



INTERFOR

Building Value™

**2015
Annual Report**

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FINANCIAL HIGHLIGHTS

(in millions of dollars, except share and per share amounts)

	2015	2014
Financial Summary		
Sales	1,687.4	1,447.2
Adjusted EBITDA ⁽¹⁾	91.7	169.3
Net earnings (loss)	(30.4)	40.7
Per Share Data		
Net earnings (loss) per common share		
- basic and diluted	(0.44)	0.62
Price range per share		
High	23.34	22.15
Low	9.12	13.02
Net book value per share	10.36	9.54
Operating cash flow per share before working capital change	0.96	2.17
	69.5	66.0
Weighted average shares outstanding (millions)		
Financial Position		
Total assets	1,389.8	1,068.5
Total debt	468.8	220.4
Total shareholders' equity	725.3	636.5
Invested capital ⁽¹⁾	1,177.6	839.0
Financial Ratios (%)		
Net debt as a % of invested capital, adjusted ⁽¹⁾	38.4%	24.1%
Pre-tax return (loss) on total assets ⁽¹⁾	(1.9%)	6.4%

Notes:

(1) See Glossary for definition.

"Our primary focus in 2016 is to increase the profitability of the operations we've acquired in the last three years.

And, having dealt with Tacoma and completed Castlegar, we are in a great position to use the free cash flow we generate in the next few years to pursue additional value-creating opportunities."

Message to Shareholders – February 2016

For further highlights, please see the Message to Shareholders and Management's Discussion and Analysis on the following pages.

MESSAGE TO SHAREHOLDERS

Overview

2015 was a challenging year for Interfor. The realignment of international currency values which began in mid-2014 led to a significant drop in product prices and to financial results that were well below those achieved in 2013 and 2014.

In spite of the issues that arose during the year, there were a number of positives during the year that will add value to our Company in the years ahead. Those highlights included:

- We grew our production capacity by one-third with the acquisition of 5 sawmills in the U.S.;
- We rebuilt the Castlegar sawmill; and
- We supplemented our financial position by raising \$63.2 million in new share capital and by terming out an additional US\$100 million in debt at attractive rates.

We also acted quickly when the extent of the downturn in product markets became apparent.

From a shareholder standpoint, our share price fell by 36% last year after gains of 68% in 2013 and 63% in 2014.

While the drop in our share price was in line with the experiences of other companies in our industry, we don't take much comfort from that comparison.

Our goal is to distinguish ourselves from the others and to deliver above average returns to our shareholders over time.

I believe the steps we've taken in recent years position Interfor to deliver on that goal.

More important, the actions we've taken in the last six to nine months will make us even stronger in the years ahead.

I invite you to read the material covered in the next few pages and later in this report and to form your own views on our progress. Please feel free to forward any comments or questions you might have to me directly at duncan.davies@interfor.com.

Record Production and Sales Volumes; Financial Results Impacted by Lower Prices and Losses at Tacoma

Interfor continued to grow its business in 2015.

For the year, lumber production was up 12% to 2.5 billion board feet, with the Company's operations in Canada accounting for 31% of production and our mills in the U.S. accounting for 69%.

Sales volumes, including agency and wholesale activities, were up from 2.3 billion board feet to 2.7 billion board feet last year.

Product prices, however, weakened materially in 2015.

For the year, the Random Lengths Composite Index, which measures prices for a basket of products, came in at US\$330 versus US\$383 in 2014.

Western species were particularly hard hit: benchmark SPF 2x4 was down US\$71 or 20% versus 2014 while Hem-Fir 9' 2x4 studs were off US\$93 or 23% year-over-year. SYP 2x4 Eastside was off US\$36 or 9% compared to 2014.

In financial terms, the reduction in prices more than offset the benefits of higher production and sales volumes.

All in, Interfor lost \$30.4 million after-tax in 2015 on sales of \$1.69 billion compared with earnings of \$40.7 million after-tax in 2014 on sales of \$1.45 billion

The loss in 2015 includes operating losses and closure costs at the Tacoma mill acquired earlier in the year from Simpson Lumber Company, LLC ("Simpson") which totaled \$13.2 million after-tax.

EBITDA¹ reported before one-time items (including the Tacoma closure costs) and share-based compensation expenses, came in at \$91.7 million versus \$169.3 million in 2014.

The drop in the value of the Canadian dollar versus its U.S. counterpart (US\$0.782 in 2015 versus US\$0.905 in 2014) helped to shelter our Canadian operations from the full extent of the drop in product prices in 2015 but left our U.S. operations exposed to the downturn.

Strategic Update

Interfor has invested actively in recent years to grow our operating platform and to set the stage for higher revenues and profitability in the years ahead. This process continued in 2015 with the acquisition of four mills from Simpson in March and another mill from The Price Companies, Inc. ("Price"), in June.

Together, those mills added 850 million board feet to our annual production capacity².

All of Interfor's acquisition work is undertaken using strict criteria and limits on the amount of financial exposure we are prepared to accept on a specific transaction or in aggregate.

This discipline proved highly beneficial when product markets turned soft in the spring.

The acquisition of the mills in Meldrim, Georgia, Georgetown, South Carolina and Longview, Washington from Simpson was fairly straightforward, as was the purchase of the Monticello mill in Arkansas from Price. The mills were profitable and in our opinion contained significant potential upside. Equally important, the mills fit nicely within our operating platforms in the U.S. South and Northwest.

The fourth mill acquired from Simpson in Tacoma, Washington, was more of a challenge. As we indicated at the time of acquisition, the mill was not profitable and in need of a significant turnaround.

As a result, we designed the Tacoma acquisition using a contingent value structure that limited our upfront investment to the purchase of working capital with the ultimate

¹ Refer to definition of Adjusted EBITDA in the Glossary.

² After taking account of the closure of the Tacoma mill in July, the net increase in capacity attributable to the acquisitions was 575 million board feet, bringing the Company's total capacity to approximately 3.0 billion board feet.

payment to the vendor tied to the mill's profitability over a three year period of time, subject to a minimum payment of US\$10 million.

When markets deteriorated in the spring we made a decision to curtail the mill and then closed it permanently in July when it became apparent the downturn would be more severe than we first thought and the mill's capital needs were more significant than we were prepared to undertake.

Since then, the mill's log and lumber inventories have been liquidated, its equipment and machinery have been sold and agreement has been reached on the sale of the mill property.

The property sale is expected to close mid-year 2016, subject to customary closing conditions.

When completed, the cash proceeds for the monetization of the Tacoma assets are expected to exceed the total of the operating losses and exit costs associated with the facility. The gain on the sale of the property will be recorded on our books when the property sale closes.

Castlegar Rebuild Completed; Results Ahead of Schedule

In November 2014 we announced a \$50 million upgrade to our mill at Castlegar in the B.C. Interior.

The project converted the mill from a 3-line operation to a 2-line facility using technology similar to that employed at our mills at Adams Lake, Grand Forks and Port Angeles. The main elements of construction were completed in late September and the mill resumed operations in the first week of October.

I'm very pleased to report that the start-up of the mill has gone very well. Productivity in the first three months of operation averaged 83% of target proforma and lumber recovery and product quality are ahead of expectations.

Productivity has continued to ramp up since the end of the year, averaging 102% of proforma in January.

Everything we see at Castlegar indicates that we have a real "winner" on our hands and we're looking for big things from the mill in the years ahead.

Balance Sheet Remains Strong

Maintaining a strong balance sheet is, we believe, one of the keys to success in a business like ours and we have always brought the same kind of discipline to our financing arrangements as we have in our investment and acquisition work.

In 2015 we took advantage of opportunities to raise additional equity capital and to term out an additional US\$100 million in debt.

The equity issue involved the sales of 3.3 million shares at a price of \$20.10 per share, and raised \$63.2 million, net of underwriter's commission and other issue costs.

The debt issue was comprised of 10 year senior secured notes at a fixed rate of 4.17%.

At year-end, Interfor had net debt outstanding of \$452.3 million representing a net debt to invested capital ratio of 38.4%.

Subsequent to year-end, we took steps to further solidify our financing arrangements by extending the maturity dates of our Canadian Credit Facilities to May 19, 2019.

Senior Management Group Re-aligned

In December, Interfor's senior management group was re-aligned with the appointment of Ian Fillinger as Head of Operations.

Ian joined Interfor in 2005 and has held a series of progressively more senior positions since that time. He played an important role in the design, construction and operation of the Adams Lake mill and most recently served as Senior Vice President, Canadian Operations where he was responsible for our B.C. Coast and Interior and Operations including the rebuild project at Castlegar.

In his new role, Ian will assume responsibilities for all of the Company's operations and capital projects activity.

We were also fortunate last year to add Bart Bender in the role of Senior Vice President, Sales & Marketing. Bart is a 25 year veteran of the building materials industry, having served in a number of senior roles at Ainsworth Lumber Co. Ltd.

Along with the other members of our senior management group, Ian and Bart share a mandate to drive improvements in performance throughout our operating platform and to ensure a consistent and focused approach in management philosophy and capital allocation across our three operating regions.

Tom Milroy Appointed to Board of Directors

At its meeting in February 2016, Interfor's Board of Directors appointed Tom Milroy of Toronto, Ontario as a director of the Company.

Mr. Milroy, who is 60, retired from the BMO Financial Group ("BMO") in January 2015. Over 21 years with BMO, Tom held a number of senior positions with that firm's investment banking group, serving from March 2008 to December 2014 as CEO of BMO Capital Markets where he was responsible for all of BMO's business involving corporate, institutional and government clients globally.

Tom has a wealth of experience in forestry related advisory and financing work. We are delighted to have him on board and expect him to make a big contribution to our Company in the years ahead.

Tom has been nominated to stand for election as a director at the Company's Annual General Meeting in April.

Business Outlook Improving; Vision Remains Intact

Positive signs continue to emerge in the U.S. laying the foundation for better market conditions in 2016 and beyond.

Our primary focus in 2016 is to increase the profitability of the operations we've acquired in the last three years.

And, having dealt with Tacoma and completed Castlegar, we are in a great position to use the free cash flow we generate in the next few years to pursue additional value-creating opportunities.

In closing, I would like to thank our employees and Board of Directors for their contributions and support over the course of the year.

I remain convinced we are on track to build significant value for our shareholders and other stakeholders in the years ahead.

Duncan Davies
President & CEO
February 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 11, 2016

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, 2015 ("Q4'15" and "2015", 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, 2015, 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 11, 2016.

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 2015 Annual Report.

Forward-Looking Statements

This MD&A contains forward-looking statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included under the headings "Overview of 2015", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including those related to general business and economic conditions in Canada, the U.S., Japan and China, and assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them, if any. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described under the heading "Risks and Uncertainties" and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.

Overview of 2015

Q4'15 Results

Interfor recorded Adjusted EBITDA of \$35.8 million in Q4'15 versus \$11.5 million in Q3'15 and \$37.4 million in Q4'14. The Company's results in Q4'15 reflect the benefits of higher prices and progress on a number of key business initiatives. Highlights for the quarter include:

- Higher Lumber Prices
 - Key product benchmark prices strengthened throughout Q4'15 as the market adjusted to production curtailments in a number of regions, greater stability in Chinese demand and an extended fall buying period in North America due to favourable weather.
- Weaker Canadian Dollar
 - The Canadian Dollar weakened against the U.S. Dollar, averaging \$0.749 in Q4'15 versus \$0.764 in Q3'15, resulting in favourable currency translations of U.S. Dollar revenues.

- Castlegar Mill Re-Start
 - The Castlegar sawmill modernization project commenced start-up procedures on October 5th. Productivity and product quality were ahead of expectations throughout the quarter, resulting in a positive earnings contribution in Q4'15 versus a negative contribution in Q3'15.
- Tacoma Sawmill Monetization
 - Monetization of the former Tacoma sawmill assets progressed well in Q4'15, with: (i) the sale of the remaining log and lumber inventories; (ii) a successful auction of machinery, equipment and parts; and (iii) the signing of an agreement to sell the mill property. Cash proceeds from the monetization of assets are expected to exceed the total of the operating losses, exit costs and remaining asset value associated with the facility, with the property sale expected to close in mid-2016 subject to customary closing conditions.
- Free Cash Flow Generation and Debt Reduction with Increased Liquidity
 - Interfor generated \$46.1 million in cash from operations after considering working capital changes. During Q4'15, the Company's net debt position expressed in U.S. Dollars dropped from US\$344.5 million to US\$326.8 million.
 - On February 9, 2016, Interfor extended the maturity dates of its Canadian Operating Line and Revolving Term Line to May 19, 2019, which improved liquidity and enhanced financial flexibility. At December 31, 2015, the Company's net debt to invested capital ratio was 38.4% and available liquidity would have been \$147.0 million after considering the revised credit terms, versus \$103.3 million at September 30, 2015.

In Q4'15, Interfor recorded sales of \$411.4 million and a net loss of \$3.5 million, or \$0.05 per share, compared with net losses of \$6.1 million and \$5.2 million in Q3'15 and Q4'14, respectively. Adjusted net earnings in the fourth quarter were \$5.5 million, or \$0.08 per share, compared with an adjusted net loss of \$15.4 million and adjusted net earnings of \$10.2 million in Q3'15 and Q4'14, respectively.

Significant Financings, Investments & Operational Changes

On January 27, 2015, Interfor closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 Subscription Receipts at a price of \$20.10 per Subscription Receipt, for aggregate gross proceeds of \$66.3 million (the "Offering"). Each Subscription Receipt entitled the holder thereof, for no additional consideration and without further action, to one Common share of the Company upon closing of the acquisition of four sawmills from Simpson Lumber Company, LLC ("Simpson"). Net proceeds of the Offering were used to partially fund this acquisition.

On March 1, 2015, Interfor completed its acquisition of four sawmills and associated working capital from Simpson. The sawmills are located in Tacoma, Washington; Longview, Washington; Meldrim, Georgia and Georgetown, South Carolina and fit within the Company's existing operating infrastructure.

On March 16, 2015, the Company completed a US\$100 million term debt financing of Senior Secured Notes with Prudential Capital Group. The Senior Secured Notes carry an annual interest rate of 4.17% and have a final maturity of March 26, 2026. The proceeds were used to reduce the drawings under the Company's Revolving Term Line. In conjunction with this financing, Interfor decreased the credit available under its Revolving Term Line from \$250 million to \$200 million, without change to other terms and conditions.

On April 27, 2015, Interfor extended the maturity date of its U.S. Operating Line from April 28, 2015, to May 1, 2017, and increased the credit available under that line from US\$30 million to US\$50 million to provide enhanced financial flexibility. All other terms and conditions remain substantially unchanged.

On May 22, 2015, Interfor curtailed operations at its Tacoma sawmill as a result of challenging lumber and log market conditions. Following a comprehensive strategic review, the Company announced its decision on July 30, 2015, to exit the mill. The Tacoma sawmill accounted for 47 million board feet of production in 2015 since acquisition.

On June 19, 2015, Interfor closed its acquisition of a sawmill and associated working capital in Monticello, Arkansas, from Price Lumber Company. This acquisition increased Interfor's U.S. South capacity to 1.3 billion board feet and raised the proportion of Interfor's total capacity in the U.S. South to more than 40%.

Markets and Pricing

Each of the key benchmark prices for SYP East 2x4, Western SPF 2x4, and HF Stud 9' 2x4 rebounded from 2015 low points in September to post successive monthly gains through the end of 2015.

Market related production curtailments and severe weather events in the U.S. South impacted supply to the benefit of Southern Yellow Pine prices during the fourth quarter. The SYP East 2x4 benchmark rebounded from US\$317 per mfbm in September, increasing significantly throughout Q4'15 to US\$413 per mfbm in December. The average benchmark price for Q4'15 was US\$400 per mfbm, or \$69 per mfbm higher than Q3'15.

The HF Stud 9' 2x4 benchmark increased from US\$274 per mfbm in September and gained throughout the fourth quarter to end the year at US\$302 per mfbm in December. The average benchmark price for Q4'15 was US\$294 per mfbm, or US\$9 per mfbm lower than Q3'15.

The Western SPF 2x4 benchmark rebounded from US\$245 per mfbm in September to US\$269 per mfbm in December, with modest monthly gains throughout the fourth quarter. The average benchmark price for Q4'15 was US\$263 per mfbm, or US\$6 per mfbm lower than Q3'15.

Production

Lumber production of 568 million board feet in Q4'15 was 50 million board feet lower than the preceding quarter and 10 million board feet lower than Q4'14.

Production from the Company's nine U.S. South sawmills totaled 243 million board feet in Q4'15, down 44 million board feet compared to Q3'15. The lower production level in Q4'15 reflects temporary market-related adjustments to operating schedules across the U.S. South platform and severe weather events which impacted the Georgetown sawmill most significantly.

Canadian production totaled 186 million board feet in Q4'15, up 5 million board feet as compared to Q3'15. The increase in Canadian production primarily reflects the start-up of the Castlegar sawmill in the quarter partially offset by reduced operating hours at the other Interfor mills in the region. In Q4'15, Interfor shipped approximately 90 million board feet of lumber to U.S. markets from its B.C. sawmills, which represents approximately 15% of Interfor's total current quarterly production. Export duties applied pursuant to the Softwood Lumber Agreement ("SLA") expired on October 12, 2015. The SLA includes a standstill provision which precludes the U.S. from bringing trade action against Canadian softwood lumber producers for a 12 month period following expiry of the agreement. Export taxes on lumber shipments from Canada into the U.S. were negligible in Q4'15.

Production from the Company's U.S. Northwest operations totaled 139 million board feet in Q4'15, representing a decline of 11 million board feet from the prior quarter. This decline was due to fewer operating hours at each of the Company's four mills in the region.

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⁾

	Unit	For the 3 months ended December 31,		For the year ended December 31,		
		2015	2014	2015	2014	2013
Financial Highlights ⁽²⁾						
Total sales	\$MM	411.4	389.0	1,687.4	1,447.2	1,105.2
Lumber	\$MM	325.0	318.6	1,361.2	1,177.3	872.3
Logs, residual products and other	\$MM	86.4	70.4	326.2	269.9	232.9
Operating earnings (loss)	\$MM	(6.3)	(1.1)	(35.9)	36.1	52.5
Net earnings (loss)	\$MM	(3.5)	(5.2)	(30.4)	40.7	42.2
Net earnings (loss) per share, basic and diluted	\$/share	(0.05)	(0.08)	(0.44)	0.62	0.73
Adjusted net earnings (loss) ⁽³⁾	\$MM	5.5	10.2	(20.0)	62.3	60.7
Adjusted net earnings (loss) per share, basic and diluted ⁽³⁾	\$/share	0.08	0.15	(0.29)	0.94	1.05
Adjusted EBITDA ⁽³⁾	\$MM	35.8	37.4	91.7	169.3	134.0
Adjusted EBITDA margin ⁽³⁾	%	8.7%	9.6%	5.4%	11.7%	12.1%
Total assets	\$MM	1,389.8	1,068.5	1,389.8	1,068.5	824.1
Total debt	\$MM	468.8	220.4	468.8	220.4	145.5
Pre-tax return on total assets ⁽³⁾	%	(1.0%)	(0.1%)	(1.9%)	6.4%	7.3%
Net debt to invested capital ⁽³⁾	%	38.4%	24.1%	38.4%	24.1%	21.5%
Operating Highlights						
Lumber production	million fbm	568	578	2,497	2,222	1,725
Total lumber sales	million fbm	615	620	2,652	2,282	1,761
Lumber sales - Interfor produced	million fbm	586	605	2,544	2,217	1,701
Lumber sales - wholesale and commission	million fbm	29	15	108	65	60
Lumber - average selling price ⁽⁴⁾	\$/thousand fbm	529	514	513	516	495

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 this measure to figures reported in the Company's consolidated financial statements.
- (4) Gross sales before export taxes.

Summary of Fourth Quarter 2015 Financial Performance

Sales

Interfor recorded \$411.4 million of total sales, up 5.8% from \$389.0 million in the fourth quarter of 2014, driven by the sale of 615 million board feet of lumber at an average price of \$529 per mfbm. Lumber sales volume decreased 5 million board feet, or 0.8%, while average selling price increased \$15 per thousand board feet, or 2.9%, as compared to the same quarter of 2014.

Lumber sales volume in the U.S. market grew by 32 million board feet, or 7.2% over the fourth quarter, 2014. This growth is mostly attributable to sales from U.S. located sawmills acquired in the first half of 2015. Offsetting the growth in U.S. sales was a reduction of 29 million board feet, or 42.7%, and 13 million board feet, or 21.7%, sold to markets in China and Canada, respectively.

The increase in the average selling price of lumber reflects the strengthening of the U.S. Dollar against the Canadian Dollar by 17.7% on average, partially offset by lower benchmark prices in U.S. Dollar terms across all key species as compared to the fourth quarter of 2014.

Sales generated from logs, residual products and other increased by \$16.0 million or 22.7% compared to the same quarter of 2014. Nearly all of this increase is related to the disposal of log inventories at the Tacoma sawmill in Q4'15, higher chip prices and the strengthened U.S. Dollar.

Operations

Production costs increased by \$23.0 million or 6.7% over the fourth quarter of 2014, explained primarily by the impact of a weaker Canadian Dollar as noted above.

Depreciation of plant and equipment was \$18.5 million, up 25.7% from the fourth quarter of 2014. The majority of this increase is explained by the inclusion of depreciation on sawmills acquired in the first half of 2015, partially offset by lower operating rates at several sawmills.

Depletion and amortization of timber, roads and other was \$10.7 million, up 23.4% from the comparable quarter of 2014. The majority of this increase reflects higher rates of road amortization within the Company's B.C. Coastal logging division, due to production from camps with higher road costs.

Corporate and Other

Selling and administration expenses were \$10.2 million, up \$1.3 million from the fourth quarter of 2014. This increase reflects the growth of Interfor's operations through the acquisition of five sawmills in first half of 2015.

