreign currency investment positions in U.S. Dollar functional currency foreign operations, together with any gain or losses arising from hedges of those net investment positions, to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Consolidated Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in the Translation reserve are reclassified to the Consolidated Statement of Earnings.

As at December 31, 2016, the Company had designated the US$30.0 million drawn under its Revolving Term Line and US$200.0 million drawn under its Senior Secured Notes as hedges against the net investment in its U.S. operations.

The Company recorded a $7.9 million unrealized foreign exchange loss on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2016 (2015 - $56.5 million gain).

Outstanding Shares

As of December 31, 2016, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2016.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2016.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2016, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

The Company's financial statements include critical accounting estimates made by management. Management is required to make various assumptions about matters that are highly uncertain at the time accounting estimates are made; the use of different assumptions could have a material impact on the Company's financial condition and performance. These critical accounting estimates are described below.

Valuation of Inventories. Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom or sort basis. The unit net realizable value for lumber inventories and B.C. Coast log inventories is determined by reference to the average sales values by specific product in the period immediately following the reporting date. The unit realizable value for B.C. Interior and U.S. log inventories is determined by reference to the value of the projected lumber and residual outturns. The unit cost for lumber is based on a three month moving average cost, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment. The unit cost for B.C. Coast logs is based on a twelve month moving average cost lagged one month and for B.C. Interior logs is based on the three month moving average cost, both adjusted for abnormal costs. The unit cost for U.S. logs is based on purchase cost. The Company records a charge to operating earnings when net realizable value is lower than carrying value. Downward movements in commodity prices could result in a material write-down of log and/or lumber inventories at any given time.

Recoverability of Property, Plant and Equipment, Logging Roads and Bridges, Timber licences, Other Intangible Assets, and Goodwill. Interfor's assessment of recoverability of property, plant and equipment, logging roads, bridges, timber licences and other intangible assets is made with reference to projections of future cash flows to be generated by its operations. The assessment of recoverability of goodwill is also made with reference to projections of future cash flows to be generated by the related cash generating unit. In both cases the projected cash flows are discounted to estimate the recoverable amount of the related assets.

The Company conducts a review of external and internal sources of information to assess existence of any impairment indicators. External factors include adverse changes in expected future prices, costs and other market and economic factors. Internal factors include changes in the expected useful life of the asset or changes to the planned capacity of the asset.

Key assumptions used are based on industry sources, including Forest Economic Advisors, LLC, as well as management estimates. Assumptions encompass lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, the level of sales to the U.S. from Canada, the export tax rate, future capital required to maintain the assets in their current operating condition, and other items.

A high degree of uncertainty exists in these assumptions and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets may not be recovered, which could necessitate a material charge against operating earnings.

Appropriate discount rates are determined by reference to current market conditions, specific company factors and asset specific factors. The inflation rate applied within the cash flow projections represents the published Bank of Canada consumer price index.

Interfor assesses the recoverability of Property, Plant and Equipment, Logging Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. The Company assessed the recoverability of goodwill as at December 31, 2016 and concluded that there was no impairment.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated liability for reforestation as timber is cut, and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed or contracted by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liabilities could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

The Company also has a legal obligation to deactivate certain roads constructed for access to timber, once that access is no longer required. Accordingly, Interfor accrues the cost of road deactivation as related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Foresters and Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liabilities could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings. Each of these estimates is reviewed regularly on an ongoing basis.

Pension and Other Post-retirement Benefits. The Company sponsors two defined benefit pension plans for those hourly employees not covered by forest industry union plans. It also sponsors two post-retirement medical and life insurance plans and a non-contributory defined benefit pension plan for a former senior executive.

The Company retains independent actuarial consultants to value the defined pension benefit obligations, the post-retirement medical and life insurance obligations and related plan asset values. Actuarial assumptions used in the valuation of plan obligations and assets include assumptions for the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, and assumed rates of increase for employee compensation and health care costs. Actual experience can vary materially from estimates and could result in a material charge against operating earnings as well as necessitate a current cash funding requirement.

Income Taxes. The Company's provision for income taxes, both current and deferred, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for income taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2016, and have not been applied in preparing the Company's 2016 annual audited consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements:

IFRS 9, *Financial Instruments*, will replace the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

The Company is still in the process of assessing IFRS 9 and IFRS 15, but does not currently believe either will have a significant impact on its financial statements.