The \$9.3 million long term incentive compensation expense mostly reflects the impact of a 49.0% increase in the market price for Interfor Common Shares during the quarter.

Export taxes were negligible in Q4'15 in respect of lumber shipments from the Company's Canadian operations to the U.S. because of the expiration of the SLA on October 12, 2015. The duty rate was 0% throughout the comparable quarter of 2014.

In Q4'15, the Company took an impairment charge recorded in Restructuring costs of \$2.9 million on equipment to be replaced in 2016 as a result of changes to government regulations.

Finance costs increased to \$5.5 million from \$2.3 million in the fourth quarter, 2014. Financing the acquisition of five sawmills and capital improvements through borrowings in 2015 contributed to a higher average level of debt outstanding in Q4'15 as compared to Q4'14.

Other income increased by \$0.9 million in Q4'15, primarily as the result of the sale of timber tenures in the B.C. Interior.

Income Taxes

The Company recorded an income tax recovery of \$6.9 million in Q4'15, comprised of a \$0.3 million current tax expense and a \$7.2 million deferred tax recovery, mainly in respect of its U.S. operations.

Net Earnings (Loss)

The Company recorded a net loss of \$3.5 million or \$0.05 per share, compared to a net loss of \$5.2 million or \$0.08 per share in the comparable period, 2014. Adjusted Net Earnings were \$5.5 million or \$0.08 per share compared with \$10.2 million or \$0.15 per share in Q4'14.

Summary of 2015 Financial Performance

Sales

Interfor recorded \$1.7 billion in total sales, up 16.6% from \$1.4 billion in 2014, driven by the sale of 2.7 billion board feet of lumber at an average price of \$513 per mfbm. Lumber sales volume increased 370 million board feet, or 16.2%, while average selling price declined \$3 per thousand board feet, or 0.6%, as compared to 2014.

The growth in lumber sales volume was primarily in the U.S., where sales increased by 485 million board feet or 30.6% over 2014. This growth is mostly attributable to the impact of seven sawmills acquired since March 14, 2014. Partially offsetting this growth in U.S. sales was a 110 million board foot, or 38.4%, reduction in volume sold to China.

The decline in the average selling price of lumber reflects lower benchmark prices in U.S. Dollar terms for key species as compared to 2014, partially offset by the strengthening of the U.S. Dollar against the Canadian Dollar by 15.8% on average.

Sales generated from logs, residual products and other increased by \$56.3 million or 20.9% compared to 2014. Nearly all of this increase is related to wood chips and other residual products as a result of higher lumber production, the disposal of log inventories at the exited Tacoma sawmill and the stronger U.S. Dollar.

Operations

Production costs increased by \$311.5 million or 25.1% as compared to 2014, explained primarily by the 16.2% increase in lumber sales volume, higher costs at the Company's Canadian operations and the stronger U.S. Dollar as noted above.

Depreciation of plant and equipment was \$71.5 million, up 29.6% from 2014. The majority of this increase is explained by the inclusion of depreciation on seven sawmills acquired since March 14, 2014 and the stronger U.S. Dollar.

Depletion and amortization of timber, roads and other was \$37.5 million, up 29.6% as compared with 2014. The majority of this increase reflects higher rates of road amortization within the Company's B.C. Coastal logging division, due to production from camps with higher road costs, and a full period of amortization of a non-competition agreement associated with the acquisition of two sawmills on March 14, 2014.

Corporate and Other

Selling and administration expenses were \$46.8 million, up \$11.3 million from 2014. This increase reflects the growth of Interfor's operations with the acquisition of seven sawmills since March 14, 2014 and the stronger U.S. Dollar. The Company incurred \$2.1 million of non-recurring acquisition and integration costs, which represents an increase of \$0.5 million over similar costs incurred in 2014.

The \$5.4 million long term incentive compensation recovery in 2015 mainly reflects 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.

Export taxes of \$5.2 million were incurred in respect of lumber shipments from the Company's Canadian operations to the U.S. under the SLA. The duty rate averaged just over 6% for the first nine and a half months of 2015 until the SLA expired on October 12, 2015. The duty rate was 0% throughout 2014.

In the first quarter, 2015, Interfor 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 recorded in 2014.

On July 30, 2015, the Company announced a plan to exit the Tacoma sawmill and recorded related restructuring charges of \$10.1 million, including severance, an onerous contract, site closure costs and write-downs of inventories. Inventory write-downs reflect extraordinary declines in fair value subsequent to the decision date.

In Q4'15, the Company took an impairment charge recorded in Restructuring costs of \$2.8 million on equipment to be replaced in 2016 as a result of changes to government regulations. Finance costs increased to \$17.6 million from \$8.9 million in 2014. Financing the acquisition of seven sawmills since March 14, 2014, and capital improvements through borrowings contributed to a higher average level of debt outstanding in 2015.

Other foreign exchange loss of \$1.7 million is comprised primarily of foreign exchange losses on foreign exchange forward contracts.

Other income of \$0.8 million is comprised primarily of the gain on sale of timber tenures in the B.C. Interior in Q4'15.

Income Taxes

The Company recorded an income tax recovery of \$24.0 million in 2015, comprised of \$0.6 million of current taxes net of a \$24.6 million deferred tax recovery, mainly in respect of its U.S. operations.

Net Earnings (Loss)

The Company recorded a net loss of \$30.4 million or \$0.44 per share, compared to net earnings of \$40.7 million or \$0.62 per share in 2014. Adjusted Net Earnings were \$(20.0) million or \$(0.29) per share compared with \$62.3 million or \$0.94 per share in 2014.

Summary of Quarterly Results⁽¹⁾

	Unit	2015				2014			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Performance (Unaudited)									
Total sales	\$MM	411.4	430.8	429.7	415.4	389.0	373.1	390.2	294.8
Lumber	\$MM	325.0	343.3	352.2	340.7	318.6	303.0	325.2	230.4
Logs, residual products and other	\$MM	86.4	87.5	77.5	74.7	70.4	70.1	65.0	64.4
Operating earnings (loss)	\$MM	(6.3)	(11.6)	(25.8)	7.8	(1.1)	20.1	3.8	13.3
Net earnings (loss)	\$MM	(3.5)	(6.1)	(20.6)	(0.2)	(5.2)	11.0	7.4	27.5
Net earnings (loss) per share, basic and diluted	\$/share	(0.05)	(0.09)	(0.29)	(0.00)	(0.08)	0.16	0.11	0.43
Adjusted net earnings (loss) ⁽²⁾	\$MM	5.5	(15.4)	(14.7)	4.5	10.2	16.1	21.0	15.0
Adjusted net earnings (loss) per share, basic and diluted ⁽²⁾	\$/share	0.08	(0.22)	(0.21)	0.07	0.15	0.24	0.31	0.24
Adjusted EBITDA ⁽²⁾	\$MM	35.8	11.5	12.7	31.8	37.4	45.4	47.3	39.2
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	66.7	66.7	66.7	66.7
Shares outstanding - weighted average	million	70.0	70.0	70.0	67.8	66.7	66.7	66.7	63.8
Operating Performance									
Lumber production	million fbm	568	618	672	639	578	567	582	495
Total lumber sales	million fbm	615	686	719	632	620	595	628	439
Lumber sales - Interfor produced	million fbm	586	663	688	607	605	581	607	424
Lumber sales - wholesale and commission	million fbm	29	23	31	25	15	14	21	15
Lumber - average selling price ⁽³⁾	\$/thousand fbm	529	500	490	539	514	509	518	525
Average USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.3354	1.3089	1.2297	1.2412	1.1350	1.0890	1.0905	1.1033
Closing USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.3840	1.3394	1.2474	1.2683	1.1601	1.1208	1.0676	1.1053

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 this measure 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 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.

Two sawmills acquired on March 14, 2014, 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 closures of the Beaver sawmill and Tacoma sawmill impacted production and sales subsequent to June 30, 2014, and May 22, 2015, respectively.

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

Net debt at December 31, 2015 was \$452.3 million, or 38.4% of invested capital, representing an increase of \$249.8 million over the level of debt at December 31, 2014. Revaluation of U.S. Dollar denominated debt into Canadian Dollars resulted in an increase of \$65.4 million in 2015 over 2014 due to a 19.3% decline in the Canadian Dollar against the U.S. Dollar. In Q4'15, the 3.3% decline in the Canadian Dollar against the U.S. Dollar resulted in an increase of \$14.6 million in net debt, despite a decline of US\$7.3 million in U.S. Dollar denominated borrowings.

Thousands of dollars	For the 3 months ended		For the year ended	
	December 31,		December 31,	
	2015	2014	2015	2014
Net debt				
Net debt, period opening, CAD	\$ 461,474	\$ 203,570	\$ 202,553	\$ 140,762
Net drawing (repayment) on credit facilities, CAD	(19,207)	(16,945)	182,949	59,428
Impact on USD denominated debt from weakening CAD	14,592	7,600	65,391	15,512
(Increase) decrease in cash and equivalents, CAD	(4,556)	8,328	1,410	(13,149)
Net debt, period ending, CAD	\$ 452,303	\$ 202,553	\$ 452,303	\$ 202,553
Net debt components by currency				
US Dollar debt, period opening, USD	\$ 345,957	\$ 205,000	\$ 190,000	\$ 135,900
Net drawing (repayment) on credit facilities, USD	(7,258)	(15,000)	148,699	54,100
US Dollar debt, period ending, USD	\$ 338,699	\$ 190,000	338,699	190,000
Spot rate, period end			1.3840	1.1601
US Dollar debt expressed in CAD			468,759	220,419
Cash and cash equivalents, CAD			(16,456)	(17,866)
Net debt, period ending, CAD			\$ 452,303	\$ 202,553

As at December 31, 2015, the Company had net working capital of \$168.9 million and available liquidity of \$112.1 million, including cash and borrowing capacity on operating and term 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. Certain other terms were also changed, resulting in an increase in the maximum borrowing available under the financing agreement. Based on the revised terms, available liquidity would have been \$147.0 million as at December 31, 2015.

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 \$66.8 million of cash flow from operations before changes in working capital in 2015, down \$76.1 million over 2014. Incremental cash flow generated from increased sales was offset by reduced sales margin, and increases of \$11.3 million and \$5.2 million to selling and administration costs and export taxes, respectively.

There was a net cash inflow from operations after changes in working capital of \$101.4 million in 2015, with \$34.5 million of cash generated from operating working capital. In 2014, \$18.8 million of cash was generated from operating working capital, leading to \$161.8 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled \$333.3 million in 2015, including \$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 and timber licences and other intangibles and \$26.1 million for development of logging roads. Discretionary mill improvements of \$71.5 million during the period included \$43.9 million for the Castlegar sawmill rebuild.

In 2014, total investing activities of \$200.9 million included \$124.4 million for the acquisition of Tolleson Ilim Lumber Company, and \$51.7 million for property, plant and equipment and \$26.7 million for development of logging roads.

Cash Flow from Financing Activities

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.

In 2014, net drawings on the Company's credit facilities were \$59.4 million with total cash from financing activities of \$51.5 million.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2015, including major capital improvements are summarized as follows:

Thousands of Canadian dollars	Total	Payments due by Period			
		Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and accrued liabilities	\$ 114,325	\$ 114,325	\$ -	\$ -	\$ -
Income taxes payable	398	398	-	-	-
Reforestation liability	37,848	11,052	8,054	8,692	10,050
Long term debt ⁽²⁾	468,759	-	191,959	-	276,800
Provisions and other liabilities	41,378	15,315	6,032	1,813	18,218
Operating leases and capital commitments	42,620	19,310	12,910	7,260	3,140
Total obligations⁽¹⁾	\$ 705,328	\$ 160,400	\$ 218,955	\$ 17,765	\$ 308,208

Note: (1) Figures in this table may not add due to rounding.

(2) On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2015:

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	\$ 276,800	\$ 69,200	\$ 611,000
Maximum borrowing available	\$ 62,820	\$ 183,723	\$ 276,800	\$ 69,200	\$ 592,543
Less:					
Drawings	-	179,920	276,800	12,039	468,759
Outstanding letters of credit included in line utilization	9,396	-	-	2,290	11,686
Unused portion of facility	\$ 53,424	\$ 3,803	-	\$ 54,871	\$ 112,098

As at December 31, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Operating Line and Revolving Term Line limits.

As stated above, based on the revised terms, available liquidity would have been \$147.0 million as at December 31, 2015.

As of December 31, 2015, the Company had commitments for capital expenditures totaling \$7.8 million, related to 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, 2015.

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, 2015, such instruments aggregated \$47.4 million (December 31, 2014 - \$30.9 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign currency exchange rates. The Company's policy is not to use derivatives for trading or speculative purposes. Risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items. The counter-parties for all derivative contracts 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, 2015, Interfor had drawn a total of \$192.0 million of floating rate debt, excluding letters of credit, from its Revolving Term Line and U.S. Operating Line. 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.

The Company has four interest rate swaps outstanding. On March 25, 2013, the Company entered into two interest rate swaps, each with a notional value of US\$25.0 million maturing on February 27, 2017. Under the terms of these swaps, the Company pays an amount based a fixed annual interest rate of 0.84% and receives payment based on 90 day LIBOR which is recalculated at set interval dates.

On April 14, 2014, the Company entered into two interest rate swaps, each with a notional value of US\$25.0 million maturing on April 14, 2016. Under the terms of these swaps, the Company pays an amount based a fixed annual interest rate of 0.58% and receives payment based on 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, 2015, being an asset of \$0.1 million (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (2014 - \$0.1 million) and a loss of \$0.1 million (2014 - nil) has been recognized in Other comprehensive income.

Based on the Company's average debt level during 2015, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$0.1 million in Net loss.

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 forward, collar and option 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, 2015, the Company had no outstanding forward currency exchange contract obligations (2014 - \$0.2 million liability recorded in Trade accounts payable and provisions). All foreign currency gains or losses on foreign currency contracts in 2015 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, 2015, the Company had designated the US\$130.0 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 \$56.5 million unrealized foreign exchange gain 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 2015 (2014 - \$20.4 million gain).

Outstanding Shares

As of December 31, 2015, 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, 2015.

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, 2015.

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, 2015, 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 unusual items. 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 unusual items. The unit cost for U.S. logs is based on purchase cost. When net realizable value is lower than cost, a charge to operating earnings is recorded. 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, 2015 and concluded that there were no impairments.

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.

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, 2015, and have not been applied in preparing the Company's 2015 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. The Company does not expect this standard to have a significant effect on its financial statements.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet completed an assessment of the impact, if any, of this standard 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 new 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:

Thousands of Canadian dollars	For the 3 months ended December 31,		For the year ended December 31,		
	2015	2014	2015	2014	2013
Adjusted Net Earnings					
Net earnings (loss)	(3,507)	(5,187)	(30,386)	40,690	42,239
Add:					
Restructuring costs, capital asset and timber write-downs	2,866	857	12,829	24,129	371
Other foreign exchange loss (gain)	(473)	1,646	1,651	2,651	1,250
Long term incentive compensation expense (recovery)	9,335	13,864	(5,431)	23,933	18,841
Other (income) expense	(863)	(3)	(757)	37	(602)
Beaver sawmill post-closure wind-down costs	6	367	365	1,083	-
Tacoma sawmill post-acquisition losses	698	-	11,009	-	-
Income tax effect of above adjustments	(2,564)	(1,301)	(9,311)	(10,951)	(1,432)
Recognition of previously unrecognized deferred tax assets	-	-	-	(19,253)	-
Adjusted net earnings (loss) ⁽¹⁾	5,498	10,243	(20,031)	62,319	60,667
Weighted average number of shares - basic and diluted ('000)	70,030	66,730	69,488	66,005	57,694
Adjusted net earnings (loss) per share ⁽¹⁾	0.08	0.15	(0.29)	0.94	1.05
Adjusted EBITDA					
Net earnings (loss)	(3,507)	(5,187)	(30,386)	40,690	42,239
Add:					
Depreciation of plant and equipment	18,482	14,707	71,492	55,167	39,206
Depletion and amortization of timber, roads and other	10,734	8,699	37,478	28,912	23,061
Restructuring costs, capital asset and timber write-downs	2,866	857	12,829	24,129	371
Finance costs	5,459	2,268	17,569	8,915	9,069
Other foreign exchange loss (gain)	(473)	1,646	1,651	2,651	1,250
Income tax expense (recovery)	(6,943)	160	(24,017)	(16,230)	555
EBITDA	26,618	23,150	86,616	144,234	115,751
Add:					
Long term incentive compensation expense (recovery)	9,335	13,864	(5,431)	23,933	18,841
Other (income) expense	(863)	(3)	(757)	37	(602)
Beaver sawmill post-closure wind-down costs	6	363	363	1,075	-
Tacoma sawmill post-acquisition losses	698	-	10,928	-	-
Adjusted EBITDA ⁽¹⁾	35,794	37,374	91,719	169,279	133,990
Pre-tax return on total assets					
Operating earnings (loss) before restructuring costs	(3,461)	(259)	(23,111)	60,192	52,882
Total assets ⁽²⁾	1,383,751	1,058,346	1,229,160	946,325	728,083
Pre-tax return on total assets ⁽³⁾	(1.0%)	(0.1%)	(1.9%)	6.4%	7.3%
Net debt to invested capital					
Net debt					
Total debt	468,759	220,419	468,759	220,419	145,479
Cash and cash equivalents	(16,456)	(17,866)	(16,456)	(17,866)	(4,717)
Total net debt	452,303	202,553	452,303	202,553	140,762
Invested capital					
Net debt	452,303	202,553	452,303	202,553	140,762
Shareholders' equity	725,254	636,480	725,254	636,480	515,137
Total invested capital	1,177,557	839,033	1,177,557	839,033	655,899
Net debt to invested capital ⁽⁴⁾	38.4%	24.1%	38.4%	24.1%	21.5%

Notes:

- (1) 2015 adjusted net earnings, adjusted net earnings per share and adjusted EBITDA have been revised for inclusion of Tacoma sawmill post-acquisition losses arising in Q1'15.
- (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 cost 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 75% 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 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. In 2015, the Company sold two non-replaceable Forest Licences associated with dead pine stands in the B.C. Interior.

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, such as 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 2016 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.

Regulatory changes to meet new Ecosystem Based Management ("EBM") requirements in the Central Coast of B.C. are also expected to impact the Company's timber supply in 2016, and these are not compensable. The AAC impact is not known at this time.

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, although 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 British Columbia, 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 British Columbia 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 British Columbia has been working to improve the functional relationship between the Crown and aboriginal groups prior to treaty settlement. The Province of British Columbia and some First Nations groups on the coast of British Columbia 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.

On June 26, 2014, the Supreme Court of Canada ("SCC") released its ruling on *Tsilhqot'in vs. British Columbia*. This ruling may define, for the first time, the criteria upon which aboriginal title rests and is considered a positive development for the Company. It is also an important motivation for the Federal and Provincial governments to move forward on the reconciliation and treaty process in British Columbia.

The SCC ruling applies to 2% of the Tsilhqot'in traditional territory in a remote area of central British Columbia. To date, aboriginal title has not been established in any of the Company's tenures and doing so will likely be a lengthy and complex process. The Company will continue to manage its operations within the existing legal framework while paying close attention to the direction provided by the Province of British Columbia and First Nations regarding the application of this ruling. Therefore, risks and uncertainties remain consistent with those referenced above.

Softwood Lumber Agreement

The majority (approximately 85%) of Interfor's softwood lumber production is not impacted by the SLA. 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. The SLA 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. If the governments do not negotiate a new agreement, the U.S. may launch trade action after the standstill period ends. This may result in the imposition of U.S. protective measures such as countervailing and anti-dumping duties leveled against Canadian softwood lumber producers.

There is no assurance there will be any new trade agreement forthcoming or if a new trade agreement was reached whether new export measures could adversely affect the Company's Canadian operations. Further, if there is no new agreement and the U.S. decides to take trade action, the earliest date preliminary duties could take effect will be sometime in 2017, with retroactive charges to October, 2016. The amount and impact of duties cannot be determined at this time. Canada is expected to defend itself vigorously in any trade action taken by the U.S.

Stumpage Fees

The Province of British Columbia 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 British Columbia.

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"). A new collective agreement was negotiated with the CMSG in 2015, which expires September 30, 2019.

In 2015, the Company acquired sawmills in Meldrim, Georgia and Longview, Washington where employees are represented by the American USW and the International Association of Machinist and Aerospace Workers ("IAM"), respectively. The American USW collective agreement expires on June 30, 2016, while the IAM collective agreement expires on November 15, 2016.

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.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the integrity and fair presentation of the accompanying consolidated financial statements. The financial statements were prepared in accordance with International Financial Reporting Standards and, where necessary, are based in part on management's best estimates and judgements. Financial information included elsewhere in the 2015 Annual Report is consistent with that disclosed in the consolidated financial statements.

Management maintains a system of internal accounting control which it believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Audit Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report thereon. The Company's independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP, whose report follows.

"Duncan K. Davies"

President and Chief Executive Officer

"John A. Horning"

Executive Vice President and Chief Financial
Officer

February 11, 2016

CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of Interfor Corporation (the "Company") which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

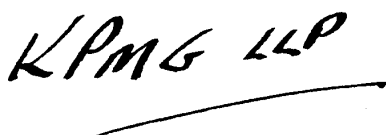
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Interfor Corporation as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.



KPMG LLP, Chartered Accountants

February 11, 2016
Vancouver, Canada

Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2015 and 2014

	<i>Note</i>	December 31 2015	December 31 2014
Assets			
Current assets:			
Cash and cash equivalents	10	\$ 16,456	\$ 17,866
Trade accounts receivable and other		95,218	80,283
Income tax receivable	19	459	-
Inventories	6	155,740	148,668
Prepayments and other		15,512	12,175
Assets held for sale	5	27,836	-
		311,221	258,992
Employee future benefits	22	1,570	2,520
Other investments and assets	7	3,191	2,972
Property, plant and equipment	4, 8	777,590	541,378
Logging roads and bridges	9	20,611	22,244
Timber licences	9	72,429	79,024
Other intangible assets	9	23,601	24,397
Goodwill	9	160,914	136,996
Deferred income taxes	19	18,669	-
		\$1,389,796	\$ 1,068,523
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	11	\$ 130,840	\$ 139,153
Reforestation liability	12	11,052	9,797
Income taxes payable	19	398	365
		142,290	149,315
Reforestation liability	12	25,074	23,099
Long term debt	10	468,759	220,419
Employee future benefits	22	8,391	7,361
Provisions and other liabilities	11	20,028	25,190
Deferred income taxes	19	-	6,659
Equity:			
Share capital	13	553,559	490,363
Contributed surplus		7,665	7,476
Translation reserve		77,425	20,950
Hedge reserve		62	133
Retained earnings		86,543	117,558
		725,254	636,480
		\$ 1,389,796	\$ 1,068,523

Commitments and contingencies (*note 20*); Subsequent events (*note 10*).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director

"D.W.G. Whitehead", Director

Consolidated Statements of Earnings (Loss)
 (Expressed in thousands of Canadian Dollars, except earnings per share)
 Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Sales		\$1,687,375	\$1,447,157
Costs and expenses:			
Production		1,554,975	1,243,464
Selling and administration	4	46,756	35,489
Long term incentive compensation expense (recovery)	11	(5,431)	23,933
Export taxes		5,216	-
Depreciation of plant and equipment	8	71,492	55,167
Depletion and amortization of timber, roads and other	9	37,478	28,912
		<u>1,710,486</u>	<u>1,386,965</u>
Operating earnings (loss) before restructuring costs		(23,111)	60,192
Restructuring costs	18	(12,829)	(24,129)
Operating earnings (loss)		(35,940)	36,063
Finance costs	16	(17,569)	(8,915)
Other foreign exchange loss		(1,651)	(2,651)
Other income (expense)	17	757	(37)
		<u>(18,463)</u>	<u>(11,603)</u>
Earnings (loss) before income taxes		(54,403)	24,460
Income tax expense (recovery):	19		
Current		614	1,342
Deferred		(24,631)	(17,572)
		<u>(24,017)</u>	<u>(16,230)</u>
Net earnings (loss)		<u>\$ (30,386)</u>	<u>\$ 40,690</u>
Net earnings (loss) per share, basic and diluted	21	<u>\$ (0.44)</u>	<u>\$ 0.62</u>

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(Expressed in thousands of Canadian Dollars)

Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Net earnings (loss)		\$ (30,386)	\$ 40,690
Other comprehensive income:			
Items that will not be recycled to Net earnings (loss):			
Defined benefit plan actuarial losses	22	(1,005)	(1,342)
Items that are or may be recycled to Net earnings (loss):			
Foreign currency translation differences for foreign operations, net of tax		56,475	20,389
Loss in fair value of interest rate swaps	16, 26	(71)	(34)
Income tax on other comprehensive income	19	376	-
Total items that are or may be recycled to Net earnings (loss)		56,780	20,355
Total other comprehensive income, net of tax		55,775	19,013
Comprehensive income		\$ 25,389	\$ 59,703

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

(Expressed in thousands of Canadian Dollars)

Years ended December 31, 2015 and 2014

	<i>Note</i>	Common Shares	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
Balance at December 31, 2013		\$ 428,723	\$ 7,476	\$ 561	\$ 167	\$ 78,210	\$ 515,137
Net earnings:		-	-	-	-	40,690	40,690
Other comprehensive income (loss):							
Foreign currency translation differences for foreign operations, net of tax		-	-	20,389	-	-	20,389
Defined benefit plan actuarial losses, net of tax	22	-	-	-	-	(1,342)	(1,342)
Loss in fair value of interest rate swaps	26	-	-	-	(34)	-	(34)
Contributions:							
Shares issued in business combination	4, 13(a)	61,640	-	-	-	-	61,640
Balance at December 31, 2014		490,363	7,476	20,950	133	117,558	636,480
Net earnings (loss):		-	-	-	-	(30,386)	(30,386)
Other comprehensive income (loss):							
Foreign currency translation differences for foreign operations, net of tax		-	-	56,475	-	-	56,475
Defined benefit plan actuarial losses, net of tax	22	-	-	-	-	(629)	(629)
Loss in fair value of interest rate swaps	26	-	-	-	(71)	-	(71)
Contributions:							
Share issuance, net of share issue expenses	4, 13(a)	63,196	-	-	-	-	63,196
Stock options	13(b)	-	189	-	-	-	189
Balance at December 31, 2015		\$ 553,559	\$ 7,665	\$ 77,425	\$ 62	\$ 86,543	\$ 725,254

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Cash provided by (used in):			
Operating activities:			
Net earnings (loss)		\$ (30,386)	\$ 40,690
Items not involving cash:			
Depreciation of plant and equipment	8	71,492	55,167
Depletion and amortization of timber, roads and other	9	37,478	28,912
Income tax recovery	19	(24,017)	(16,230)
Finance costs	16	17,569	8,915
Other assets		639	986
Reforestation liability	12	1,612	1,910
Other liabilities and provisions		(8,252)	(63)
Stock options	13(b)	189	-
Reversal of write-down of plant and equipment	18	(1,195)	-
Write-down of plant and equipment	8, 18	2,812	20,468
Unrealized foreign exchange losses (gains)		(337)	2,191
Other income (expense)	17	(758)	46
		66,846	142,992
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		8,748	(8,628)
Inventories		48,717	15,083
Prepayments and other		3,017	1,236
Trade accounts payable and accrued liabilities		(24,986)	14,185
Income taxes paid		(965)	(3,077)
		101,377	161,791
Investing activities:			
Additions to property, plant and equipment	8	(93,832)	(48,922)
Additions to logging roads	9	(26,133)	(26,656)
Additions to timber and other intangible assets	9	(1,500)	(2,818)
Acquisitions	4	(223,263)	(124,421)
Proceeds on disposal of property, plant and equipment		12,509	1,926
Investments and other assets		(1,033)	(13)
		(333,252)	(200,904)
Financing activities:			
Issuance of share capital, net of share issue expenses	4, 13(a)	63,196	-
Interest payments		(16,186)	(7,122)
Debt refinancing costs		(292)	(757)
Change in operating line components of long term debt	10	10,057	(1,789)
Additions to long term debt	10	362,582	223,221
Repayments of long term debt	10	(189,691)	(162,004)
		229,666	51,549
Foreign exchange gain on cash and cash equivalents held in a foreign currency		799	713
Increase (decrease) in cash and cash equivalents		(1,410)	13,149
Cash and cash equivalents, beginning of year		17,866	4,717
Cash and cash equivalents, end of year		\$ 16,456	\$ 17,866

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

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

These consolidated financial statements of the Company as at and for the years ended December 31, 2015 and 2014 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on February 11, 2016.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statements of Financial Position:

- (i) Derivative financial instruments are measured at fair value;
- (ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (iii) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the defined benefit obligations on a plan by plan basis.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian Dollars, which is the parent company's functional currency. Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar and are translated to Canadian Dollars. All financial information presented in Canadian Dollars has been rounded to the nearest thousand except number of shares and per share amounts.

(d) Use of estimates and judgements:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of certain assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized, on a prospective basis, in the period in which the estimates are revised.

2. Basis of Preparation (continued):

(d) Use of estimates and judgements (continued):

Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, share-based compensation, recoverability of assets, rates for depreciation, depletion and amortization, fair values of assets and liabilities acquired in business combinations and impairment analysis of non-financial assets including goodwill.

Information about the use of management estimates that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

<i>Note 3(e)</i>	Inventories
<i>Note 3(f)</i>	Assets held for sale
<i>Note 3(j)</i>	Impairment of non-financial assets
<i>Note 3(k)</i>	Reforestation and other decommissioning provisions
<i>Note 3(n)</i>	Cash-settled share based compensation
<i>Note 3(o)</i>	Equity-settled share based compensation
<i>Note 4</i>	Acquisitions
<i>Note 9</i>	Roads and bridges, timber tenures, other intangible assets and goodwill
<i>Note 12</i>	Reforestation liability

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from their respective dates of acquisition or incorporation. All intercompany balances, including unrealized income and expenses arising from intercompany transactions have been eliminated upon consolidation.

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in Net earnings. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the functional currency of the respective entity at transaction date exchange rates. Monetary assets and liabilities denominated in foreign currencies are revalued using the exchange rate at the reporting date.

3. Significant accounting policies (continued):

(b) Foreign currency (continued):

(i) Foreign currency transactions (continued):

Foreign exchange differences arising on revaluation are recognized in Net earnings. Where revaluations relate to trade accounts receivables those foreign exchange differences are adjusted to Sales in the Statement of Earnings; where revaluations relate to trade accounts payables those foreign exchange differences are adjusted to Production costs in the Statement of Earnings.

(ii) Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. Revenues and expenses of such foreign operations are translated to Canadian Dollars at the transaction date exchange rate, or at average rates for the period which approximate the transaction date, as appropriate. Assets and liabilities are translated into Canadian Dollars at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in Other comprehensive income, and recorded to the Translation reserve in Equity.

Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in Other comprehensive income and presented in the Translation reserve in Equity.

(iii) Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's net investments in foreign operations.

Foreign currency differences arising on the revaluation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in Foreign currency translation differences in Other comprehensive income to the extent that the hedge is effective, and presented in the Translation reserve in Equity. To the extent that the hedge is ineffective, such differences are recognized in Other foreign exchange gain (loss) in Net earnings.

When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting, any accumulated unrealized foreign exchange differences remaining in the Translation reserve and subsequent unrealized foreign exchange differences are recorded in Other foreign exchange gain (loss) in Net earnings. When the hedged net investment is disposed of, the relevant amount in the Translation reserve is reclassified to Net earnings.

3. Significant accounting policies (continued):

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, trade accounts payable and accrued liabilities, provisions, and loans and borrowings including long term debt.

Cash and cash equivalents and trade and other receivables are designated as loans and receivables and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses.

Trade payables and accrued liabilities, provisions, and loans and borrowings including long term debt are designated as other financial liabilities and are initially measured at fair value and thereafter at amortized cost using the effective interest rate method.

There are no financial instruments classified as available-for-sale or held-to-maturity.

(ii) Derivative financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign exchange, interest rates, and commodity price risks. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company has chosen not to designate derivative foreign currency exchange forward contracts and collar contracts as hedges for accounting purposes. Consequently, these derivative financial instruments, designated as held-for-trading, are carried on the Statements of Financial Position at fair value, with changes in fair value being recorded in Other foreign exchange gain (loss) in Net earnings.

The Company at times holds derivative interest rate swaps to hedge its interest rate risk exposures and may designate these financial instruments as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under its long term debt. The effective portion of changes in the fair value of the derivative are recognized in Other comprehensive income and presented in the Hedging reserve in Equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in Net earnings.

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of Shares and share options are recognized as a deduction from equity, net of any tax effects.

3. Significant accounting policies (continued):**(d) Cash and cash equivalents:**

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(e) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average of cost of production on a three month rolling average, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment. Net realizable value is the estimated selling price in the normal course of business, less estimated costs of completion and selling expenses.

Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are boomed, or in aggregate on a species and sort basis where the logs are not boomed.

Cost for internally produced log inventories is determined as the weighted average cost of logging on a twelve month rolling average, lagged by one month, for the B.C. Coast and on a three month rolling average for the B.C. Interior, and adjusted for abnormal costs, as in the case of a curtailment. Log inventories purchased from external sources are valued at acquisition cost.

Net realizable value of logs is based on either market replacement cost or, for logs designated for lumber processing, on estimated net realizable value less estimated costs of completion and selling expenses.

Other inventories consist primarily of supplies which are recorded at lower of cost and replacement cost, which approximates net realizable value.

(f) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if available for immediate sale and if it is highly probable that their carrying amount will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that losses are not allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in Net earnings.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

3. Significant accounting policies (continued):

(g) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation on machinery and equipment is provided on the basis of hours operated relative to the asset's lifetime estimated operating hours.

Depreciation on all other assets is provided on a straight-line basis (ranging from 2.5% to 33% per year) over the estimated useful lives of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

Maintenance costs are recorded as expenses as incurred, with the exception of programs that extend the useful life of an asset or increase its value, which are capitalized.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being those requiring a substantial period of time prior to availability for their intended use, are capitalized.

(h) Logging roads and bridges:

Logging roads and bridges are recorded at cost less accumulated amortization and impairment losses. Road and bridge amortization is computed on the basis of timber cut relative to available timber.

Amortization methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

(i) Intangible assets:

(i) Timber licences:

Timber licences are recorded at cost less accumulated depletion and impairment losses. Timber licence depletion is computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

(ii) Goodwill:

Goodwill is measured at cost less accumulated impairment losses. See Note 3(a) for the policy on measurement of goodwill at initial recognition.

(iii) Other intangible assets:

Other intangible assets are recorded at cost less accumulated amortization and impairment losses. Amortization on other intangible assets is provided on a straight-line basis ranging from five to ten years, being the estimated useful lives of the assets. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

3. Significant accounting policies (continued):

(j) Impairment of non-financial assets:

The Company's non-financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests are carried out annually for goodwill or when an indicator of impairment is identified.

External indicators of impairment include adverse changes in expected future prices, costs and other market and economic factors. Internal indicators include changes in the expected useful life of an asset or changes to the planned capacity of an asset.

An impairment loss is charged to Net earnings if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on the higher of its fair value less direct costs to sell and its value in use.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal and does not consider future capital enhancements.

For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (cash generating units or "CGU"). Goodwill is allocated to CGU's or groups of CGU's expected to benefit from it.

Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

An impairment loss recorded against goodwill is not reversed.

(k) Reforestation and other decommissioning provisions:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences and to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of reforestation and road deactivation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

3. Significant accounting policies (continued):

(k) Reforestation and other decommissioning provisions (continued):

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimates and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of 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 in terms of reforestation; and road structure and terrain for road deactivation.

Discount rates reflect the risks specific to the decommissioning provision. Adjustments are made to decommissioning provisions each period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time are recognized as Finance costs and revisions to fair value calculations are recognized as Production costs in Net earnings as they occur.

(l) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures to prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when rehabilitation efforts are likely to occur and the costs can be reasonably estimated.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings.

(m) Employee benefits:

Defined benefit pension and other post-retirement benefit obligation accruals are estimated using actuarial methods and assumptions, including management's best estimates of the discount rate, future investment earnings, salary escalation, and health care costs and are calculated using the projected unit credit method.

Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

Actuarial gains and losses arise from actual experience being different from the assumptions, or changes in actuarial assumptions used to determine the defined benefit obligation, and are recognized in Other comprehensive income in the year in which they occur.

3. Significant accounting policies (continued):

(m) Employee benefits (continued):

Pension expenses for defined contribution plans are limited to the Company's contribution to the plans in respect of services rendered by employees, as the Company has no legal or constructive obligation to pay further amounts. Plans administered by the government and the industry-wide unionized employees' pension plan are treated as defined contribution plans.

(n) Cash-settled share based compensation:

The Company has a Share Appreciation Rights ("SAR") Plan, a Deferred Share Unit ("DSU") Plan and a Total Shareholder Return ("TSR") Plan for directors, officers and certain other eligible employees. The Company uses the fair value method of accounting for obligations under the SAR, DSU and TSR Plans.

Compensation expense is recorded for SARs over the vesting period based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest.

Compensation expense is recorded for DSUs either at the time of the grant, in the case of DSUs which vest immediately, or over the performance period, in the case of DSUs with deferred vesting, based on the fair value at the date of the grant.

Compensation expense is recorded for TSRs over the performance period based on the estimated fair value of the TSRs at the date of the grant. Fair value is measured using a combination of call options which are valued using a Black-Scholes pricing model.

The fair value of the SARs, DSUs and TSRs are subsequently measured at each reporting date with any changes in fair value reflected in the Long term incentive compensation expense in Net earnings. Liabilities are recorded in Trade accounts payable and provisions and Provisions and other liabilities on the Statement of Financial Position.

(o) Equity-settled share based compensation:

The Company has an employee Stock Option Plan for its key employees and directors. The Company uses the fair value method of accounting for obligations under this Plan.

The grant-date fair value of options is recognized as an incentive compensation expense, with a corresponding increase in contributed surplus, over the vesting period. The fair value of the options is determined using the Black-Scholes option pricing model which take into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the shares, and the risk-free interest rate over the expected life of the option. Cash consideration received from employees when they exercise the options is credited to share capital, as is the previously calculated fair value included in contributed surplus.

3. Significant accounting policies (continued):

(p) Sales revenue:

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, including amounts charged to customers for freight, wharfage and handling costs. Actual costs of export taxes, freight, wharfage and handling are recorded to Export taxes and Production, respectively, in Net earnings.

(q) Finance income and costs:

Finance income comprises net interest income on funds invested.

Finance costs comprise net interest expense on borrowings, the unwinding of the discount on decommissioning provisions, net interest on defined benefit plans, the amortization of prepaid finance costs and other related transaction costs.

(r) Income tax:

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in Net earnings except to the extent that they relate to a business combination, or items recognized directly in Equity or in Other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but the intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

3. Significant accounting policies (continued):

(s) Earnings per share:

Basic earnings per share is computed by dividing Net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting Net earnings and the weighted average number of common shares outstanding during the reporting period for the effects of all dilutive potential common shares, including outstanding stock options, if any.

(t) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2015, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

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

In May 2014, the International Accounting Standards Board 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 process of assessing the impact, if any, on the financial statements of this new standard.

On January 13, 2016 the International Accounting Standards Board published a new standard, IFRS 16, *Leases*, eliminating 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, a lease becomes an on-balance sheet liability that attracts interest, together with a new 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.

4. Acquisitions:

On March 1, 2015, Interfor concluded the acquisition of sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington from Simpson Lumber Company, LLC ("Simpson"), pursuant to an Asset Purchase Agreement ("APA") for total consideration of US\$146,088,000 (\$182,654,000).

Consideration per the APA included a series of future payments tied to the financial performance of the Tacoma sawmill. The contingent future payments are calculated and payable over three years as follows:

- (a) An annual payment equal to half of the Tacoma sawmill's EBITDA for each of the three years post-closing; and
- (b) A final payment at the end of the third year equal to 2.5 times the Tacoma sawmill's average annual EBITDA over the three year period.

The minimum total contingent future payments as outlined in (a) and (b) combined are US\$10,000,000 and the Company recorded a discounted provision of US\$9,464,000 (\$11,833,000) in Provisions and other liabilities in the Consolidated Statements of Financial Position as part of the acquisition. On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington. On December 22, 2015, the Company signed an agreement to sell the related real estate, subject to customary closing conditions (note 5). The completion of the sale will accelerate the payment due date of the contingent liability to within 45 days of the real estate closing, with the payout expected to equal the US\$10,000,000 minimum.

As at December 31, 2015, the provision of US\$9,643,000 was revalued at the year-end exchange rate to \$13,345,000 and recorded in Trade accounts payable and provisions in the Consolidated Statement of Financial Position. The Company recorded accretion expense of \$238,000 in 2015.

On June 19, 2015, Interfor concluded the acquisition of sawmill operations in Monticello, Arkansas from The Price Lumber Company, Inc. ("Monticello"), for total consideration of US\$35,627,000 (\$43,699,000).

In 2013, the Company acquired the Thomaston sawmill operations from Keadle Lumber Enterprises, Inc. ("Keadle"). Upon acquisition, the Company agreed to pay additional consideration of US\$7,000,000, contingent upon receipt of an upgrade to the air permit which allows the Company to operate a second shift. Approval was received on February 28, 2014, and a payment of \$8,743,000 was made on February 27, 2015.

4. Acquisitions (continued):

These acquisitions have been accounted for as business combinations and the value of the consideration transferred was allocated as follows:

	Note	Simpson	Monticello	Keadle	Total
Net assets acquired:					
Current assets		\$ 57,661	\$ 2,900	\$ -	\$ 60,561
Property, plant and equipment	9	129,227	40,846	-	170,073
		186,888	43,746	-	230,634
Current liabilities assumed		(4,234)	(47)	-	(4,281)
		\$ 182,654	\$ 43,699	\$ -	\$ 226,353
Consideration funded by:					
Cash		\$ -	\$ -	\$ 8,743	\$ 8,743
Revolving Term Loan	10(b)	107,625	43,675	-	151,300
Current liabilities		-	24	-	24
Cash consideration from Common Share issuance	13(a)	63,196	-	-	63,196
Cash consideration		170,821	43,699	8,743	223,263
Contingent future payments	11	11,833	-	-	11,833
Provisions and other liabilities	11	-	-	(8,743)	(8,743)
		\$ 182,654	\$ 43,699	\$ -	\$ 226,353

Transaction costs of \$2,105,000 related to the acquisitions were expensed in Selling and administration expenses in Net earnings in 2015.

Since acquisition, Simpson and Monticello contributed sales of \$183,502,000 and a net loss of \$31,564,000 to the Company's results, including a \$13,238,000 net loss at the Tacoma sawmill. If the acquisitions had occurred on January 1, 2015, management estimates that Sales and Net loss would have been \$1,745,323,000 and \$37,753,000, respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition dates would have been the same if the acquisitions had occurred on January 1, 2015.

On March 14, 2014, a wholly-owned subsidiary of Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A. ("Ilim"), pursuant to a Share Purchase Agreement for total consideration of \$188,545,000. Tolleson, through its wholly-owned subsidiary, owned and operated two sawmills in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. Subsequent to the acquisition, both Tolleson and its wholly-owned subsidiary were merged into the Company's wholly-owned subsidiary which had acquired the common shares of Tolleson.