IFRS 16, *Leases*, eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, operating leases become an on-balance sheet liability that attracts interest, together with a corresponding right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company has not yet completed an assessment of the impact of this standard on its financial statements.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings (loss), Adjusted net earnings (loss) per share, EBITDA, Adjusted EBITDA, Pre-tax return on total assets and Net debt to invested capital, which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's audited consolidated financial statements prepared (unaudited for interim periods) in accordance with IFRS:

	For the 3 months ended			For the year ended Dec. 31		
	Dec. 31	Dec. 31	Sept. 30,			
Thousands of Canadian dollars except number of shares and per share amounts	2016	2015	2016	2016	2015	2014
Adjusted Net Earnings (Loss) (1)						
Net earnings (loss)	$ 26,550	$ (3,507)	$ 15,093	$ 65,643	$ (30,386)	$ 40,690
Add:						
Restructuring costs and capital asset write-downs	2,281	2,866	1,492	7,280	12,829	24,129
Other foreign exchange loss (gain)	(1,072)	(473)	(792)	(1,468)	1,651	2,651
Long term incentive compensation expense (recovery)	199	9,335	8,321	4,551	(5,431)	23,933
Other income	(14,452)	(863)	(7)	(14,094)	(757)	37
Beaver sawmill post-closure wind-down costs	128	6	6	145	365	1,083
Tacoma sawmill post-acquisition losses and closure costs	(13)	698	94	764	11,009	-
Income tax effect of above adjustments	4,895	(2,564)	(1,408)	2,008	(9,311)	(10,951)
Recognition of previously unrecognized deferred tax assets	(769)	(983)	(2,134)	(6,171)	1,136	(20,902)
Adjusted net earnings (loss)	$ 17,747	$ 4,515	$ 20,665	$ 58,658	$ (18,895)	$ 60,670
Weighted average number of shares - basic and diluted ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*69,488*	*66,005*
Adjusted net earnings (loss) per share	$ 0.25	$ 0.06	$ 0.30	$ 0.84	$ (0.27)	$ 0.92
Adjusted EBITDA						
Net earnings (loss)	$ 26,550	$ (3,507)	$ 15,093	$ 65,643	$ (30,386)	$ 40,690
Add:						
Depreciation of plant and equipment	18,534	18,482	18,624	76,092	71,492	55,167
Depletion and amortization of timber, roads and other	7,833	10,734	9,441	34,895	37,478	28,912
Restructuring costs and capital asset write-downs	2,281	2,866	1,492	7,280	12,829	24,129
Finance costs	4,074	5,459	4,379	18,602	17,569	8,915
Other foreign exchange loss (gain)	(1,072)	(473)	(792)	(1,468)	1,651	2,651
Income tax expense (recovery)	7,236	(6,943)	1,445	7,207	(24,017)	(16,230)
EBITDA	65,436	26,618	49,682	208,251	86,616	144,234
Add:						
Long term incentive compensation expense (recovery)	199	9,335	8,321	4,551	(5,431)	23,933
Other income	(14,452)	(863)	(7)	(14,094)	(757)	37
Beaver sawmill post-closure wind-down costs	128	6	6	145	363	1,075
Tacoma sawmill post-acquisition losses and closure costs	(13)	698	94	764	10,928	-
Adjusted EBITDA	$ 51,298	$ 35,794	$ 58,096	$ 199,617	$ 91,719	$ 169,279
Pre-tax return on total assets						
Operating earnings (loss) before restructuring costs	$ 24,617	$ (3,461)	$ 21,610	$ 83,170	$ (23,111)	$ 60,192
Total assets (2)	1,326,792	1,383,751	1,337,569	1,345,722	1,229,160	946,325
Pre-tax return on total assets (3)	7.4%	(1.0%)	6.5%	6.2%	(1.9%)	6.4%
Net debt to invested capital						
Net debt						
Total debt	$ 308,821	$ 468,759	$ 365,321	$ 308,821	$ 468,759	$ 220,419
Cash and cash equivalents	(19,270)	(16,456)	(18,392)	(19,270)	(16,456)	(17,866)
Total net debt	$ 289,551	$ 452,303	$ 346,929	$ 289,551	$ 452,303	$ 202,553
Invested capital						
Net debt	$ 289,551	$ 452,303	$ 346,929	$ 289,551	$ 452,303	$ 202,553
Shareholders' equity	786,667	725,254	745,333	786,667	725,254	636,480
Total invested capital	$1,076,218	$1,177,557	$1,092,262	$1,076,218	$1,177,557	$ 839,033
Net debt to invested capital (4)	26.9%	38.4%	31.8%	26.9%	38.4%	24.1%

Notes:

(1) Certain historical periods have been recast to exclude the recognition of previously unrecognized deferred tax assets from Adjusted net earnings.