4. Acquisitions (continued):

The Tolleson acquisition was accounted for as a business combination and the value of consideration transferred was allocated as follows:

	<i>Note</i>	
Assets acquired:		
Cash and cash equivalents		\$ 2,484
Other current assets		16,790
Property, plant and equipment	8	86,561
Other intangible assets	9	22,190
Goodwill	9	107,419
		<hr/> 235,444
Liabilities assumed:		
Current liabilities		(15,929)
Long term provisions and other liabilities		(6,697)
Deferred income taxes	19	(24,273)
		<hr/> \$ 188,545
Consideration funded by:		
Current liabilities		\$ 2,086
Operating Line		24,964
Revolving Term Line		99,855
Cash consideration		126,905
Share capital (3,680,000 Common Shares)		61,640
		<hr/> \$ 188,545

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

In conjunction with recognizing a \$24,273,000 deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized \$19,253,000 of previously unrecognized deferred tax assets related to its U.S. operations.

Transaction costs of \$1,368,000 related to the acquisition were expensed in Selling and administration expenses in Net earnings in 2014.

5. Assets held for sale:

On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington and classified US\$20,113,000 of the Tacoma sawmill property and buildings as assets held for sale (note 8). As at December 31, 2015, these assets have been revalued at the year-end exchange rate to \$27,836,000. In accordance with IFRS, these assets are no longer amortized.

There is a cumulative foreign currency translation gain of \$2,689,000 included in Other comprehensive income relating to the translation of the assets held for sale.

5. Assets held for sale (continued):

The Company does not expect to recognize any impairment losses on the remeasurement of the Tacoma sawmill net assets to the lower of their carrying amount and the fair value less costs to sell. See note 18 for a discussion of provisions and inventory write-downs associated with the closure.

A sale of substantially all assets of the Tacoma sawmill will accelerate the due date of contingent future payments, as described in note 4. On December 22, 2015, the Company entered into a purchase and sales agreement to sell the remaining real estate assets, subject to customary closing conditions. The sale is expected to complete in mid-2016.

6. Inventories:

	2015	2014
Logs	\$ 69,980	\$ 71,841
Lumber	69,046	66,798
Other	16,714	10,029
	\$ 155,740	\$ 148,668

Inventory expensed in the period includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at December 31, 2015, was \$11,961,000 (2014 - \$9,025,000).

7. Other investments and assets:

	2015	2014
Timber deposits and other investments and deposits	\$ 1,528	\$ 809
Deferred financing fees, net of accumulated amortization	1,663	2,163
	\$ 3,191	\$ 2,972

Notes to Consolidated Financial Statements

Years ended December 31, 2015 and 2014

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

8. Property, plant and equipment:

Cost	Note	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
Balance at December 31, 2013		\$ 38,711	\$ 86,011	\$ 519,313	\$ 19,048	\$ 23,912	\$ 46,009	\$ 6,887	\$ 10,307	\$ 750,198
Additions		212	382	-	787	1,319	2,604	1,302	40,618	47,224
Acquisitions		1,930	4,972	73,368	2,927	1,535	1,824	5	-	86,561
Disposals		(106)	(123)	(1,270)	(719)	(21)	(208)	(15)	-	(2,462)
Transfers		-	1,141	25,626	5,163	370	4,445	2,303	(39,207)	(159)
Exchange rate movements		654	3,489	27,251	685	1,209	1,796	92	697	35,873
Balance at December 31, 2014		41,401	95,872	644,288	27,891	28,324	56,470	10,574	12,415	917,235
Additions		1,772	424	6	16	2,124	320	4,777	86,671	96,110
Acquisitions		30,485	16,199	99,549	1,844	6,152	2,723	186	12,935	170,073
Disposals		(643)	(5,873)	(30,868)	(1,936)	(4,317)	(1,803)	(957)	-	(46,397)
Transfers		334	15,194	65,936	2,157	5,471	6,974	(1,228)	(95,992)	(1,154)
Reclassification to assets held for sale	5	(25,066)	(1,044)	-	(1)	-	(23)	(135)	-	(26,269)
Exchange rate movements		3,667	10,359	81,701	2,034	3,807	5,071	741	2,357	109,737
Balance at December 31, 2015		\$ 51,950	\$ 131,131	\$ 860,612	\$ 32,005	\$ 41,561	\$ 69,732	\$ 13,958	\$ 18,386	\$ 1,219,335
Accumulated Depreciation			Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other		Total
Balance at December 31, 2013			\$ 31,029	\$ 202,063	\$ 12,960	\$ 16,409	\$ 22,177	\$ 4,630		\$ 289,268
Depreciation			4,684	41,145	2,125	2,934	3,687	592		55,167
Disposals			(102)	(959)	(374)	(14)	(208)	(15)		(1,672)
Transfers			-	11	-	(6)	11	(16)		-
Impairment			2,996	16,672	-	7	793	-		20,468
Exchange rate movements			1,147	9,513	293	831	765	77		12,626
Balance at December 31, 2014			39,754	268,445	15,004	20,161	27,225	5,268		375,857
Depreciation			5,926	50,076	3,793	5,351	4,748	1,598		71,492
Disposals			(4,991)	(25,048)	(1,487)	(4,294)	(1,816)	(957)		(38,593)
Transfers			138	(592)	(3)	349	1,694	(1,586)		-
Impairment			37	2,775	-	-	-	-		2,812
Reversal of impairment			-	(1,195)	-	-	-	-		(1,195)
Reclassification to assets held for sale	5		(23)	-	(1)	-	-	(6)		(30)
Exchange rate movements			2,848	23,691	805	2,072	1,796	190		31,402
Balance at December 31, 2015			\$ 43,689	\$ 318,152	\$ 18,111	\$ 23,639	\$ 33,647	\$ 4,507		\$ 441,745
Net book value at										
December 31, 2014		\$ 41,401	\$ 56,118	\$ 375,843	\$ 12,887	\$ 8,163	\$ 29,245	\$ 5,306	\$ 12,415	\$ 541,378
December 31, 2015		51,950	87,442	542,460	13,894	17,922	36,085	9,451	18,386	777,590

There were \$477,000 of borrowing costs capitalized in 2015 (2014 - \$nil). Additions in 2015 include \$2,278,000 of accrued contract costs (2014 - \$1,698,000).

9. Roads and bridges, timber tenures, other intangible assets and goodwill:

Cost	Note	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2013		\$ 49,926	\$ 129,353	\$ 7,073	\$ 24,592
Additions		26,656	-	2,818	-
Transfers		-	-	159	-
Acquisition	4	-	-	22,190	107,419
Disposals		(7,461)	-	-	-
Exchange rate movements		279	-	1,179	5,862
Balance at December 31, 2014		69,400	129,353	33,419	137,873
Additions		26,133	589	911	-
Transfers		-	-	1,154	-
Disposals		(832)	(11,508)	(137)	-
Exchange rate movements		341	-	4,922	23,918
Balance at December 31, 2015		\$ 95,042	\$ 118,434	\$ 40,269	\$ 161,791
Accumulated amortization		Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2013		\$ 33,702	\$ 45,009	\$ 4,653	\$ 877
Amortization		19,539	5,320	4,053	-
Disposals		(6,280)	-	-	-
Exchange rate movements		195	-	316	-
Balance at December 31, 2014		47,156	50,329	9,022	877
Amortization		27,285	3,891	6,302	-
Disposals		(178)	(8,215)	(137)	-
Exchange rate movements		168	-	1,481	-
Balance at December 31, 2015		\$ 74,431	\$ 46,005	\$ 16,668	\$ 877
Net book value at					
December 31, 2014		\$ 22,244	\$ 79,024	\$ 24,397	\$ 136,996
December 31, 2015		20,611	72,429	23,601	160,914

For the purpose of impairment testing, goodwill components of \$13,078,000 and \$147,835,000 are attributable to the Coastal Whitewood cash-generating unit ("CWW CGU") and the U.S. Southeast cash-generating units ("SE CGU's"), respectively.

The recoverable amounts for the goodwill impairment assessments were based on the CGU's (or groups of CGU's) value in use and were determined by discounting the future cash flows generated from the continuing use of the units for a period of twenty years. The cash flows were projected based on past experience, actual operating results and the five year business plan in the assessment for both 2014 and 2015. Due to the cyclical nature of the forest industry, cash flows for a further 15 years were extrapolated based on an average trend year.

The recoverable amount of both the CWW CGU and the SE CGU as at December 31, 2015, and December 31, 2014 were determined to be higher than the related carrying amount and no impairment has been recognized.

9. Roads and bridges, timber tenures, other intangible assets and goodwill (continued):

Key assumptions used are based on industry sources, including Forest Economic Advisors, LLC, as well as management estimates. These assumptions include 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 and the future capital required to maintain the assets in their current operating condition.

A pre-tax discount rate of 16 percent (2014 – 16 percent) was applied in determining the recoverable amount of each CGU assessed. The discount rate was estimated with the assistance of external experts, past experience, and the industry average weighted average cost of capital. An inflation rate of 1.0 percent (2014 – 2.0 percent) is applied to the projected cash flows for years four through twenty.

The values assigned to key assumptions represent management's assessment of future trends in the forest industry and are based on both external sources and internal historical data.

10. Cash and borrowings:

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
2015					
Available line of credit	\$ 65,000	\$ 200,000	\$ 276,800	\$ 69,200	\$ 611,000
Maximum borrowing available	62,820	183,723	276,800	69,200	592,543
Drawings	-	179,920	276,800	12,039	468,759
Outstanding letters of credit included in line utilization	9,396	-	-	2,290	11,686
Unused portion of line	\$ 53,424	\$ 3,803	\$ -	\$ 54,871	\$ 112,098
2014					
Available line of credit	\$ 65,000	\$ 250,000	\$ 116,010	\$ 34,803	\$ 465,813
Maximum borrowing available	65,000	250,000	116,010	34,803	465,813
Drawings	-	104,409	116,010	-	220,419
Outstanding letters of credit included in line utilization	8,637	-	-	1,183	9,820
Unused portion of line	\$ 56,363	\$ 145,591	\$ -	\$ 33,620	\$ 235,574

Minimum principal amounts due on long term debt are follows:

2016	\$ -
2017	191,959 ¹
2018	-
2019	-
2020	-
Thereafter	276,800
	\$ 468,759

¹ On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

10. Cash and borrowings (continued):**(a) Operating Line:**

The Canadian operating line of credit ("Operating Line") may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

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

The Operating Line matures on February 27, 2017.

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. Certain other terms were also changed, resulting in an increase in the maximum borrowing available under the financing agreement.

As at December 31, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Operating Line and Revolving Term Line limits. Based on the changes to the agreement terms effective on February 9, 2016, this restriction was removed and total available liquidity would have been \$147,011,000 as at December 31, 2015.

As at December 31, 2015, the Operating Line was drawn by \$9,396,000 (2014 - \$8,637,000), including outstanding letters of credit. The Company did not recognize any unrealized foreign exchange gains or losses (2014 - \$72,000 gain) in Other comprehensive income in relation to the Operating Line borrowing in 2015.

As at December 31, 2015, \$53,424,000 of available credit on the Operating Line was unused (2014 - \$56,363,000).

(b) Revolving Term Line:

The Revolving Term Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹.

¹ EBITDA represents earnings before interest, taxes, depreciation, depletion, amortization and non-cash asset revaluations.

10. Cash and borrowings (continued):

(b) Revolving Term Line (continued):

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

On March 16, 2015, the Company decreased the credit available under its Revolving Term Line from \$250,000,000 to \$200,000,000. All other terms and conditions remained unchanged.

The Revolving Term Line matures on February 27, 2017. Refer to note 10(a) for a subsequent event impacting the maturity date of the Revolving Term Line.

As at December 31, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Operating Line and Revolving Term Line limits. As indicated in note 10(a), this restriction was removed by changes to the agreement terms effective February 9, 2016.

As at December 31, 2015, the Revolving Term Line was drawn by US\$130,000,000 (2014 - US\$90,000,000) revalued at the year-end exchange rate to \$179,920,000 (2014 - \$104,409,000). As at December 31, 2015, \$3,803,000 of available credit on the Revolving Term Line was unused (2014 - \$145,591,000).

All outstanding U.S. Dollar drawings under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and foreign exchange losses of \$30,649,000 for the year ended December 31, 2015 (2014 - \$10,770,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income.

(c) Senior Secured Notes:

On March 16, 2015, the Company issued US\$100,000,000 of Series C Senior Secured Notes, bearing interest at 4.17%. Together with the Series A Senior Secured Notes (US\$50,000,000, bearing interest at 4.33%) and Series B Senior Secured Notes (US\$50,000,000, bearing interest at 4.02%), US\$200,000,000 of Senior Secured Notes were outstanding as at December 31, 2015 (2014 - US\$100,000,000) and revalued at the year-end exchange rate to \$276,800,000 (2014 - \$116,010,000).

10. Cash and borrowings (continued):

(c) Senior Secured Notes (continued):

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Total payments of US\$33,333,000 (US\$16,667,000 for each of the Series A and Series B Senior Secured Notes) are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US\$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes. In conjunction with the modifications to the Operating Line and Revolving Term Line effective February 9, 2016, as per note 10(a), certain financial covenants of the Senior Secured Notes were also modified. All other terms and conditions remained unchanged.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$32,760,000 (2014 - \$4,705,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2015.

(d) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. On April 27, 2015, the Company extended the maturity of its U.S. Operating Line from April 28, 2015 to May 1, 2017 and increased the credit available from US\$30,000,000 to US\$50,000,000.

As at December 31, 2015, the U.S. Operating Line was drawn by US\$10,354,000, including outstanding letters of credit, revalued at the year-end exchange rate to \$14,330,000 (2014 - US\$1,020,000 revalued at the year-end exchange rate to \$1,183,000), with cumulative foreign exchange losses of \$2,053,000 (2014 - \$115,000 loss) recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2015.

As at December 31, 2015, \$54,871,000 (US\$39,647,000) of the U.S. Operating Line was unused (2014 - \$33,620,000, US\$28,980,000).

(d) Cash and cash equivalents:

At December 31, 2015, the Company's cash balances are restricted by contractor holdback payments of \$784,000 (2014 - \$15,000).

11. Provisions and other liabilities:

2015	Note	Current	Non-current	Total
Restructuring	11(a), 18	\$ 494	\$ 1,681	\$ 2,175
Road deactivation	11(a)	392	3,776	4,168
Environmental	11(a)	56	770	826
Cash-settled share based compensation				
SAR Plan	11(b)	6,089	879	6,968
TSR Plan	11(c)	4,189	1,525	5,714
DSU Plan	11(d)	-	8,651	8,651
Storm damage remediation funds	11(e)	224	291	515
Contingent future payment	4, 5	13,345	-	13,345
Retained compensation liabilities	11(f)	2,665	40	2,705
Lease incentives and other		179	2,415	2,594
		\$ 27,633	\$ 20,028	\$ 47,661
<hr/>				
2014	Note	Current	Non-current	Total
Restructuring	11(a), 18	\$ 627	\$ 1,498	\$ 2,125
Road deactivation	11(a)	406	3,645	4,051
Environmental	11(a)	56	772	828
Cash-settled share based compensation				
SAR Plan	11(b)	12,450	2,494	14,944
TSR Plan	11(c)	10,614	5,059	15,673
DSU Plan	11(d)	763	10,614	11,377
Storm damage remediation funds	11(e)	224	310	534
Retained compensation liabilities	11(f)	7,193	382	7,575
Air permit contingent payment	11(g)	8,121	-	8,121
Lease incentives and other		1,175	416	1,591
		\$ 41,629	\$ 25,190	\$ 66,819

The current portion of provisions and other liabilities is included in Trade accounts payable and provisions in the Statements of Financial Position.

(a) Provisions:

Forestry legislation in British Columbia requires the Company to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of road deactivation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

Environmental provisions are made when rehabilitation efforts are likely to occur and the costs can be reasonably estimated. The environmental provision relates primarily to obligations of the Castlegar sawmill.

11. Provisions and other liabilities (continued):

(a) Provisions (continued):

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings.

	Note	Restructuring	Road deactivation	Environmental
Balance at December 31, 2013		\$ 530	\$ 3,916	\$ 792
Provisions made during year	18	3,248	628	-
Expenditures made during year		(1,810)	(103)	(2)
Unwind of discount		-	83	15
Changes in estimated future expenditures		-	(473)	23
Exchange rate movements		157	-	-
Balance at December 31, 2014		2,125	4,051	828
Provisions made during year	18	4,131	346	-
Expenditures made during year		(4,556)	(218)	-
Unwind of discount		-	58	10
Changes in estimated future expenditures		-	(69)	(12)
Exchange rate movements		475	-	-
Balance at December 31, 2015		\$ 2,175	\$ 4,168	\$ 826

(b) Share Appreciation Rights Plan:

Awards under the SAR Plan have been granted to directors, officers and certain employees of the Company. The vesting of SARs occurs at a rate of 40% two years after granting and 20% per annum thereafter. SARs expire ten years after the date of grant. The SAR Plan uses notional units that are valued based on the Company's Common Share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities. Under the SAR Plan, awards will be expensed over the vesting periods based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest. Fair value of the SARs is subsequently measured at each reporting date with any change in fair value resulting in a change in the measure of the compensation for the award, which is amortized over the remaining vesting periods.

11. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

Details of the Company's SAR Plan for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,113,953	\$ 7.35	1,410,850	\$ 5.62
Granted	-	-	147,403	17.43
Exercised	(149,100)	5.77	(416,300)	5.19
Expired or cancelled	(35,045)	9.52	(28,000)	5.12
Outstanding, end of year	929,808	\$ 7.52	1,113,953	\$ 7.35
Units exercisable, end of year	509,250	\$ 5.03	427,350	\$ 4.37

Weighted average fair value assumptions for grants made in 2015 and 2014 are as follows:

	2015	2014
Risk-free interest rate	-	2.0%
Expected life	-	8.2 years
Annualized volatility	-	45%
Dividend rate	-	0%
Termination rate	-	12%
Grant date fair value	-	\$9.06

Details of units outstanding under the SAR Plan at December 31, 2015 are as follows:

Strike price	Units outstanding			Units exercisable	
	Number outstanding, December 31, 2015	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2015	Weighted average strike price
\$1.38-\$4.64	282,950	5.0	\$ 3.45	187,250	\$ 2.90
\$4.77-\$5.40	147,400	3.7	4.89	145,400	4.88
\$6.01-\$7.09	156,800	4.6	6.25	109,600	6.35
\$8.02-\$17.43	342,658	7.3	12.57	67,000	9.18
	929,808		\$ 7.52	509,250	\$ 5.03

For the year ended December 31, 2015, the Company recorded a Long term incentive compensation recovery in respect of the SAR Plan of \$4,730,000 (2014 – expense of \$9,210,000).

11. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan:

Under terms of the TSR Plan, a participant will receive a target number of performance share units ("PSUs") based on a target award divided by the value of the Company's Common Shares at the effective date of the grant. The number of PSUs which will ultimately vest will be in a range from 50% to 150% of the original grant based on total shareholder return over a three year performance period.

The number of PSU's outstanding at December 31, 2015 and 2014 are as follows:

	2015	2014
Outstanding, beginning of year	709,214	872,699
Granted	144,975	171,730
Matured	(335,990)	(326,961)
Cancelled	-	(8,254)
Outstanding, end of year	518,199	709,214

Compensation expense is recorded for the TSR Plan over the performance period based on the estimated fair value of the TSR Plan payable at the date of the grant. The fair value of obligations under the TSR Plan is subsequently measured at each reporting date with any changes in fair value reflected in Long term incentive compensation expense in Net earnings.

Fair value of the TSR Plan is measured using a combination of call options which are valued using a Black-Sholes pricing model with weighted average assumptions for grants as follows:

	2015	2014
Risk-free interest rate	0.9%	1.4%
Expected life	3 years	3 years
Annualized volatility	47% to 56%	47% to 56%
Dividend rate	0.00%	0.00%
Termination rate	0.00%	0.00%
Grant date fair value	\$2,340	\$2,175

For the year ended December 31, 2015, the Company recorded Long term incentive compensation expense under the TSR Plan of \$655,000 (2014 - \$10,429,000).

(d) Deferred Share Unit Plan:

The Company's directors and certain officers participate in the DSU Plan. The DSU Plan, which allows for immediate or deferred vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSUs either increase or decrease in value in a direct relationship with the market price of the Company's Common Shares.

Participants in the TSR Plan may elect, subject to the approval of the Company's Board of Directors, to receive their award in DSUs at the end of any performance period. DSUs may also be granted directly to directors or officers of the Company at the discretion of the Board of Directors, who are required to take DSUs as payment of at minimum 60% of their annual retainer.

11. Provisions and other liabilities (continued):

(d) Deferred Share Unit Plan (continued):

The number of DSUs outstanding at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	551,249	\$21.27	498,593	\$13.48
Granted ¹	157,973	18.73	70,656	15.29
Exercised	(86,271)	21.91	(18,000)	21.51
Outstanding, end of year	622,951	\$14.06	551,249	\$21.27

¹Fair value at the date of the grants.

Changes to the market value of the Company's Common Shares subsequent to issuance of awards will result in adjustments to the compensation accrual and Long term incentive compensation expense in Net earnings. In the year ended December 31, 2015, the Company recorded a recovery of \$2,835,000 (2014 - expense of \$4,890,000) in respect to the DSU Plan, of which a \$3,795,000 recovery (2014 - expense of \$4,294,000) was recorded in Long term compensation and a \$960,000 expense (2014 - \$596,000), related to payment for director's fees, was recorded in Selling and administration.

(e) Storm damage remediation funds:

In 2011, the Company settled with its insurers for recovery of certain losses relating to storm damage suffered in 2010. An amount of \$1,576,000 was set up as a provision for future remediation on roads and bridges. Under the terms of the insurance settlement, the insurance proceeds must be used for remediation. As at December 31, 2015, \$515,000 (2014 - \$534,000) of this provision remains unspent.

(f) Retained compensation liabilities:

Upon acquisition of the Tolleson sawmills on March 17, 2014, the Company assumed certain incentive payments payable to certain senior management over a four year period. The incentive is earned and recognized as a liability over the incentive period. The liability of US\$1,954,000 (2014 - US\$6,530,000) was revalued at the year-end exchange rate to \$2,705,000 (2014 - \$7,575,000).

(g) Air permit contingent payment:

Upon acquisition of the Thomaston sawmill operations from Keadle Lumber Enterprises Inc. in 2013, the Company agreed to pay additional consideration of US\$7,000,000, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift (note 4). Approval was received on February 28, 2014 and a payment of \$8,743,000 was made on February 27, 2015.

12. Reforestation liability:

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as logging occurs and the fair value of the liability for reforestation is determined with reference to the present value of estimated future cash flows required to settle the obligation.

Changes in the reforestation liability for the years ended December 31 are as follows:

	2015	2014
Reforestation liability, beginning of year	\$ 32,896	\$ 32,416
Reforestation expense on current logging and market logging agreements	12,888	11,264
Reforestation expenditures	(9,691)	(11,770)
Unwind of discount	360	529
Changes in estimated future reforestation expenditures	(327)	457
	\$ 36,126	\$ 32,896
Consisting of:		
Current reforestation liability	\$ 11,052	\$ 9,797
Long term reforestation liability	25,074	23,099
	\$ 36,126	\$ 32,896

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2015 is \$37,848,000 (2014 - \$34,628,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at a long term risk-free interest rate of 2% (2014 - 2%). Reforestation expense resulting from obligations arising from current logging and changes in estimated future expenditures are included in Production costs for the year and expense related to the unwinding of the discount is included in Finance costs.

13. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2015 consists of:

- 150,000,000 Common Shares ("Shares") without par value; and
- 5,000,000 Preference Shares without par value.

On May 6, 2014, the Company eliminated its 1,700,000 authorized Class B Common Shares ("Class B"), known as Multiple Voting Shares, re-designated its Class A Subordinate Voting Shares ("Class A") as Common Shares, and increased its authorized Common Shares by 50,000,000 shares to 150,000,000 shares.

13.Share capital (continued):

(a) Share transactions (continued):

Share transactions during 2015 and 2014 were as follows:

Issued and Fully Paid	Number	Amount
Balance, December 31, 2013	63,050,455	\$ 428,723
Shares issued in business combination (note 4)	3,680,000	61,640
Balance, December 31, 2014	66,730,455	490,363
Shares issued for cash, net of Share issue costs (note 4)	3,300,000	63,196
Balance, December 31, 2015	70,030,455	\$ 553,559

On January 27, 2015, the Company closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 Subscription Receipts (including 300,000 Subscription Receipts issued pursuant to the exercise of the over-allotment option) at a price of \$20.10 per Subscription Receipt, for cash proceeds, net of share issue costs, of \$63,196,000. In connection with the completion of the Simpson acquisition (note 4), each Subscription Receipt was exchanged, for no additional consideration, for one Common Share of the Company. The shares were issued on March 2, 2015 (note 4).

On March 14, 2014, the Company issued 3,680,000 Shares at a share price of \$16.75 per share to partially fund the acquisition of Tolleson (note 4).

At December 31, 2015, 1,631,740 Shares are reserved for possible future issuance pursuant to the share option plan.

(b) Equity-settled share based compensation:

The Company has an employee stock option plan for its key employees and directors under which options may be granted to purchase up to 1,631,740 Shares, of which 1,567,565 remain available for issuance. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. The exercise price of a stock option is at a price not less than the closing price of a Common Share on the trading day immediately preceding the grant date.

13.Share capital (continued):

(b) Equity-settled share based compensation (continued):

Details of the Company's equity-settled share based compensation plan for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	-	\$ -
Granted	78,926	21.85	-	-
Exercised	-	-	-	-
Expired or cancelled	(14,751)	22.22	-	-
Outstanding, end of year	64,175	\$ 21.77	-	\$ -
Options exercisable, end of year	-	\$ -	-	\$ -

Weighted average fair value assumptions for grants made in 2015 and 2014 are as follows:

	2015	2014
Risk-free interest rate	1.3%	-
Expected life	8.2 years	-
Annualized volatility	45%	-
Dividend rate	0%	-
Termination rate	12%	-
Grant date fair value	\$10.48	-

Details of options outstanding under the option plan at December 31, 2015 are as follows:

Strike price	Number outstanding, December 31, 2015	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs)	Weighted average exercise price	Number exercisable, December 31, 2015	Weighted average strike price
\$17.26-\$22.22	64,175	9.2	\$ 21.77	-	\$ -

The Company recognized an expense of \$189,000 for the year ended December 31, 2015 (2014 - \$nil) in Contributed surplus.

14. Depreciation, depletion and amortization:

Depreciation, depletion and amortization allocated by function are as follows:

	2015	2014
Production	\$ 100,988	\$ 79,359
Selling and administration	7,982	4,720
	\$ 108,970	\$ 84,079

15. Personnel expenses:

	Note	2015	2014
Wages and salaries		\$ 219,362	\$ 178,902
Government administered pensions and unemployment insurance		12,817	10,054
Workers' compensation insurance		7,505	5,046
Contributions to defined contribution plans	22	10,948	9,543
Expenses related to defined benefit plans	22	1,304	1,270
Cash-settled share based payment transactions and other long term compensation expense	11	5,431	23,933
Medical, dental, group insurance and other		34,027	16,446
		\$ 291,394	\$ 245,194

16. Finance costs:

Recognized in Net earnings (loss):

	2015	2014
Interest on borrowing	\$ (16,034)	\$ (7,568)
Net interest on defined benefit plans	(11)	79
Unwind of discount on provisions	(667)	(627)
Amortization of deferred finance costs	(857)	(799)
	\$ (17,569)	\$ (8,915)

Recognized in Other comprehensive income:

	2015	2014
Effective portion of changes in fair value of interest rate swap	\$ (71)	\$ (34)

17. Other income (expense):

	2015	2014
Gain (loss) on disposal of surplus equipment, licences and roads	\$ 758	\$ (46)
Gain (loss) on lumber futures trading	(1)	9
	\$ 757	\$ (37)

18. Restructuring costs:

	Note	2015	2014
Tacoma sawmill:			
Write-down of inventories	6	\$ 6,475	\$ -
Severance	9	3,016	-
Site closure costs	9	574	-
Onerous contract	9	64	-
Beaver-Forks operation:			
Write-down (reversal of write-down) of plant and equipment	9	(1,195)	20,468
Severance	9	5	689
Onerous contract	9	175	1,673
Write-down of inventories	9	32	-
Other			
Write-down of equipment	9	2,812	-
Severance	9	871	886
Other		-	413
		\$ 12,829	\$ 24,129

On July 31, 2014, the Company permanently closed its Beaver-Forks operation, located on the Olympic Peninsula in Washington, USA and sold substantially all of the related assets on February 26, 2015.

On July 30, 2015, the Company announced a plan to exit the Tacoma sawmill (note 4), classified the assets as Assets held for sale (note 5) and recorded related restructuring charges. Inventory write-downs reflect extraordinary declines in fair value of inventory subsequent to decision date.

In December, 2015, the Company recorded an impairment against boilers at its Preston sawmill located in Georgia, U.S., which are to be replaced in 2016 for regulatory compliance.

19. Income taxes:

Income tax expense is as follows:

	2015	2014
Current tax expense:		
Current year	\$ 895	\$ 1,281
Adjustments for prior periods	(281)	61
	614	1,342
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	(25,767)	3,330
Change in unrecognized deferred income tax assets	1,136	(20,902)
	(24,631)	(17,572)
	\$ (24,017)	\$ (16,230)

19. Income taxes (continued):

Income tax expense (recovery) recognized in Other comprehensive income is as follows:

	2015	2014
Defined benefit plan actuarial losses	\$ (376)	\$ -
Foreign currency translation differences for foreign operations	(321)	176
	\$ (697)	\$ 176

The reconciliation of income taxes at the statutory rate to the income tax recovery is as follows:

	2015	2014
Income tax expense (recovery) at the statutory rate of 26.00% (2014 - 26.00%)	\$ (14,145)	\$ 6,360
Change in unrecognized deferred income tax assets	1,136	(20,902)
Entities with different tax rates and foreign rate adjustments	(12,702)	(639)
Other	1,694	(1,049)
	\$ (24,017)	\$ (16,230)

The statutory tax rate did not change from 2014.

The Company has the following non-capital loss carryforwards that are available to reduce future taxable income:

- Canadian non-capital loss carry-forwards which total approximately \$125,000,000 (2014 - \$123,000,000), and expire between 2029 and 2033.
- U.S. net operating loss carry-forwards which total approximately US\$179,000,000 (2014 - US\$109,000,000), and expire between 2023 and 2035.

Unrecognized deferred income taxes:

The Company has unrecognized deferred income tax assets in relation to certain deductible temporary differences and unused tax losses that are available to carry forward against future taxable income.

Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred income tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the past several years, the Company has not recognized the benefit of its deferred income tax assets in excess of its deferred income tax liabilities in respect of Canadian operations, except in limited circumstances.

Deferred income tax assets related to the Company's Canadian operations are not recognized in respect of the following:

	2015	2014
Non-capital losses carried forward	\$ 27,313	\$ 22,769
Deductible temporary differences	11,398	6,273
	\$ 38,711	\$ 29,042

19. Income taxes (continued):

Recognized deferred income taxes assets (liabilities):

December 31, 2015	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Ending Balance
Deferred income tax assets					
Losses	\$ 72,304	\$ 45,323	\$ -	\$ -	\$ 117,627
Reserves	24,579	(5,847)	-	-	18,732
Tax credits	955	(844)	-	-	111
Defined benefit plan					
actuarial losses	692	-	376	-	1,068
Share issuance costs	694	-	-	-	694
Other	2,538	(18)	-	-	2,520
Deferred income tax liabilities					
Capital assets	(108,245)	(13,983)	-	-	(122,228)
Foreign currency translation differences for foreign operations					
	(176)	-	321	-	145
	\$ (6,659)	\$ 24,631	\$ 697	\$ -	\$ 18,669

December 31, 2014	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Ending Balance
Deferred income tax assets					
Losses	\$ 59,904	\$ 12,400	\$ -	\$ -	\$ 72,304
Reserves	15,242	3,093	-	6,244	24,579
Tax credits	955	-	-	-	955
Defined benefit plan					
actuarial losses	692	-	-	-	692
Share issuance costs	694	-	-	-	694
Other	1,252	1,474	-	(188)	2,538
Deferred income tax liabilities					
Capital assets	(78,521)	605	-	(30,329)	(108,245)
Foreign currency translation differences for foreign operations					
	-	-	(176)	-	(176)
	\$ 218	\$ 17,572	\$ (176)	\$ (24,273)	\$ (6,659)

20. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2016	\$ 19,310
2017	7,840
2018	5,070
2019	4,560
2020	2,700

(b) Surety Performance Bonds:

The Company has posted \$35,746,000 in surety performance bonds, with various expiry dates extending through December, 2020.

(c) Softwood Lumber Agreement:

The Canada-U.S. Softwood Lumber Agreement ("SLA") expired on October 12, 2015, eliminating export taxes on Canadian softwood lumber shipments to the United States.

A standstill provision within the SLA precludes the U.S. from bringing trade action against Canadian softwood lumber producers for twelve months from expiry of the agreement. It is uncertain whether a new agreement between the Governments of Canada and the U.S. will be reached.

It is not yet possible to reasonably assess the future impact of possible trade actions against the Company therefore no accrual has been recognized as of December 31, 2015.

(d) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

21. Net earnings per share:

Net earnings per share is based on the earnings attributable to shareholders and a weighted average number of Shares, as defined in note 13, outstanding for the year.

21. Net earnings per share (continued):

The reconciliation of the numerator and denominator is determined as follows:

	2015			2014		
	Net loss	Weighted average number of Shares	Per Share	Net earnings	Weighted average number of Shares	Per Share
Issued Shares at January 1		66,730			63,050	
Effect of Shares issued on:						
March 14, 2014		-			2,955	
March 2, 2015		2,758			-	
Basic and diluted earnings (loss) per Share	\$ (30,386)	69,488*	\$ (0.44)	\$ 40,690	66,005	\$ 0.62

*As the addition of stock options to the total Shares outstanding has an anti-dilutive impact on the diluted earnings (loss) per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per Share.

22. Employee future benefits and other post-retirement plans:

The Company maintains a number of savings and retirement plans that are available to employees that meet certain eligibility requirements.

(a) Defined contribution plans:

In Canada, salaried employees of the Company are provided with the opportunity to make voluntary contributions to a Registered Retirement Savings Plan ("RRSP") based on a percentage of an employee's earnings. The Company matches employees' RRSP contributions with contributions to a Deferred Profit Sharing Plan ("DPSP") with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions.

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2015, the pension expense for this plan is equal to the Company's contribution of \$1,785,000 (2014 - \$2,649,000).

Certain eligible employees of the Canadian Merchant Services Guild ("CMSG") are required to make contributions based on a percentage of earnings into a defined contribution plan. For 2015, the pension expense is equal to the Company's contribution of \$44,000 (2014 - \$49,000).

Employees of Interfor U.S. Inc. and Interfor Cedarprime Inc., wholly-owned U.S. operating subsidiaries of the Company, contribute a percentage of their earnings to a 401(k) plan which the Company matches and which vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2015, the pension expense for this plan is equal to the Company's contribution of \$4,374,000 (2014 - \$2,502,000).

22. Employee future benefits and other post-retirement plans (continued):

(b) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2015, the pension expense for these plans is equal to the Company's contribution of \$3,958,000 (2014 - \$3,346,000). As there is insufficient information available to enable the Company to account for this plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. The Company's liability is limited to its contributions.

(c) Supplementary pension plans:

The Company provides supplementary pension benefits to certain members of its senior management in the form of a notional extension to the DPSP in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company, with a portion of the commitments being secured by irrevocable letters of credit.

During 2015 the Company recorded an expense of \$788,000 (2014 - \$792,000) in respect of these plans. The amounts accrued for defined contribution commitments is \$6,062,000 (2014 - \$5,481,000).

The accrued liabilities of this plan are included in the Company's Statements of Financial Position as follows:

	2015	2014
Trade accounts payable and provisions	\$ 418	\$ 372
Employee future benefits obligation	5,644	5,109
	\$ 6,062	\$ 5,481

(d) Defined benefit plans:

The Company and the non-union hourly employees at the Adams Lake operations make contributions to a defined benefit pension plan that provides pension benefits upon retirement. The plan entitles a retired employee to receive monthly payments based on a schedule of defined benefit accruals for different periods of service.

The Company makes contributions to a defined benefit pension plan that provides pension benefits to certain eligible employees of the CMSG upon retirement. The plan provides a retired employee a monthly payment based on a percentage of their average earnings at retirement, and their years of service. In addition, the Company provides post-retirement medical and life insurance benefits to certain eligible CMSG retirees.

The Company maintains a non-contributory defined benefit pension plan for a former senior executive.

The Company provides post retirement life insurance benefits to eligible retirees of a wholly-owned subsidiary, Seaboard Shipping Company Limited ("SSCL"). In addition, specified individuals at SSCL receive a supplemental pension based on a percentage of final average earnings at retirement, and years of service. In 2014, SSCL settled all plan benefits for a defined benefit pension plan, which was terminated December 31, 2013.

22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The Company measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The most recent and the next scheduled actuarial valuations for funding purposes for the significant pension plans are:

	Most Recent Valuation	Next Scheduled Valuation
Adams Lake Pension Plan	December 31, 2013	December 31, 2016
CMSG Pension Plan	December 31, 2013	December 31, 2016

The significant pension plans are subject to the statutory requirements (including minimum funding requirements) of their respective jurisdictions and the Income Tax Act. Each plan's pace of funding is determined by the Company, subject to the statutory minimums and maximums.

In 2015, the Company paid contributions of \$698,000 (2014 - \$1,333,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credits totaling \$2,464,000 (2014 - \$2,376,000). In 2016, the Company expects to pay contributions of \$732,000 to its defined benefit plans, and hold a total of \$2,464,000 of letters of credit.

The Company has determined that, in accordance with statutory requirements of the plans (such as minimum funding requirements), the present value of refunds or reductions in future contributions for all plans is not lower than the balance of the total fair value of the plan assets less the total present value of obligations.

22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The following summarizes the pension and other post-retirement obligations:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Defined benefit obligation:				
Beginning of year	\$ 48,729	\$ 53,178	\$ 1,700	\$ 1,545
Service cost	920	746	45	35
Employee contributions	339	369	-	-
Interest cost	1,990	2,464	67	72
Benefit payments	(2,094)	(2,839)	(48)	(70)
Past service settlements	-	(186)	-	-
Actuarial loss due to:				
Demographic assumptions	-	802	-	29
Financial assumptions	1,593	5,411	49	89
Experience adjustment	28	138	-	-
Settlements	-	(11,354)	-	-
End of year	\$ 51,505	\$ 48,729	\$ 1,813	\$ 1,700
Plan assets:				
Beginning of year	\$ 50,575	\$ 56,882	\$ -	\$ -
Interest on plan assets	1,995	2,595	-	-
Employer contributions	650	1,263	48	70
Employee contributions	339	369	-	-
Benefit payments	(2,094)	(2,839)	(48)	(70)
Administration costs	(110)	(374)	-	-
Actuarial gain	665	4,395	-	-
Settlements	-	(11,716)	-	-
End of year	\$ 52,020	\$ 50,575	\$ -	\$ -
Asset ceiling:				
Beginning of year	\$ -	\$ (700)	\$ -	\$ -
Interest effect	-	(32)	-	-
Impact of settlements	-	732	-	-
End of year	\$ -	\$ -	\$ -	\$ -

22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

The following summarizes the balances recognized on the Statements of Financial Position:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Fair value of plan assets	\$ 52,020	\$ 50,575	\$ -	\$ -
Present value of unfunded obligations	(371)	(393)	(1,813)	(1,700)
Present value of funded obligations	(51,134)	(48,336)	-	-
Accrued benefit (obligation)	\$ 515	\$ 1,846	\$ (1,813)	\$ (1,700)

The following table shows the Company's net expense recognized in the Statement of Earnings and the actuarial (gains) losses recognized in Other comprehensive income:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Statement of Earnings				
Production expense	\$ 1,030	\$ 1,120	\$ 45	\$ 35
Finance (income) costs	(5)	(199)	67	72
Restructuring costs	-	176	-	-
	\$ 1,025	\$ 1,197	\$ 112	\$ 107
Other comprehensive loss (income)				
Actuarial losses (gains)	\$ 956	\$ 1,956	\$ 49	\$ 118
Effect of asset ceiling limit	-	(732)	-	-
	\$ 956	\$ 1,224	\$ 49	\$ 118

The Company's accrued benefit assets (liabilities) are included in the Company's Statements of Financial Position as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Employee future benefits asset	\$ 1,570	\$ 2,520	\$ -	\$ -
Trade accounts payable and provisions	(71)	(72)	(50)	(50)
Employee future benefits obligation	(984)	(602)	(1,763)	(1,650)
	\$ 515	\$ 1,846	\$ (1,813)	\$ (1,700)

22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

Plan assets consist of:

Asset category	2015	2014
Investment Funds		
Canadian Equity	\$ 13,735	\$ 13,515
Global	16,946	14,855
Money Market	831	816
Fixed Income	19,050	19,809
Balanced	483	520
Cash	8	66
Other	967	994
Total	\$ 52,020	\$ 50,575

The plan assets held in investment funds are managed by Investment Managers and the fair values of these investments have been determined based on the unit price of the underlying funds. As such, all investment funds are categorized as Level 2 in the fair value hierarchy.

Actuarial assumptions used in accounting for the Company maintained benefit plans (expressed as weighted averages) are:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Defined benefit obligation as of December 31				
Discount rate	3.75%	3.99%	3.75%	4.00%
Compensation increases ¹	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.99%	4.74%	3.96%	4.75%
Compensation increases ¹	3.50%	3.50%	-	-

¹Compensation increases only relate to the CMSG plan.

For measurement purposes at December 31, 2015, the Company has assumed a 5.60% health care cost trend in 2016 grading down to 4.38% in 2021 (2014 – 5.85% health care cost trend in 2015 grading down to 4.38% in 2021).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	\$ 7,533	\$ 250

The sensitivity to the discount rate has been determined assuming all other assumptions remain unchanged. An increase in the discount rate would have an opposite effect of similar magnitude.

The weighted average durations of the defined benefit pension plans and other post-retirement benefit plans is fifteen years.

22. Employee future benefits and other post-retirement plans (continued):

(d) Defined benefit plans (continued):

Through its defined benefit pension plans and other post-retirement benefits, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset liability mismatch – The defined benefit plan obligations are calculated using a discount rate set with reference to corporate bond yields. While the Adams Lake and CMSG pension plans hold some fixed income investments, both plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term. However, in the short term, there will be volatility in the funded status of the plans. The duration of the invested assets for the SSCL plan is approximately matched by the duration of the liabilities and are all held in fixed income investments.

Life expectancy – The majority of obligations are to provide benefits for the life of the member, so increases in life expectancy would result in increased obligations.

23. Related party transactions:

Key management personnel are comprised of the Company's directors and executive officers.