(2) Total assets at period beginning for three month periods; average of opening and closing total assets for twelve month periods.

(3) Annualized rate.

(4) Net debt to invested capital as of the period end.

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to the factors described below.

Price Volatility

The Company's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Prices are affected by such factors as the general level of economic activity in the markets in which the Company sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada, Japan and China), and log and chip supply/demand relationships. The Company's financial results may be significantly affected by changes in the selling prices of its products.

Competition

The markets for the Company's products are highly competitive on a global basis and producers compete primarily on the basis of price. In addition, a majority of the Company's lumber production is sold in markets where the Company competes against many producers of approximately the same or larger capacity. Some of the Company's competitors have greater financial resources and a number are, in certain product lines, lower-cost producers.

Factors which affect the Company's competitive position include:

- foreign currency exchange rates;
- the cost of labour;
- costs of harvesting or purchasing logs;
- the ability to secure a quality log supply matched to a sawmill's requirements;
- the quality of its products and customer service;
- the ability to secure space on vessels for overseas shipments and on trucks and railcars for North American shipments;
- the existence and rate of export taxes payable on sales from Canada to the United States; and
- its ability to maintain high operating rates to leverage fixed manufacturing costs.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

Availability and Cost of Log Supply

The log requirements of the Company's sawmills are met using logs harvested from its timber tenures, by long term trade and purchase agreements and by purchases on the open market and through timber sale bids. Logs produced but unsuitable for use in the Company's sawmills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian sawmills generally purchase less than 40% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre through purchase agreements for its U.S. based sawmills, with a small volume occasionally supplied by the Company's Canadian coastal logging operations for the sawmill located on Washington's Olympic Peninsula. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on the Company's business, financial position, results of operations and cash flow. In addition, weather-related issues can restrict timely access to log supply.

The Company relies on third-party independent contractors to harvest timber in areas over which it holds timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase the Company's timber harvesting costs.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, the Company must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. The Company expects to fund its ongoing road development with cash generated from operations and through utilization of its existing credit facilities.

Natural or Man-Made Disasters

The Company's operations are subject to adverse natural or man-made events such as forest fires, severe weather conditions, climate change, timber disease and insect infestation and earthquake activity. These events could damage or destroy the Company's physical facilities or timber supply and similar events could also affect the facilities of the Company's suppliers or customers. Any such damage or destruction could adversely affect the Company's financial results due to decreased production output or increased operating costs. Although management believes it has reasonable insurance arrangements in place to cover certain of such incidents, there can be no assurance that these arrangements will be sufficient to fully protect the Company against such losses. As is common in the industry, the Company does not insure loss of standing timber for any cause.

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 80% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen. While the Canadian operations also incur some U.S. Dollar–denominated expenses, primarily for ocean freight and other transportation and for equipment operating leases, the majority of expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

An increase in the value of the Canadian Dollar relative to the U.S. Dollar would reduce the amount of revenue in Canadian Dollars realized by the Company from lumber sales made in U.S. Dollars. This would reduce the Company's operating margin and the cash flow available to fund operations. Consequently, a significant strengthening of the Canadian Dollar against the U.S. Dollar could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Government Regulation

The Company's operations are subject to extensive provincial, state, federal or other laws and regulations that apply to most aspects of its business activities. Where applicable, the Company is required to obtain approvals, permits and licences for its operations as a condition to operate.

From time to time, changes in government policy or regulation may impact the Company's operations. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut ("AAC")

The Company holds cutting rights in British Columbia ("B.C.") that represent an AAC of approximately of 3.7 million cubic metres. Of this amount, 3.65 million cubic metres is in the form of replaceable tenures (4 Tree Farm Licences and 19 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

The AAC is regulated by the Ministry of Forests, Lands and Natural Resource Operations and is subject to a periodic Timber Supply Review process to make determinations that set harvesting rates for each tenure. Many factors affect the AAC, including timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

Reductions in the Company's AAC from any new protected areas are subject to compensation once these areas have been formally removed. Currently there is a Government plan in 2017 to set aside some additional area for conservation purposes in the Mid Coast region that may affect some of the Company's Timber Licences and trigger a claim for compensation. The timber volume impacted has not been finalized, and the amount of compensation is not known at this time.