The remuneration of key management personnel was as follows:

	2015	2014
Salary and short-term employee benefits	\$ 7,171	\$ 6,577
Post-employment benefits	728	671
Share-based compensation expense (recovery)	(3,447)	18,791
	\$ 4,452	\$ 26,039

Obligations in relation to key management personnel, including directors, are as follows:

	2015	2014
Trade accounts payable and provisions	\$ 5,669	\$ 13,824
Employee future benefits obligation	3,591	3,238
Provisions and other liabilities	10,239	16,761
	\$ 19,499	\$ 33,823

24.Segmented information:

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

The Company sells to both foreign and domestic markets as follows:

	2015	2014
United States	\$ 1,144,927	\$ 864,309
Canada	236,517	231,733
Japan	140,900	127,279
China/Taiwan	110,828	170,785
Other export	54,203	53,051
	\$ 1,687,375	\$ 1,447,157

Sales by product line are as follows:

	2015	2014
Lumber	\$ 1,361,192	\$ 1,177,258
Logs	174,090	144,770
Wood chips and other by products	141,717	105,506
Ocean freight and other	10,376	19,623
	\$ 1,687,375	\$ 1,447,157

Non-current assets by geographic location are as follows:

	2015	2014
United States	\$ 709,002	\$ 467,241
Canada	369,573	342,290
	\$ 1,078,575	\$ 809,531

25.Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors the pre-tax return on total assets, which it defines as operating earnings before restructuring and capital asset write-downs, divided by the average of Total assets for the period.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long term through increases in share value.

25. Capital management (continued):

There were no changes in the Company's approach to capital management during 2015. Under its debt financing agreements, the Company cannot exceed a total debt to total capitalization ratio, with total debt defined as the total of indebtedness, including letters of credit, and long term debt, net of cash and cash equivalents up to \$20 million; and total capitalization defined as total debt plus shareholders' equity and subordinated debt, excluding non-controlling interests, deferred income taxes, and a maximum of \$20 million cumulative (from January 1, 2012) non-cash asset revaluations. The financial covenants under the debt financing agreements also carry a minimum working capital and a minimum net worth requirement.

The Company is in compliance with all of its debt covenants and expects to remain in compliance.

26. Financial instruments:**(a) Fair value of financial instruments:**

At December 31, 2015, the fair value of the Company's long term debt approximated its carrying value of \$468,759,000 (2014 - \$220,419,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

The Company may use a variety of derivative financial instruments to reduce its exposures to risks associated with fluctuations in foreign exchange rates, lumber prices, and floating interest rates on long-term debt. These include foreign currency forward, collar and option contracts, interest rate swaps and lumber futures.

The Company has four interest rate swaps outstanding, each with a notional value of US\$25,000,000. The intent of these interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense.

The Company entered into two interest rate swaps on March 25, 2013, each with notional value of US\$25,000,000 and maturing February 27, 2017. Under the terms of these swaps the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. On April 14, 2014, the Company entered into two interest rate swaps, each with a notional value of US\$25,000,000 and maturing on April 14, 2016. Under the terms of these interest swaps, the company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates.

26. Financial instruments (continued):

(b) Derivative financial instruments (continued):

In respect of its trading in foreign currency exchange forward, collar and option contracts, and interest rate swaps, the Company does not expect any credit losses in the event of non-performance by counterparties as the counterparties are the Company's bankers, which are all highly rated.

As at December 31, 2015, the Company had no outstanding obligations under foreign currency contracts.

Fair value of the Company's derivative financial instruments is measured based on Level 2 of the fair value hierarchy as defined under IFRS 13, *Fair Value Measurement* and summarized in the following table as at December 31, 2015 and 2014.

	2015	2014
Foreign exchange collars and forward contracts	\$ -	\$ (177)
Interest rate swaps	61	132
Total asset (liability), net	\$ 61	\$ (45)

Financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while financial instruments in a liability position are classified as Trade accounts payable and provisions. Financial instrument assets and liabilities are not netted, for purposes of presentation on the Statements of Financial Position.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2015 and 2014.

	2015	2014
Foreign exchange collars and forward contracts ¹	\$ (1,420)	\$ (884)
Interest rate swaps ²	(71)	(34)
Lumber futures ³	(1)	9
Total loss, net	\$ (1,492)	\$ (909)

¹ Recognized in Other foreign exchange gain (loss) in Net earnings (loss).

² Recognized in Other comprehensive income.

³ Recognized in Other income (loss) in Net earnings (loss).

26. Financial instruments (continued):

(c) Hedge of investment in foreign operations:

As at December 31, 2015, U.S. Dollar borrowings under the Revolving Term Line and Senior Secured Notes were designated as hedges against the Company's investment in its U.S. operations with unrealized foreign exchange gains (losses) recorded in Other comprehensive income as follows:

Designation date	Opening balance ¹	Additions ¹	Payments ¹	Closing balance ¹	Unrealized foreign exchange gains (losses) ²	
					2015	2014
October 1, 2008 ³	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,259)
March 2, 2013 ³	-	-	-	-	-	(4,184)
June 26, 2013 ⁴	50,000	-	-	50,000	(11,195)	120
March 13, 2014 ³	90,000	-	(15,000)	75,000	(17,313)	(4,958)
December 15, 2014 ³	-	-	-	-	-	(297)
December 17, 2014 ⁴	50,000	-	-	50,000	(11,195)	(4,825)
January 14, 2015 ³	-	10,000	-	10,000	(1,892)	-
February 26, 2015 ³	-	135,000	(135,000)	-	(4,112)	-
March 16, 2015 ⁴	-	100,000	-	100,000	(10,370)	-
March 30, 2015 ³	-	10,000	-	10,000	(1,260)	-
May 12, 2015 ³	-	35,000	-	35,000	(6,073)	-
	\$190,000	\$290,000	\$(150,000)	\$330,000	\$(63,410)	\$(15,403)

¹Denominated in U.S. Dollars.

³Drawn on Revolving Term Line.

²Denominated in Canadian Dollars.

⁴Drawn on Senior Secured Notes.

Repayments were de-designated as a hedge of the Company's investment in its U.S. operations.

(d) Financial risk management:

Financial instrument assets include cash and cash equivalents, deposits and accounts receivable. Cash and cash equivalents, deposits and accounts receivable are designated as loans and receivables and measured at amortized cost.

Financial instrument liabilities include bank indebtedness, accounts payable and other provisions, long term debt, and certain other long term liabilities. All financial liabilities are designated as other liabilities and are initially measured at fair value plus any direct transaction costs and subsequently at amortized cost using the effective interest method.

There are no financial instruments classified as available-for-sale or held-to-maturity.

The use of financial instruments exposes the Company to credit, liquidity and market risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

26. Financial instruments (continued):

(d) Financial risk management (continued):

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through its standards and procedures, management has developed a control environment in which employees are clear on roles and obligations and management regularly monitors compliance with its risk management policies and procedures.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers and from cash and cash equivalents.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer, and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on standard industry terms.

Most North American sales are conducted under standard industry terms. Most lumber sales outside of the North American markets are either insured as to 90% of the receivable amounts by the Export Development Corporation or are secured by documentary collections or irrevocable letters of credit.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has managed its credit tightly and has experienced minimal bad debts. Based on this past experience and its detailed review of trade accounts receivable past due which were considered uncollectible, a reserve in respect of doubtful accounts of \$67,000 was recorded as at December 31, 2015 (2014 - \$46,000).

Deposits

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. As such, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company did not provide any guarantees in 2015.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As log and lumber sales outside of the North American markets are typically insured by the Export Development Corporation to 90% or secured by irrevocable letters of credit, credit exposure for these sales is limited.

Accounts receivable carrying values at the reporting date by geographic region were as follows:

	2015	2014
United States	\$ 62,148	\$ 44,975
Canada	16,233	16,107
Japan	5,837	7,848
China/Taiwan	5,523	4,444
Other	5,477	6,909
	\$ 95,218	\$ 80,283

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations.

The Company also maintains an Operating Line, a Revolving Term Line and a U.S. Operating Line that can be drawn on to meet obligations.

The estimated cash payments due in respect of contractual and legal obligations including capital commitments are summarized as follows: ¹

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
Trade accounts payable and accrued liabilities	\$ 114,325	\$ 114,325	\$ -	\$ -	\$ -
Income taxes payable	398	398	-	-	-
Reforestation liability	37,848	11,052	8,054	8,692	10,050
Long term debt ²	468,759	-	191,959	-	276,800
Provisions and other liabilities	41,378	15,315	6,032	1,813	18,218
Operating leases and capital commitments	42,620	19,310	12,910	7,260	3,140
Total obligations	\$ 705,328	\$ 160,400	\$ 218,955	\$ 17,765	\$ 308,208

¹ Figures in table may not add due to rounding.

² On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return relative to risk.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, accounts payable and provisions, long term debt and intercompany loans 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 may use foreign currency exchange forward, collar and option 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.

At December 31, 2015, the Company has U.S. Dollar drawings under its Revolving Term Line and Senior Secured Notes of US\$330,000,000 (2014 – US\$190,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

As at December 31, the Company's accounts receivable were denominated in the following currencies (in thousands):

2015	CAD	USD	Japanese ¥
Accounts receivable	18,292	18,526	17,678
Accounts receivable held by foreign subsidiaries with USD functional currency	-	36,909	-
	18,292	55,435	17,678
2014	CAD	USD	Japanese ¥
Accounts receivable	19,745	20,773	27,211
Accounts receivable held by foreign subsidiaries with USD functional currency	-	31,184	-
	19,745	51,957	27,211

As at December 31, 2015, the domestic operations of the Company held cash and cash equivalents of US\$5,118,000 (2014 – US\$2,414,000). Cash and cash equivalents held by foreign subsidiaries totaled US\$320,000 (2014 - US\$9,650,000).

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Based on the Company's net exposure to foreign currencies as at December 31, 2015, including U.S. Dollar denominated cash and cash equivalents, long term debt and other financial instruments, the sensitivity of the U.S. Dollar balances to the Company's net annual earnings is as follows:

U.S. Dollar	\$0.01 increase vs CAD	\$269,000 decrease in net earnings
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Based on the Company's net exposure to foreign currencies as at December 31, 2015, in respect of its net investment in U.S. subsidiaries, the sensitivity of the U.S. Dollar balances to the Company's Other comprehensive income is as follows:

U.S. Dollar	\$0.01 increase vs CAD	\$1,652,000 increase in OCI
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Interest rate risk

The Company has reduced its exposure to changes in interest rates on borrowings by entering into interest rate swaps, as described in Note 26(b). The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. In addition, the Company issued US\$100,000,000 of Senior Secured Notes (note 10(c)) on March 16, 2015, which bear interest at a fixed rate of 4.17%.

Based on the Company's average debt level during 2015, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$74,000 in net earnings.

Other market price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements and such contracts are not settled net.

ANNUAL INFORMATION FORM

Prepared as of February 11, 2016

FORWARD LOOKING INFORMATION

This report contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words “will”, “is expected”, “forecast”, “target” and similar expressions. Such statements involve known and unknown risks and uncertainties that 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, among others: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; changes in government regulation; export and other trade barriers; environmental and community matters; labour disruptions; and other factors referenced herein and in Interfor’s 2015 annual Management’s Discussion & Analysis under “Risk and Uncertainties”, which is available on www.sedar.com. The forward-looking information and statements contained in this report are based on management’s current expectations and beliefs and are based on certain assumptions, including assumptions as to general business and economic conditions in the U.S., Canada, Japan and China, as well as other factors management believes are appropriate in the circumstances. 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.

DESCRIPTION OF THE BUSINESS

Interfor is a leading global supplier of lumber products. The Company has annual production capacity of approximately 3 billion board feet and offers one of the most diverse lines of lumber products to customers in North America, the Asia-Pacific region and Europe.

The Company has sawmilling operations in British Columbia, Washington, Oregon, Georgia, South Carolina and Arkansas. Interfor also owns value-added remanufacturing facilities in Washington and Georgia.

In this document, a reference to the “Company”, “Interfor”, “we” or “our” means Interfor Corporation, its predecessors and its subsidiaries.

COMPANY HISTORY AND DESCRIPTION

Our business originated in the 1930’s with a sawmill in Whonnock, about 48 kilometres east of Vancouver B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources.

The Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963 and, on December 1, 1979, was amalgamated with subsidiary Whonnock Forest Products Limited. On January 1, 1988, a change in name from Whonnock Industries Limited to International Forest Products Limited occurred. On February 10, 2006 we transitioned under the *Business Corporations Act* (British Columbia). Effective on May 6, 2014, the Company’s name was changed to Interfor Corporation. Our head office and our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

Our significant indirectly wholly-owned subsidiary, Interfor U.S. Inc., is incorporated in the State of Washington and owns and operates our U.S. sawmills. Interfor Cedarprime Inc. (incorporated in the State of Washington) is also an indirectly wholly owned subsidiary of Interfor. Directly wholly-owned subsidiaries include Interfor Sales & Marketing Ltd.

(incorporated in British Columbia), Interfor Japan Ltd. (incorporated in British Columbia), Interfor Insurance Corporation (incorporated in Barbados), and Seaboard Shipping Company Limited (incorporated in British Columbia).

RECENT DEVELOPMENTS

2013

Increased North American demand as U.S. housing markets continued to improve, coupled with price tension created by off-shore markets resulted in higher sales realizations and higher operating rates in 2013.

On March 1, 2013, Interfor concluded the acquisition of Rayonier Inc.'s Wood Products Business in Georgia, U.S.A. for US\$84.4 million, adding three sawmills (Baxley, Eatonton and Swainsboro) and a combined 360 million board feet to its annual lumber capacity and broadening its product mix to include Southern Yellow Pine ("SYP"). We have filed a Business Acquisition Report on SEDAR with respect to this acquisition.

On May 1, 2013, the Company acquired two timber tenures in the Kootenay Region of B.C. from Springer Creek Management Ltd. The tenures have a combined allowable annual cut ("AAC") of approximately 174,000 cubic metres and will support increased production levels at the Castlegar sawmill.

On July 1, 2013, the Company added a fourth sawmill (Thomaston) in Georgia for US\$39.1 million, of which US\$32.1 million was paid on closing. Payment of US\$7.0 million was contingent upon receipt of an upgrade to the air permit which would allow the Company to operate a second shift. This permit was received in 2014 and the payment was made in February, 2015.

On September 30, 2013, the Company closed a public offering of 7,187,500 Common Shares at a price of \$12.00 per share for gross proceeds of \$86.3 million, with proceeds used to complete capital upgrades and reduce debt.

2014

On March 14, 2014, Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company from Ilim Timber Continental, S.A. for total consideration of \$188.5 million, comprising \$126.9 million in cash and 3,680,000 Common Shares valued at \$61.6 million. This acquisition added two sawmills located in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. We have filed a Business Acquisition Report on SEDAR with respect to this acquisition.

On June 27, 2014, the Company announced a curtailment of its Beaver-Forks operation on the Olympic Peninsula in Washington State. Following a comprehensive strategic review, permanent closure of the operation and consolidation of production at Interfor's Port Angeles facility was announced on July 31, 2014.

On November 6, 2014, Interfor announced a \$50 million capital project to upgrade its sawmill in Castlegar, B.C. to convert the Castlegar mill to a two line operation with state-of-the-art technology and optimization. The project was substantially completed in 2015 with full operating performance targeted for the first quarter, 2016.

On December 17, 2014, the Company completed a US\$50 million term debt financing with Prudential Capital Group. The senior secured notes carry an annual interest rate of 4.02% and have a final maturity of June 26, 2023.

On December 18, 2014, Interfor signed an agreement to acquire four sawmills from Simpson Lumber Company, LLC, for consideration of US\$94.7 million, plus working capital and contingent future consideration.

2015

On January 27, 2015, Interfor closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 Subscription Receipts at a price of \$20.10 per Subscription Receipt, for aggregate gross proceeds of \$66.3 million (the "Offering"). Each Subscription Receipt entitled the holder thereof, for no additional consideration and without further action, to one Common Share upon closing of the acquisition of four sawmills and associated working capital from Simpson Lumber Company, LLC ("Simpson"). Net proceeds of the Offering were used to partially fund this acquisition.

On March 1, 2015, Interfor completed its acquisition of four sawmills and associated working capital from Simpson. The sawmills are located in Tacoma, Washington; Longview, Washington; Meldrim, Georgia and Georgetown, South Carolina and fit within the Company's existing operating infrastructure.

On March 16, 2015, the Company completed a US\$100 million term debt financing of Senior Secured Notes with Prudential Capital Group. The Senior Secured Notes carry an annual interest rate of 4.17% and have a final maturity of March 26, 2026. The proceeds were used to reduce the drawings under the Company's Revolving Term Line. In conjunction with this financing, Interfor decreased the credit available under its Revolving Term Line from \$250 million to \$200 million, without change to other terms and conditions.

On April 27, 2015, Interfor extended the maturity date of its U.S. Operating Line from April 28, 2015, to May 1, 2017, and increased the credit available under that line from US\$30 million to US\$50 million to provide enhanced financial flexibility. All other terms and conditions remain substantially unchanged.

On May 22, 2015, Interfor curtailed operations at its Tacoma sawmill as a result of challenging lumber and log market conditions. Following a comprehensive strategic review, the Company announced its decision on July 30, 2015, to exit the mill. The Tacoma sawmill accounted for 47 million board feet of production in 2015 since acquisition.

On June 19, 2015, Interfor closed its acquisition of a sawmill and associated working capital in Monticello, Arkansas, from Price Lumber Company. This acquisition increased Interfor's U.S. South capacity to 1.3 billion board feet and raised the proportion of Interfor's total capacity in the U.S. South to more than 40%.

MANUFACTURING AND TIMBER SUPPLY

We operate five sawmills in B.C. and have U.S. operations comprising two sawmills and one remanufacturing plant in Washington, two sawmills in Oregon, one sawmill in South Carolina, one sawmill in Arkansas, and seven sawmills and one remanufacturing plant in Georgia. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

In addition to improving our manufacturing capability through upgrades, we have increased our efficiency and geographic diversity and expanded our current capacity through the addition of four sawmills in Georgia, South Carolina, Washington and Arkansas, respectively, during 2015.

Rated capacity and production of lumber for each mill is set out in the following table:

Sawmills	Present Rated Capacity (1)	Production for years ended December 31,		
		2015	2014	2013
		(millions of board feet)		
B.C. Coast ⁽²⁾	320	164	198	182
B.C. Interior	735	620	744	699
U.S. Northwest ^(3,4)	625	655	539	569
U.S. Southeast ⁽⁵⁾	1,320	1,058	741	275
Total	3,000	2,497	2,222	1,725

(1) Based on two shifts per day and adjusted for regional operating parameters.

(2) Volumes include lumber custom-cut at third party facilities under the direction of Hammond management amounting to 11 million board feet in 2014.

(3) The Beaver and Tacoma sawmills were curtailed on June 27, 2014 and May 22, 2015, respectively.

(4) The Longview and Tacoma sawmills were acquired on March 1, 2015. The Tacoma mill was permanently curtailed in August, 2015 and is not included in rated capacity. Volumes reported are Interfor only.

(5) The Baxley, Eatonton and Swainsboro sawmills were acquired March 1, 2013. The Thomaston sawmill was acquired on July 1, 2013. The Perry and Preston sawmills were acquired March 14, 2014. The Meldrim and Georgetown sawmills were acquired on March 1, 2015. The Monticello sawmill was acquired on June 19, 2015. Volumes reported are Interfor only.

CANADIAN OPERATIONS

B.C. Coast

Hammond

The Hammond operation is located on the Fraser River in Maple Ridge, B.C. The facility is focused on western red cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. The facility consists of a three-line sawmill, a planer mill and dry kilns.

Acorn

The Acorn operation is located on leased land in Delta, B.C. The facility consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. The sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

B.C. Interior

Adams Lake

The Adams Lake operation is located near Kamloops, B.C. The mill manufactures kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets. Adams Lake has the capability to cut Douglas-fir as well as spruce-pine-fir ("SPF"), western red cedar and hemlock.

The sawmill was rebuilt in 2008 to match the current and future timber resource in the area and incorporated proven technology that has materially improved the operating efficiency and cost structure of the Adams Lake operation.

Castlegar

Our Castlegar operation, located in the southern interior of B.C., includes a sawmill, dry kilns, a planer and transportation system for transporting logs on Arrow Lake. It has timber tenures with an AAC of 624,000 cubic metres and manufactures fir-larch, SPF, cedar and hemlock dimension lumber.

In 2015 Interfor rebuilt the sawmill, installing state-of-the-art technology and increasing capacity to 210 million board feet. Construction was substantially completed in October, 2015, with the ramp up to full capacity expected by the end of the first quarter of 2016.

Grand Forks

Our Grand Forks sawmill is located in the southern interior of B.C. and manufactures kiln dried lumber for the U.S. and Canadian construction markets as well as the housing market in Japan. It has timber tenures with an AAC of 514,000 cubic metres. The sawmill cuts approximately 70% SPF and 30% fir-larch.

B.C. Timber Supply

In the Province of British Columbia (the "Crown") owns about 95% of the timberlands from which the majority of our timber is harvested. The remaining 5% of timberland is private land which is primarily located on Vancouver Island and held by a few large industrial forest landowners.

Forest and timber harvesting operations on Crown land in B.C. are regulated under the B.C. Government's *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*. The Government is responsible for setting the AAC, approving forest development plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for annual rent to cover general administration and fire preparedness obligations and stumpage fees payable to the Crown.

Our Company is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence ("TL") tenures that currently provide for an AAC of approximately of 3.7 million cubic meters. The majority of Interfor's tenures are long-term (15 and 25 year) renewable agreements that are generally replaced every five years.

Our timber supply needs are met by a combination of logs harvested from our own timber tenures, long-term trade and supply agreements, and log purchases on the open market. When operating at normal capacity, our mills in B.C. currently require approximately one-third of their log supply from external sources.

On the B.C. Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the B.C. Interior, the species mix consists of spruce, pine, fir, Douglas-fir, larch and cedar. The harvest is derived from both old growth and second growth stands. Whereas one-third of the harvest currently comes from second growth stands on the B.C. Coast, this amount is expected to increase significantly over the next several decades. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FLs and TFLs and other cutting rights for the periods specified. It also presents the volume of log purchases and sales during the period.

B.C. Timber Supply	Years ended December 31,			
	2016	2015	2014	2013
	(thousands of cubic metres)			
Allowable Annual Cut ⁽¹⁾				
— Forest Licences	2,775	2,775	2,775	2,684
— Tree Farm Licences	875	875	875	801
— Non Replaceable Forest Licences	-	220	220	286
— Discretionary Annual Harvest Levels	50	80	40	40
Total AAC	<u>3,700</u>	<u>3,950</u>	<u>3,910</u>	<u>3,811</u>
Log Production				
— Coast ⁽²⁾		1,331	1,523	1,639
— Interior		1,708	1,517	1,959
Total Log Production		<u>3,039</u>	<u>3,040</u>	<u>3,598</u>
Log Purchases		<u>1,112</u>	<u>1,395</u>	<u>1,131</u>
Log Sales		<u>1,453</u>	<u>1,440</u>	<u>1,339</u>

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).

(2) 2015 volumes include production volume of 30,000 cubic metres of third party timber sales managed by Interfor (2014 – 48,000 cubic metres, 2013 - 25,000 cubic metres).

U.S. OPERATIONS

U.S. Northwest

Gilchrist

The Gilchrist sawmill is located in Gilchrist, Oregon. The sawmill processes lodgepole and ponderosa pine to produce a wide range of specialty and industrial lumber products. The sawmill has an on-site cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber and chips.

Molalla

The Molalla sawmill is located in Molalla, Oregon, approximately 50 kilometres southeast of Portland. The sawmill processes primarily hemlock and Douglas-fir logs to produce stud lumber for the U.S. market.

Port Angeles

The Port Angeles sawmill is located in Port Angeles, Washington, near a major highway and waterways which are convenient for shipping lumber and chips as well as for receiving logs. The sawmill primarily processes hemlock and Douglas-fir logs to produce stud and dimension lumber for the U.S. market but is also capable of producing metric sizes for export.

Longview

The Longview sawmill is located in Longview, Washington, in close proximity to industrial timberlands and large scale pulp and paper operations. This sawmill was acquired on March 1, 2015 from Simpson Lumber Company. The sawmill processes Douglas-fir logs to produce green stud lumber for the U.S. market with primary focus on servicing home centers.

U.S. Southeast*Baxley*

This sawmill in Baxley, Georgia was acquired on March 1, 2013 from Rayonier Inc. It operates on a two shift basis and produces southern yellow pine lumber primarily in 2x4 through 2x12 products.

Eatonton

This sawmill in Eatonton, Georgia was acquired on March 1, 2013 from Rayonier Inc. It operates on an extended one shift basis and produces southern yellow pine lumber primarily in 2x4 and 2x6 products.

Swainsboro

This sawmill in Swainsboro, Georgia was acquired on March 1, 2013 from Rayonier Inc. It operates on a two shift basis and produces southern yellow pine lumber primarily in 2x4 and 2x6 products.

Thomaston

This sawmill in Thomaston, Georgia was acquired on July 1, 2013 from Keadle Lumber Enterprises, Inc. The mill operates one shift and produces 2x4 through 2x12 southern yellow pine dimension products.

Preston

This sawmill in Preston, Georgia was acquired on March 14, 2014 from Ilim Timber Continental, S.A. The mill operates two shifts and produces 2x4 through 2x12 southern yellow pine dimension products.

Perry

This sawmill in Perry, Georgia was acquired on March 17, 2014 from Ilim Timber Continental, S.A. The mill operates an extended single shift and produces 2x4 through 2x12 southern yellow pine dimension products.

Meldrim

This sawmill in Meldrim, Georgia was acquired on March 1, 2015 from Simpson Lumber Company. It operates one shift and produces 2x4 through 2x12 southern yellow pine dimension products.

Georgetown

This sawmill in Georgetown, South Carolina was acquired on March 1, 2015 from Simpson Lumber Company. It operates one shift and produces 2x4 through 2x10 and 4x4 southern yellow pine dimension products.

Monticello

This sawmill in Monticello, Arkansas was acquired on June 19, 2015 from Price Lumber Company. It operates two shifts and produces 2x4, 2x6 and 4x4 southern yellow pine dimension products.

U.S. Timber Supply

U.S. Northwest

Timber supply in the U.S. Northwest ("NW") is sourced from a broad distribution of forest land ownership (forest industrial lands; small private landowners; and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. In 2015, approximately 51% of the log supply in the NW came from land that is owned by industrial and small private landowners, while the remainder was sourced from State, Federal and tribal lands.

Our timber supply requirements at the Port Angeles sawmill are weighted to western hemlock with lesser volumes of Douglas-fir. At our Longview location, we only purchase Douglas-fir. Douglas-fir is the prominent species, with smaller volumes of western hemlock and white fir at the Molalla sawmill. All three of our western Oregon and Washington sawmills depend on private industrial landowners and small private landowners for the majority of their supply. The remainder of their supply is comprised of timber from State, Federal, and tribal lands.

At the Gilchrist sawmill, log purchases consist primarily of lodgepole pine and ponderosa pine that are harvested from second growth forests and the thinning of young stands from surrounding National Forests. This volume is supplemented with purchases from industrial and non-industrial private lands.

U.S. Southeast

Timber in the U.S. Southeast ("SE") is sourced primarily from privately held timberlands with only minor volumes coming from publicly owned timberlands. Private timberland ownership includes non-industrial private owners, timber real estate investment trusts ("timber REITs") and various institutional investors such as pension funds, who are typically represented by a timberland investment management organization ("TIMO"). Both timber REITs and TIMOs are considered industrial timberland owners. Interfor's sawmills in Georgia purchase timber comprised exclusively of southern yellow pine, originating from each of these sources.

The total 2016 log supply requirement for the mills in the U.S. is estimated to be supplied from the following sources:

Expected Sources of Timber 2016	U.S. Northwest	U.S. Southeast
State, Federal and tribal lands	42%	1%
Industrial lands	48%	20%
Private lands	<u>10%</u>	<u>79%</u>
	<u>100%</u>	<u>100%</u>

SALES, MARKETING AND COMPETITIVE POSITION

The global markets for the Company's products are highly competitive and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold into markets where competitors have the same or larger capacity and may be lower cost producers.

The following table shows our lumber sales by geographic area and total sales by product line for the past three years:

	Years ended December 31,		
	2015	2014	2013
	(thousands of dollars)		
Lumber			
— U.S.A.	\$ 996,683	\$ 770,153	\$ 498,524
— Japan	124,252	107,561	105,590
— Canada	94,483	103,599	90,470
— China	66,581	109,205	105,703
— Other export	47,104	46,812	38,675
Offshore transportation and handling	32,089	39,928	33,302
	<u>1,361,192</u>	<u>1,177,258</u>	<u>872,264</u>
Logs	174,090	144,770	136,633
Wood chips and other residuals	141,717	105,506	72,418
Ocean freight, contract services and other	10,376	19,623	23,907
Total sales	<u>\$1,687,375</u>	<u>\$1,447,157</u>	<u>\$1,105,222</u>

Lumber Sales

Like other commodities, the demand for lumber is cyclical. It is affected by factors such as interest rates, foreign currency exchange rates, freight rates, government tariffs and import policies, and demand for housing.

In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and offer a diverse range of products. Interfor also has a specific customer and product base in various countries, providing a diversified sales profile, and we are aggressively targeting China's rapidly growing wood frame construction market.

Product and market diversification is particularly important for B.C. Coastal producers where the variability inherent in the log resource produces a much wider spectrum of product sizes and quality than is the case in the B.C. Interior, the U.S. Northwest or the U.S. Southeast. A continuing priority for our Company is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into two sales groups to leverage global expertise: Export and North America. Interfor Japan Ltd., with an office in Tokyo, has developed niche markets and has increased sales directly to end-users. We also have an office in France to serve Continental Europe and Middle East markets and an office in China to support the growing demand for wood in that market.

The primary market for our cedar lumber continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, China, Japan and Australia.

North American dimension and stud lumber produced in Canada and the U.S. Northwest is sold out of our office in Bellingham, Washington to leverage our market expertise and to provide a more diverse customer base for the Canadian mills in terms of geographic and market sectors.

SYP lumber produced in U.S. Southeast mills is sold out of our office in Peachtree City, Georgia to leverage our regional knowledge of SYP market segments and distribution channels.

Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade and species of log to suit market conditions and each mill's cutting profile. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chips and Other Residuals Sales

As a by-product of lumber production, our sawmills produce wood chips and other residuals. Essentially all of our wood chips produced in B.C. are sold under short-term and long-term contracts to pulp producers. In general, wood chips produced on the B.C. Coast are sold at prices related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the wood chips produced in the B.C. Interior are sold at current market prices for chips. Chips from our U.S. Northwest and U.S. Southeast operations are sold to pulp producers or fibre board manufacturers under short-term arrangements, with the exception of the Baxley, Gilchrist, Longview and Port Angeles sawmills which each have a long-term contract with a pulp producer.

DISTRIBUTION

We use various modes of surface transportation to deliver our lumber products. Shipments to export markets are done by container and break-bulk vessels while shipments of lumber within North America are done by truck and rail. In 2015, break-bulk shipments were transported under contract with an independent ocean carrier and this arrangement is in place for 2016. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C. we own short line railroads that connect to Class 1 railroads for shipping lumber and chips.

HUMAN RESOURCES

In B.C., we directly employ approximately 1,162 people in our logging and manufacturing operations and corporate offices. The Canadian United Steel Workers ("USW") is the certified bargaining agent for approximately 556 of these people. The agreement with the USW for the B.C. Coast has an expiry date of June 14, 2019, while the Southern Interior USW agreement expires on June 30, 2018. The Canadian Marine Service Guild ("CMSG") represents 22 employees, and their collective agreement expires September 30, 2019. Negotiations with the CMSG regarding renewal of the expired agreement are in process, with employees continuing to work under the terms of the expired agreement with no workplace disruptions.

In the U.S., we employ approximately 1,694 employees in our sawmill and remanufacturing operations in Washington, Oregon, Georgia, Arkansas, South Carolina and in our offices located in Bellingham, Washington and Peachtree City, Georgia. The American USW is the certified bargaining agent for approximately 36 of these people employed in the Meldrim, Georgia sawmill. The International Association of Machinists ("IAM") is the certified bargaining agent for approximately 92 of these people employed in the Longview, Washington sawmill.

The American USW collective agreement expires on June 30, 2016, while the IAM collective agreement expires on November 15, 2016.

THE ENVIRONMENT

Interfor is committed to responsible stewardship of the environment. We maintain an Environmental Management System ("EMS") for all of our woodlands and manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

Regulatory Compliance

Interfor operates in compliance with extensive provincial, state, federal or other laws and regulations that apply to most aspects of our business activities.

Forest Management Certification

Interfor has achieved the internationally recognized Sustainable Forestry Initiative ("SFI") forest management certification for all of our B.C. woodlands operations. Independent third party certification audits are conducted by KPMG Performance Registrar Inc.

Chain of Custody and Responsible Purchasing

Interfor maintains Chain-of-Custody ("CoC") certifications at certain mills and fibre sourcing procedures that track logs coming from sustainably managed forests through the manufacturing process.

Coast Forest Conservation Initiative

Interfor is a member of the Coast Forest Conservation Initiative ("CFCI") – a collaborative effort of five B.C. forest product businesses committed to finding new approaches to forest conservation and management in B.C.'s Central and North Coast. CFCI collaborates with the Rainforest Solution Project (a group of environmental organizations namely Forest Ethics, Greenpeace and the Sierra Club, B.C. Chapter) in a forum known as the Joint Solutions Project ("JSP"). JSP works with the B.C. Government and First Nations on strategic items related to the implementation of ecosystem based management ("EBM"). The joint work done by JSP is a major step towards fulfilling the landmark Great Bear Rainforest agreement.

First Nations

First Nations ("FN") groups have claimed Aboriginal title and rights over substantial portions of British Columbia. Interfor tenures overlap with the traditional territories of over 60 different FN groups. The Company's operations in B.C. account for approximately 30% of its total lumber production.

Interfor has a number of agreements and initiatives with FN in B.C., and as such, remains committed to working with FN to develop economic opportunities of mutual benefit. Each FN group is notified prior to development activities as part of the Forest Stewardship Planning process.

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

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

Mountain Pine Beetle

The Mountain Pine Beetle ("MPB") infestation has resulted in the mortality of a significant portion of the mature pine trees in the B.C. Interior. The greatest impact has been in the central interior region where there is a high percentage (over 60%) of pine in the forest. Interfor operations are in the southern interior which have a much lower percentage of pine

(less than 30%) and are less affected by the MPB. The longer term timber supply impacts of the MPB are not expected to have a significant impact on the Company's operating areas.

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 are reviewed annually, or more frequently if required, and can 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 are reviewed annually, or more frequently if required, and can be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Continual Improvement

Each year a formal Management Review of the Company's program and performance is completed as part of the process of continual improvement.

Additional information about our environmental work and third party certification is available on our website at www.interfor.com.

RESEARCH AND DEVELOPMENT

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques and anti-sap stain applications. We also are committed to applied research and development in the areas of environment, health and safety, forest management, and product and market development. We also conduct product and market research on our own in Canada and the U.S.

RISK FACTORS

Discussion of risk factors relating to the Company and its operations is included under the heading Risks and Uncertainties within Management's Discussion and Analysis prepared as of February 11, 2016, which is incorporated by reference herein and available on SEDAR at www.sedar.com.

CAPITAL STRUCTURE

The authorized share structure of the Company consists of:

- 150,000,000 Common Shares without Par Value with Special Rights and Restrictions ("Common Shares"); and
- 5,000,000 Preference Shares without Par Value with Special Rights and Restrictions ("Preference Shares").

As at February 11, 2016 there were 70,030,455 Common Shares outstanding. There were no Preference Shares outstanding.

The following is a summary of the material provisions of the authorized share capital of the Company.

Common Shares

Each holder of a Common Share is entitled to receive notice of and to attend and vote in person or by proxy at all meetings of the shareholders of the Company and is entitled to one vote for each such share held.

Each holder of a Common Share is entitled to receive such dividends as the directors may in their sole discretion declare from time to time. No holder of a Common Share will be entitled to any dividend other than or in excess of the dividends declared by the directors. The directors have the discretion to declare dividends on the Common Shares independently of declaring dividends on any other classes of shares in the Company, and *vice versa*.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets for the purpose of winding up its affairs, holders of the Common Shares will not receive any amount, property or asset, until the holders of the Preference Shares and any other class or series of shares entitled to receive assets of the Company in priority to the holders of the Common Shares, have first received the amount to which they are entitled. Thereafter, the holders of the Common Shares will be entitled to all remaining property and assets of the Company on a share for share basis.

Preference Shares

The Preference Shares may be issued in one or more series. The directors may by resolution fix the number of Preference Shares in each series, determine the designation of the Preference Shares of each series, and attach special rights and restrictions to the Preference Shares of each series.

The Preference Shares rank in priority over the Common Shares and any other shares ranking junior to the Preference Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

The registered holders of the Preference Shares shall not be entitled as a class to receive notice of or to attend or to vote at any meeting of shareholders of the Company, except in the event of matters affecting the priority rights or any other rights or restrictions attaching to the Preference Shares.

MARKET FOR SECURITIES OF THE COMPANY

The Common Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol IFP. The following table sets out the market price range and trading volumes of the Common Shares on the TSX for the periods indicated:

Toronto Stock Exchange (TSX) 2015 Trading Volumes Ticker: IFP			
Month	\$ Low	\$ High	Volume
January	18.33	22.33	7,764,215
February	20.20	23.61	6,065,058
March	16.80	20.87	7,673,158
April	16.65	18.93	6,238,000
May	16.46	20.70	5,570,779
June	19.24	21.09	4,314,696
July	15.87	21.65	8,241,729
August	11.42	17.53	10,235,821
September	9.27	12.79	7,726,321
October	8.86	13.45	11,220,511
November	11.34	14.22	8,346,797
December	12.19	14.87	5,788,411

SECURITIES SUBJECT TO CONTRACTUAL RESTRICTION ON TRANSFER

Designation of class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
Common Shares	3.68 million ¹	5.3%

Note 1: Ilim Timber Continental, S.A. ("Ilim") may not sell or otherwise transfer its Common Shares (other than a pledge to an acceptable third party lender) without the prior written consent of Interfor, until one year following the date that the Ilim board designee ceases to be a director of Interfor.

TRANSFER AGENT

The transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

MATERIAL CONTRACTS

The following material contracts were entered into by the Company during or after 2015, or before 2015 but are still in effect:

1. Underwriting Agreement dated January 13, 2015, between the Company and a syndicate of underwriters, led by RBC Dominion Securities Inc. and Raymond James Ltd., to sell 3,000,000 subscription receipts ("Subscription Receipts") at a price of \$20.10 each for aggregate gross proceeds of \$60,300,000. Interfor also granted the

underwriters an over-allotment option to purchase up to an additional 300,000 subscription receipts at the issue price.

2. Subscription Receipt Agreement dated January 27, 2015, between the Company, RBC Dominion Securities Inc., Raymond James Ltd. and Computershare Trust Company of Canada, providing for the issue of subscription receipts. The Company issued an aggregate of 3,300,000 Subscription Receipts at a price of \$20.10 per Subscription Receipt, for aggregate gross proceeds of \$66.3 million (the "Offering"). Each Subscription Receipt entitled the holder thereof, for no additional consideration and without further action, to one Common Share upon closing of the acquisition of four sawmills and associated working capital from Simpson Lumber Company, LLC. Net proceeds of the Offering were used to partially fund this acquisition. In connection with the completion of the Simpson acquisition on March 1, 2015, each subscription receipt was automatically exchanged, for no additional consideration, for one Common Share and the subscription receipts were delisted from the Toronto Stock Exchange.
3. First Amendment dated February 6, 2015, and Second Amendment dated February 23, 2015, to the Asset Purchase Agreement between Simpson Lumber Company, LLC and Interfor U.S. Inc., amending the Asset Purchase Agreement, dated December 18, 2014, between Simpson Lumber Company, LLC and Interfor U.S. Inc. for the acquisition of four sawmills located in Meldrim, Georgia, Georgetown, South Carolina, Longview, Washington and Tacoma, Washington for total consideration of approximately US\$94.7 million, plus working capital and contingent future payments. The transaction closed on March 1, 2015.
4. Amended and Restated Note Purchase and Private Shelf Agreement dated as of March 16, 2015, between the Company and the Prudential Capital Group for a US\$100 million term debt financing with Prudential Capital Group. The senior secured notes carry an annual interest rate of 4.17% and have a final maturity date of March 26, 2026. The proceeds were used to reduce drawings under the Company's bank credit facilities.
5. In conjunction with the financing described immediately above, Interfor decreased the credit available under its bank credit facilities from \$250 million to \$200 million, without change to other terms and conditions, through the Second Amendment to the Interfor March 31, 2014 Amended and Restated Credit Agreement dated for reference February 20, 2015 among the Company, each of the lenders named therein, and Royal Bank of Canada in its capacity as the arranger and the agent.
6. Interfor February 2016 Amended and Restated Credit Agreement, dated for reference February 9, 2016, between the Company, each of the lenders named therein and Royal Bank of Canada in its capacity as the arranger and agent, which extended the maturity of the Company's operating line and revolving term line from February 27, 2017 to May 19, 2019. All other terms remained substantially unchanged except for an increase in the maximum ratio of total debt to total capitalization, that resulted in an increase in the maximum borrowing available under the credit agreement.

All of these contracts have been posted on www.sedar.com.

DIRECTORS AND OFFICERS**Directors of the Company**

The following table sets out the Company's directors as of February 10, 2016, their respective municipalities of residence, positions and offices held with the Company, principal occupations within the past five years and the period during which each director has served as a director:

Name and Municipality of Residence	Director Since	Positions Held and Principal Occupations	From	To
DUNCAN K. DAVIES Vancouver, BC, Canada	November 1998	President and Chief Executive Officer Interfor Corporation	2000	Present
PAUL HERBERT Germantown, TN, USA	March 2014	Corporate Director	2013	Present
		Chief Executive Officer, Ilim Group, Russia's largest forest pulp & paper company	2007	2013
JEANE HULL Sheridan, WY, USA	May 2014	Corporate Director	2015	Present
		Executive Vice President and Chief Technical Officer, Peabody Energy Corporation, a private-sector coal company	2007	2015
PETER M. LYNCH Toronto, ON, Canada	October 2006	President & CEO, Dieffenbacher USA, Inc., a manufacturer and designer of press and forming systems	2013	Present
		Independent Business Consultant	2010	2013
GORDON. H. MacDOUGALL West Vancouver, BC, Canada	February 2007	Corporate Director	2014	Present
		Vice Chairman, Connor, Clark & Lunn Investment Management Ltd., an asset management firm	2006	2014
J. EDDIE McMILLAN Pensacola, FL, USA	October 2006	Independent Business Consultant	2002	Present
E. LAWRENCE SAUDER Vancouver, BC, Canada	April 1984	Chief Executive Officer and Chairman, Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of building products	2010	Present
		Chairman, Hardwoods Distribution Inc., a distributor of wood products	2008	Present
L. SCOTT THOMSON Vancouver, BC, Canada	October 2012	President and Chief Executive Officer, Finning International Inc., a distributor of Caterpillar products and support services	2013	Present
		Executive Vice-President, Finance and Chief Financial Officer, Talisman Energy Inc., a global upstream oil and gas company	2008	2013
DOUGLAS W.G. WHITEHEAD North Vancouver, BC, Canada	April 2007	Corporate Director	2008	Present

To our knowledge, only one of the Company's directors has in the last 10 years been an officer or director of a company that, while the person was acting in that capacity, was subject to bankruptcy or similar proceedings or securities regulatory sanctions described in National Instrument 51-102 *Continuous Disclosure Obligations*. From 1993 to 2010, Mr. Lynch was an executive officer and director of Grant Forest Products Inc. ("Grant Forest"). On June 25, 2009, Grant Forest and certain affiliated entities filed and obtained protection under the Companies' Creditors Arrangement Act in order to restructure their business affairs and on November 27, 2015, Grant Forest filed for bankruptcy.