Proposed regulatory changes in 2017 to meet new Ecosystem Based Management ("EBM") requirements in the Central Coast of B.C. will also impact the Company's timber supply, and these are not compensable. The AAC impact, once these changes take effect, will be approximately a 6% reduction of the company's timber supply in B.C.

The amount of timber available for harvest in the south-central portion of the B.C. Interior is expected to decline over the next 10 years as the surplus of dead pine stands from the pine beetle epidemic become no longer useable. A portion of Interfor's tenures can expect some modest AAC declines over this period, but they are not expected to have a material impact on our internal supply.

Aboriginal Issues

Aboriginal groups have claimed aboriginal title and rights over substantial portions of B.C., including areas where the Company's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with aboriginal groups throughout B.C. in order to resolve aboriginal rights and title claims. In addition, the governments have entered, and may continue to enter, into interim measure (reconciliation) agreements with aboriginal groups. Any interim measures, agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self-government. The impact of aboriginal claims or treaty settlements on the Company's forest tenures or the amounts of compensation to the Company, if any, cannot be estimated at this time.

The courts have also established that the Crown has a duty to consult with aboriginal groups and, where appropriate, accommodate aboriginal interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long-standing and complex issues. The Government of B.C. has been working to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement. The Province of B.C. and some First Nations groups on the coast of B.C. have signed Reconciliation Protocols that provide a shared decision making process for resource and land use, as well as new forest sector opportunities. These agreements overlap portions of the Company's coastal tenures. The agreements will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

Softwood Lumber Trade

The Company's financial results are dependent on continued access to the U.S. market for the portion of Company's products that are manufactured in Canada and exported to the U.S. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations. Approximately 15% of Interfor's total softwood lumber sales would be exposed to duties and/or trade restrictions imposed by the U.S.

The Softwood Lumber Agreement implemented by the federal governments of Canada and the United States in 2006, expired on October 12, 2015. As part of that agreement the U.S. government agreed to a standstill period, where it would not take any trade action against Canada for a twelve month period following expiry. On November 25, 2016, the U.S. Coalition filed a petition with the U.S. Department of Commerce ("DoC") and the U.S. International Trade Commission ("ITC") seeking countervailing and anti-dumping duties on Canadian softwood lumber imports to the U.S.

On January 6, 2017, the ITC determined that there is a reasonable indication that the U.S. industry is materially injured by the imports of softwood lumber products from Canada. As a result, the DoC will commence its anti-dumping and countervailing duty investigations on imports of these products.

The DoC is expected to announce its ruling in the Countervailing Duty ("CVD") investigation in the second quarter of 2017. A ruling in the Anti-dumping Duty ("AD") investigation is expected to come approximately 60 days thereafter. If the DoC rules that "critical circumstances" apply, duties could be applied retroactively up to 90 days prior to the preliminary determinations. It is not anticipated that this would give rise to a liability as at December 31, 2016.

While dialogue continues between the U.S. and Canada, there is no assurance there will be any new trade agreement forthcoming or whether a new trade agreement could adversely affect the Company's Canadian operations. Canada is expected to defend itself vigorously in any trade action taken by the U.S.

Stumpage Fees

The Province of B.C. charges stumpage fees to companies that harvest timber from Crown land. Stumpage payments for a harvesting area are based on a competitive market pricing system ("MPS") that has been established for both the coast and interior regions of B.C.

The stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The primary variable in the MPS is log pricing established through open market bidding for standing timber. In addition to bid prices, there are a number of operational and administrative factors that determine an individual stumpage rate for each cutting permit.

Periodic changes in the Provincial government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that current changes or future changes will not have a material impact on stumpage rates.

Environment

The Company has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of its environmental performance. The Company may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with an unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on the Company's financial condition and results of operations.

Labour Disruptions

Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on the Company's business. The Company believes that its current labour relations are stable and does not anticipate any related disruptions to its operations in the foreseeable future.

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) expires on June 30, 2018, while the USW agreement for the B.C. Coast (Acorn and Hammond) expires on June 15, 2019. The Company also has 22 employees in the B.C. Interior who are members of the Canadian Marine Service Guild ("CMSG"). The collective agreement with the CMSG expires September 30, 2019.

In 2015, the Company acquired sawmills in Meldrim, Georgia and Longview, Washington where employees were represented by the American USW and the International Association of Machinist and Aerospace Workers ("IAM"), respectively. The American USW at the Meldrim sawmill was decertified on April 28, 2016, while the IAM collective agreement expires on November 15, 2020.

Additional Information

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