The term of office for all current directors will end at the conclusion of the next Annual General Meeting of the Company's shareholders. The next Annual General Meeting is scheduled for Thursday, April 28, 2016.

Committees of the Board

The table below lists the committees of Interfor's board of directors and their members as of February 10, 2016:

Committees	Members
Audit	Douglas Whitehead (Chair) Paul Herbert Peter Lynch Scott Thomson
Corporate Governance & Nominating Committee	Eddie McMillan (Chair) Jeane Hull Peter Lynch Gordon MacDougall Douglas Whitehead
Management Resources & Compensation Committee	Gordon MacDougall (Chair) Eddie McMillan Lawrence Sauder
Environment & Safety Committee	Peter Lynch (Chair) Paul Herbert Jeane Hull Lawrence Sauder Scott Thomson

Officers of the Company

The following table sets out the Company's officers as of February 11, 2016, their respective municipalities of residence and their principal occupations for at least the last five years:

Name and Municipality of Residence	Positions Held and Principal Occupations	From	To
DUNCAN K. DAVIES Vancouver, BC, Canada	President & Chief Executive Officer Interfor Corporation	2000	Present
JOHN A. HORNING West Vancouver, BC, Canada	Executive Vice President & Chief Financial Officer Interfor Corporation	2014	Present
	Senior Vice President & Chief Financial Officer Interfor Corporation	2002	2014

J. STEVEN HOFER Bellingham, WA, USA	Senior Vice President, US Northwest Operations Interfor Corporation	2014	Present
	Senior Vice President, Sales & Marketing Interfor Corporation	2014	2015
	Vice President, Sales & Marketing Interfor Corporation	2011	2014
	General Manager, Sales & Marketing Interfor U.S. Inc. (formerly Interfor Pacific Inc.)	2004	2011
JOSEPH A. RODGERS Sharpsburg, GA, USA	Senior Vice President, US Southeast Operations Interfor Corporation	2014	Present
	Vice President, US Operations Interfor Corporation	2013	2014
	Vice President, Operations – Solid Wood Temple-Inland Building Products	2011	2013
	Operations Manager – Solid Wood Temple-Inland Building Products	2009	2011
MARTIN L. JURAVSKY Toronto, ON, Canada	Senior Vice President, Corporate Development and Strategy Interfor Corporation	2014	Present
	Vice President, Corporate Development and Strategy Interfor Corporation	2013	2014
	Business Consultant	2012	2013
	Vice President, Corporate Development Woodland Biofuels Inc.	2011	2012
	Managing Director Macquarie Capital Markets Canada Ltd.	2009	2011
IAN M. FILLINGER Kamloops, BC, Canada	Senior Vice President, Head of Operations Interfor Corporation	2015	Present
	Senior Vice President, Canadian Operations Interfor Corporation	2014	2015
	Vice President, Canadian Operations Interfor Corporation	2013	2014
	Senior General Manager Interfor Corporation	2013	2013
	General Manager, Adams Lake & Coastal Manufacturing Interfor Corporation	2012	2013
	General Manager, Adams Lake Division Interfor Corporation	2005	2012
MARK W. STOCK North Vancouver, BC, Canada	Senior Vice President, Human Resources Interfor Corporation	2014	Present
	Vice President, Human Resources Interfor Corporation	2012	2014
	Vice President, Global Human Resources Tree Island Industries Ltd.	2007	2012

BART BENDER West Vancouver, BC, Canada	Senior Vice President, Sales & Marketing Interfor Corporation	2015	Present
	Senior Vice President, Operations Ainsworth Lumber Co.	2014	2015
	Vice President, Sales Ainsworth Lumber Co.	2012	2014
	General Manager, Sales Ainsworth Lumber Co.	2002	2012
RICHARD J. SLACO Delta, BC, Canada	Vice President & Chief Forester Interfor Corporation	2002	Present
XENIA KRITSOS Vancouver, BC, Canada	General Counsel & Corporate Secretary Interfor Corporation	2015	Present
	General Counsel & Corporate Secretary Coalspur Mines Limited	2013	2015
	Senior Legal Counsel Hunter Dickinson Services Inc.	2009	2013

SHAREHOLDINGS OF DIRECTORS AND OFFICERS

As at December 31, 2015, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 875,434 Common Shares representing approximately 1.25% of the outstanding Common Shares.

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the commencement of our most recently completed financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

LEGAL PROCEEDINGS

We are not a party to, and our property is not the subject of, any material legal proceedings that took place in 2015, are currently in underway, or which we know to be contemplated.

INTEREST OF EXPERTS

KPMG LLP are the external auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Accountants of British Columbia and the applicable rules and regulations thereunder.

AUDIT COMMITTEE INFORMATION

The Company's Audit Committee (the "Committee") is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board's objectives. The Committee's functions include:

- reviewing and, if appropriate, recommending approval by the Board of the Company's annual and quarterly financial statements, management's discussion and analysis and earnings press releases;
- reviewing and approving disclosures required to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees;
- reviewing the process for certification, and the certification, of the interim and annual financial statements by the Chief Executive Officer and Chief Financial Officer;
- reviewing all public disclosure containing financial results or financial information;
- reviewing matters related to internal controls over financial reporting of the Company and ensuring the Company has adequate internal controls procedures in place;
- reviewing the principal risks of the Company, other than the risks associated with the Company's compensation policies and practices, and ensuring that an effective risk management strategy is in place;
- reviewing the Company's derivatives policies and activities, including details of exposures to banks and other counterparties;
- overseeing the activities of and directly communicating with the Company's external auditor;
- satisfying itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing the adequacy of those procedures;
- establishing and periodically reviewing the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters;
- reviewing and approving the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor; and
- reviewing the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and making recommendations for their renewal or replacement.

The Committee's Terms of Reference, attached as Appendix "A" to this Annual Information Form, sets out its duties and responsibilities.

The Committee met four times in 2015, in conjunction with regularly scheduled Board meetings.

Members' Financial Literacy, Expertise and Simultaneous Service

The board of directors has determined that the members of the Audit Committee during 2015 were, and all current members of the Audit Committee are, literate and independent as defined in *National Instrument 52-110 – Audit Committees*. The table below indicates the relevant education and experience of each member of the Audit Committee:

Relevant Education and Experience

Director	Past Occupation
<p>Douglas W.G. Whitehead Chair of the Audit Committee since May 2012</p>	<p>Mr. Whitehead is a Corporate Director. From 2000 to 2008, he was the President and Chief Executive Officer of Finning International Inc. ("Finning"). Prior to joining Finning, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. Mr. Whitehead is currently the director and Chair of Finning and a director of both Belcorp Industries Inc. and Kal Tire. Previously, he served as director of Inmet Mining Corporation, Ballard Power Systems Inc., Terasen Inc., Fletcher Challenge Canada, Finlay Forest Industries and Timberwest Forest Limited. Mr. Whitehead holds a Bachelor of Applied Science (Engineering) from the University of British Columbia and a Master of Business Administration from the University of Western Ontario.</p>
<p>Paul Herbert Member since May 2014</p>	<p>Mr. Herbert is a corporate director with over 47 years of experience in the pulp and paper industry. From 2007 to 2013, Mr. Herbert was the Chief Executive Officer of Ilim Group, Russia's largest forest pulp & paper company. From 2003 to 2007, he was Senior Vice President of Global Strategic Initiatives for International Paper. Prior thereto, he held various senior executive positions with International Paper, including Senior Vice President, Printing and Communications, President of International Paper Europe and Vice President Engineering & Manufacturing. He is currently a director of Ilim Timber Group in Russia. He holds a degree in Engineering from East London Polytechnic University and an Executive Master of Business Administration from Texas A&M University.</p>
<p>Peter M. Lynch Member since April 2009</p>	<p>Mr. Lynch is currently President & CEO of Dieffenbacher USA, Inc. ("Dieffenbacher"). Prior thereto he provided consulting services to Dieffenbacher. From 1993 to 2010, he was an Executive Vice President and director of Grant Forest Products Inc. (and its predecessor), a producer of OSB and engineered wood products. Mr. Lynch holds a LL.B from Osgoode Law School and is a member of the Law Society of Upper Canada.</p>
<p>L. Scott Thomson Member since November 2012</p>	<p>Mr. Thomson is currently President and CEO of Finning International Inc., the world's largest Caterpillar equipment dealer. From 2008 to 2013, he was Chief Financial Officer of Talisman Energy Inc. Prior thereto, Mr. Thomson was Executive Vice President, Corporate Development, Vice President, Head of Mergers and Acquisitions, and Vice President, Corporate Strategy at Bell Canada Enterprises Inc. Mr. Thomson holds a Bachelor of Arts from Queen's University and a Masters of Business Administration from the University of Chicago.</p>

AUDIT FEES

The Committee annually recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation are approved by the Committee before the services commence.

KPMG LLP, Chartered Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2014 and December 31, 2015, were as follows:

	2015	2014
Audit fees		
Fees billed for professional services rendered.	\$581,256	\$586,900
Audit-related fees		
Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan and subsidiary companies (2015 and 2014) and bought deal financing involvement (2015).	183,738	61,500
Tax fees		
Tax fees consist of fees for tax compliance services, planning and related services, personal tax (foreign and domestic) compliance and planning advice, indirect tax recovery audit contingency fees which are based on percentage of recoveries (2015 and 2014), and advice on setup of Insurance Captive (2015).	88,731	37,771
All Other fees		
Forestry certification, and assistance with ERP system design and conversion review (2015 and 2014); advice on leading practice for IT procurement (2015).	99,800	123,347
TOTAL	<u>\$953,525</u>	<u>\$809,518</u>

CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct & Ethics", can be found on our website at www.interfor.com.

ADDITIONAL INFORMATION

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information about the Company is provided in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2015.

Copies of the documents referred to above and additional information relating to the Company are available on the SEDAR website at www.sedar.com, on the Company's website www.interfor.com and may also be obtained upon request from:

Interfor Corporation
 General Counsel & Corporate Secretary
 3500-1055 Dunsmuir Street
 Vancouver, British Columbia
 Canada, V7X 1H7
 Telephone: 604 689 6800
 Facsimile: 604 689 6825
 E-mail: corporatesecretary@interfor.com

Appendix "A"

**AUDIT COMMITTEE
Terms of Reference****PURPOSE**

The Audit Committee has been established by the Board and under powers delegated to it by the Board is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board Objective.

COMPOSITION AND TERM OF OFFICE

1. The Audit Committee shall consist of four or more Directors.
2. All members of the Audit Committee shall be independent within the meaning of *National Instrument 52-110* ("**NI 51-110**").
3. All members must be financially literate within the meaning of NI 52-110 or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.
4. The Chair of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless any member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.
5. A quorum shall consist of a simple majority.

DUTIES AND RESPONSIBILITIES

The Audit Committee shall perform the following functions, as well as any other functions specifically authorized by the Board:

Financial Disclosure, Risk Management and Internal Controls

1. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company's:
 - a. annual and quarterly financial statements;
 - b. Management's Discussion and Analysis; and
 - c. annual and interim earnings press releases.

The review will involve direct discussions with Management and the Company's external auditor (the "**Auditor**"), including an opportunity for an in-camera meeting with the Auditor independent of Management.

2. Review and approve the disclosures required by applicable securities laws to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.
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3. Review the process for certification of the interim and annual financial statements by the CEO and Chief Financial Officer (“**CFO**”) and the certification made by the CEO and CFO.
4. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.
5. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.
6. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor’s reports.
7. Review the principal risks of the Company, other than the risks associated with the Company’s compensation policies and practices, and ensure that an effective risk management strategy is in place.
8. Review the Company’s derivatives policies and activities, including details of exposures to banks and other counterparties.

External Auditor

9. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor’s report and performing other audit, review or attest services for the Company.
10. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.
11. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.
12. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.
13. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor’s firm and peer reviews.
14. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.
15. Resolve disagreements between Management and the Auditor regarding financial reporting.
16. Review material written communications between the Auditor and Management.

Non-Audit Services

17. Pre-approve non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval.

Company Policies

18. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.
19. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.
20. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

Insurance

21. Review the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and make recommendations for their renewal or replacement.

MEETINGS AND PROCEDURES

1. The Audit Committee shall meet a minimum of four (4) times per year and, subject to these Terms of Reference and applicable law, otherwise establish its procedures and govern itself as the members of the Audit Committee may see fit in order to carry out and fulfill its duties and responsibilities hereunder. Extraordinary meetings of the Audit Committee may be called at the request of a member on the Audit Committee or the Chair of the Board to be held at such times and places as the person calling such meeting may determine.
 2. A majority of members of the Audit Committee will constitute a quorum (provided that a quorum shall not be less than two (2) members). Decisions of the Audit Committee will be by an affirmative vote of the majority of those members of the Audit Committee voting at a meeting. In the event of an equality of votes, the Chair will not have a casting or deciding vote. The Audit Committee may also act by resolution in writing signed by all the members of the Audit Committee.
 3. The Audit Committee shall appoint a Secretary who shall keep minutes or other records of its meetings and proceedings.
 4. The Chair of the Audit Committee shall report to the Board at its next regular meeting the Audit Committee's deliberations and recommendations, if any, requiring the Board's approval.
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OTHER MATTERS

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.
2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.

GLOSSARY

Unless otherwise noted, all financial references in this Annual Report are in Canadian Dollars.

“Adjusted EBITDA” EBITDA excluding long term incentive compensation, other income (expense), Beaver sawmill post-closure wind-down costs and Tacoma sawmill post-acquisition losses.

“Adjusted Net Earnings” Net earnings (loss) before restructuring costs, asset write-downs and other costs, other foreign exchange gains (losses), long term incentive compensation, other income (expense), Beaver sawmill post-closure wind-down costs, Tacoma sawmill post-acquisition losses, the income tax effect of the aforementioned adjustments, and previously unrecognized deferred tax assets.

“Allowable Annual Cut (AAC)” The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

“Cash flow from operations” Cash flow provided by operating activities before considering changes in operating working capital.

“Custom cutting” An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

“Crown” Administrative agency of the provincial government of British Columbia

“EBITDA” Earnings before finance costs, income taxes, depreciation, depletion, amortization, restructuring costs, asset write-downs and other costs, and other foreign exchange gains (losses).

“Forest Licence” Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

“Invested Capital” The total of Net debt and shareholders’ equity.

“m³” A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the *Forest Act*, equal to 35.3 cubic feet of solid wood.

“mfbm” or **“Mbf”** One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

“Net debt” The total of long term debt and bank indebtedness, less cash and cash equivalents.

“Pre-tax return on total assets” Earnings (loss) before income taxes, restructuring costs, asset write-downs and other costs, other foreign exchange gains (losses) and other income (expense), divided by the average of opening and closing total assets for annual periods or by opening total assets for three month periods.

“Silviculture” The art and science of controlling the establishment, growth, composition, health and quality of forests.

“Stumpage” A charge assessed by the provincial government on all Crown timber harvested.

“Sustained yield (sustainable log supply)” The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

“Timber Licence” Non-replaceable, area based, Crown timber cutting rights.

“Tree Farm Licence” A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

“Value-added product” A commodity or other product that has been further processed to increase financial value.

“Whitewood” Includes the Coastal species Hemlock, Balsam Fir, Douglas-Fir and Spruce; the term whitewood is used on the British Columbia Coast to differentiate the above species from Western Red Cedar and Yellow Cedar.

DIRECTORS

As of March 9, 2016

Duncan K. Davies

Vancouver, BC, Canada

Jeane Hull

Sheridan, WY, US

Gordon H. MacDougall

West Vancouver, BC, Canada

Thomas V. Milroy

Toronto, ON, Canada

L. Scott Thomson

Vancouver, BC, Canada

Paul Herbert

Germantown, TN, US

Peter M. Lynch

Toronto, ON, Canada

J. Eddie McMillan

Pensacola, FL, US

E. Lawrence Sauder

Vancouver, BC, Canada

Douglas W.G. Whitehead

North Vancouver, BC, Canada

OFFICERS

As of March 9, 2016

E. Lawrence Sauder

Chair

John A. Horning

Executive Vice President &
Chief Financial Officer

Mark W. Stock

Senior Vice President, Human Resources

Ian M. Fillinger

Senior Vice President, Head of Operations

Richard J. Slaco

Vice President and Chief Forester

Duncan K. Davies

President & Chief Executive Officer

Martin L. Juravsky

Senior Vice President, Corporate
Development & Strategy

Bart Bender

Senior Vice President, Sales & Marketing

J. Steven Hofer

Senior Vice President, US Northwest Operations

Xenia Kritsos

General Counsel & Corporate Secretary

CORPORATE INFORMATION

Stock Exchange Common Shares listed on The Toronto Stock Exchange Symbol: IFP	Auditors KPMG LLP, Vancouver, BC	Transfer Agent Computershare Investor Services Inc. Vancouver, BC and Toronto, ON
Investor Contact Martin Juravsky Senior Vice President, Corporate Development & Strategy Tel: (604) 689-6873 martin.juravsky@interfor.com	Corporate Office Tel: (604) 689-6800 Fax: (604) 688-0313 P.O. Box 49114 3500-1055 Dunsmuir Street Vancouver, BC V7X 1H7	

SALES AND MARKETING

North America – Cedar Tel: (604) 422-3400 Fax: (604) 422-3244 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	North America – Southern Yellow Pine Tel: (770) 282-3250 Fax: (770) 486-6837 700 Westpark Drive Peachtree City, GA, US 30269	North America - Whitewood Tel: (360) 788-2200 Fax: (360) 788-2210 2211 Rimland Drive, Suite 220 Bellingham, WA, US 98226
China Tel: +86-21-6333-6268 Fax: +86-21-6333-6290 Unit 1007, Tower No. 1 No. 268 Zhongshan South Road Shanghai, 200010, China	Japan Tel: 03-5641-2351 Fax: 03-5641-2383 Kasahara Bldg. 6F, 1-7-7 Nihonbashi, Ningyocho, Chuo-ku Tokyo, Japan 103 - 0013	Europe Tel: +33-2-40-32-05-25 Fax: +33-2-40-32-02-25 ZI Cheviré 7 rue de l'Houmaille 44340 BOUGUENNAIS, France
Export – Whitewood & Cedar Tel: (604) 422-3468 Fax: (604) 422-3250 1600-4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2		

OPERATIONS AND LOCATIONS

<p>Acorn Division (Sawmill) Tel: (604) 581-0494 Fax: (604) 581-5757 9355 Alaska Way Delta, BC V4C 4R7</p>	<p>Adams Lake Division (Sawmill and Woodlands) Tel: (250) 679-3234 Fax: (250) 679-3545 9200 Holding Road Chase, BC V0E 1M2</p>	<p>Baxley Division (Sawmill) Tel: (912) 367-3671 Fax: (912) 367-1500 1830 Golden Isles East Baxley, GA 31513</p>
<p>Castlegar Division (Sawmill and Woodlands) Tel: (250) 365-4400 Fax: (604) 422-3252 P.O. Box 3728 2705 Arrow Lakes Drive Castlegar, BC V1N 3W4</p>	<p>Cedarprime (Remanufacturing) Interfor Cedarprime Inc. Tel: (360) 988-2120 Fax: (360) 988-2126 601C West Front Street Sumas, WA 98295</p>	<p>Coastal Woodlands Division (Woodlands) Tel: (250) 286-1881 Fax: (250) 286-3412 1250A Ironwood Street Campbell River, BC V9W 6H5</p>
<p>Eatonton Division (Sawmill) Tel: (706) 485-4271 Fax: (706) 485-3879 370 Dennis Station Road SW Eatonton, GA 31024</p>	<p>Georgetown Division (Sawmill) Tel: (843) 546-6138 Fax: (843) 527-4033 2701 Indian Hut Road Georgetown, SC 29440-9146</p>	<p>Gilchrist Division (Sawmill) Tel: (541) 433-2222 Fax: (541) 433-9581 P.O. Box 638 #1 Sawmill Road Gilchrist, OR 97737</p>
<p>Grand Forks Division (Sawmill and Woodlands) Tel: (250) 443-2400 Fax: (604) 422-3253 P.O. Box 39 570 68th Ave. Grand Forks, BC V0H 1H0</p>	<p>Hammond Division (Sawmill) Tel: (604) 465-5401 Fax: (604) 422-3221 20580 Maple Crescent Maple Ridge, BC V2X 1B1</p>	<p>Longview Division (Sawmill) Tel: (360) 575-3600 Fax: (360) 575-3628 540 3rd Ave. Longview, WA 98632</p>
<p>Meldrim Division (Sawmill) Tel: (912) 748-7310 Fax: (912) 748-8354 911 Old River Road Bloomingdale, GA 31302</p>	<p>Molalla Division (Sawmill) Tel: (503) 829-9131 Fax: (503) 829-5481 15555 S. Hwy. 211 Molalla, OR 97038</p>	<p>Monticello Division (Sawmill) Tel: (870) 224-7200 Fax: (870) 367-7924 211 Old Troy Road Monticello, AR 71655</p>
<p>Perry Division (Sawmill & Remanufacturing) Tel: (478) 987-2105 Fax: (478) 987-5773 903 Jernigan Street Perry, GA 31069-3435</p>	<p>Port Angeles Division (Sawmill) Tel: (360) 457-6266 Fax: (360) 457-1486 243701 Highway 101 West Port Angeles, WA 98363</p>	<p>Preston Division (Sawmill) Tel: (229) 828-4265 Fax: (229) 828-4370 378 Tolleson Road Preston, GA 31824</p>
<p>Swainsboro Division (Sawmill) Tel: (912) 562-4441 Fax: (912) 562-3621 8796 Highway 297 Swainsboro, GA 30401</p>	<p>Thomaston Division (Sawmill) Tel: (706) 648-4900 Fax: (706) 646-3534 75 Ben Hill Road Thomaston, GA 30286</p>	

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