Interfor Corporation
Third Quarter Report
For the three and nine months ended September 30, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and nine months ended September 30, 2016 ("Q3'16" and "YTD'16", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2016, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 3, 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 Third Quarter 2016", "Outlook", "Summary of Third Quarter 2016 Financial Performance", "Summary of Year-to-Date 2016 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". 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 other things: price volatility, competition, availability and cost of log supply, natural or man-made disasters, currency exchange sensitivity, regulatory changes, allowable annual cut reductions, Aboriginal title and rights claims, potential countervailing and anti-dumping duties, stumpage fee variables and changes, environmental impact and performance, labour disruptions, and other factors referenced herein and in Interfor's Annual Report available on www.sedar.com and www.interfor.com. The forward-looking information and statements contained in this MD&A are based on Interfor's current expectations and beliefs. 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 where required by law.

Overview of Third Quarter 2016

Q3'16 Results

Interfor recorded net earnings in Q3'16 of $15.1 million, or $0.22 per share, compared to $23.2 million, or $0.33 per share in Q2'16. Adjusted net earnings in Q3'16 were $22.8 million, or $0.33 per share, compared to $20.9 million, or $0.30 per share, in Q2'16.

Adjusted EBITDA was $58.1 million on sales of $457.6 million in Q3'16, versus Adjusted EBITDA of $56.9 million on sales of $458.8 million in Q2'16.

Highlights for the quarter include:

- Strong Free Cash Flow
  - Interfor generated $67.7 million of cash from operations, including $12.8 million from working capital.
  - The resulting free cash flow enabled Interfor to reduce net debt by $49.0 million during the quarter to $346.9 million, or 31.8% of invested capital.
- Mixed Lumber Prices/Higher Sales Realizations
  - Key benchmark lumber prices were mixed in Q3'16 compared to the preceding quarter. The Western SPF Composite was up US$11 to US$311 per mfbm. However, the Southern Pine Composite and KD HF Stud 2x4 9' benchmark, which represent the largest share of Interfor's production, declined US$8 to US$382 per mfbm and US$19 to US$336 per mfbm, respectively.
  - In spite of the drop in benchmark prices, Interfor's average realization increased $16 to $580 per mfbm in Q3'16, reflecting a positive shift in product mix and the benefits of a lower Canadian dollar.
- Business Optimization Initiative
  - The B.C. Interior and U.S. Northwest regions generated strong operating and financial results reflecting the benefits from the Company's multi-year capital investment programs. Focus continues on optimizing log supply, productivity and product mix to drive further margin improvements.
  - The U.S. South region continued to implement a series of capital and optimization initiatives focused on mill reliability, debottlenecking and product mix. A number of small capital projects were completed in the quarter, with more underway or in the planning stage. Benefits related to product mix, lumber recovery and productivity improvements were realized at a number of mills in the quarter. However, there was a short term negative impact on production volume and conversion costs in Q3'16, as a result of the projects' impact on operating hours. The initiative remains on track to meet or exceed the targeted $35 million in annualized EBITDA gains by the end of 2017.
- Tacoma Sawmill Monetization
  - The monetization process for the Tacoma sawmill property is proceeding on track, with the sale expected to close in Q4'16.

Production

Lumber production in Q3'16 was 628 million board feet versus 637 million board feet in Q2'16.

Production from Canadian operations totaled 239 million board feet in Q3'16, up 21 million board feet compared to Q2'16.

Production from the Company's nine U.S. South sawmills totaled 248 million board feet, down 22 million board feet compared to Q2'16.

Production from U.S. Northwest operations totaled 141 million board feet in Q3'16, a decrease of 8 million board feet over the preceding quarter.

Outlook

Interfor expects demand for lumber to grow over the mid-term as the U.S. housing market continues to recover and market promotion efforts in North America and offshore take full effect.

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

Financial and Operating Highlights (1)

		For the 3 months ended			For the 9 months ended	
		September 30,		June 30,	September 30,	
	Unit	2016	2015	2016	2016	2015
Financial Highlights(2)						
Total sales	$MM	457.6	430.8	458.8	1,350.4	1,276.0
Lumber	$MM	374.8	343.3	371.1	1,094.8	1,036.2
Logs, residual products and other	$MM	82.8	87.5	87.7	255.6	239.8
Operating earnings (loss)	$MM	20.1	(11.6)	30.0	53.6	(29.6)
Net earnings (loss)	$MM	15.1	(6.1)	23.2	39.1	(26.9)
Net earnings (loss) per share, basic and diluted	$/share	0.22	(0.09)	0.33	0.56	(0.39)
Adjusted net earnings (loss) (3)	$MM	22.8	(15.4)	20.9	46.3	(25.5)
Adjusted net earnings (loss) per share, basic and diluted(3)	$/share	0.33	(0.22)	0.30	0.66	(0.37)
Adjusted EBITDA(3)	$MM	58.1	11.5	56.9	148.3	55.9
Adjusted EBITDA margin(3)	%	12.7%	2.7%	12.4%	11.0%	4.4%
Total assets	$MM	1,326.8	1,383.8	1,337.6	1,326.8	1,383.8
Total debt	$MM	365.3	473.4	407.0	365.3	473.4
Pre-tax return on total assets(3)	%	6.5%	-0.4%	9.8%	5.7%	-2.1%
Net debt to invested capital(3)	%	31.8%	39.1%	35.2%	31.8%	39.1%
Operating Highlights						
Lumber production	million fbm	628	618	637	1,883	1,929
Total lumber sales	million fbm	647	686	658	1,942	2,037
Lumber sales - Interfor produced	million fbm	627	663	634	1,871	1,958
Lumber sales - wholesale and commission	million fbm	20	23	24	71	79
Lumber - average selling price(4)	$/thousand fbm	580	500	564	564	509

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 but is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions.
(4) Gross sales before export taxes.

Summary of Third Quarter 2016 Financial Performance

Sales

Interfor recorded $457.6 million of total sales, up 6.2% from $430.8 million in the third quarter of 2015, driven by the sale of 647 million board feet of lumber at an average price of $580 per mfbm. Lumber sales volume decreased by 39 million board feet, or 5.7%, while average selling prices increased $80 per mfbm, or 15.9%, as compared to the same quarter of 2015.

The decline in lumber sales volume as compared to the third quarter, 2015 is mainly the result of temporary operating shift modifications and down-time taken for capital projects at several mills in the U.S. South, along with the wind-down of the Tacoma sawmill in Q3'15.

The increase in the average selling price of lumber reflects higher benchmark prices in U.S. Dollar terms across all key species and the weakening of the Canadian Dollar against the U.S. Dollar by 0.3% on average as compared to the third quarter, 2015.

Sales generated from logs, residual products and other decreased by $4.7 million or 5.4% compared to the same quarter of 2015. Most of this decrease is related to a 5.0% decline in log sales as a result of the closure of the Tacoma sawmill in Q3’15 and fewer surplus logs in the B.C. Interior, partially offset by increased export log sales from the B.C. Coast and the strengthened U.S. Dollar.

Operations

Production costs decreased by $17.1 million or 4.2% over the third quarter of 2015, explained primarily by a decrease in lumber sales volume of 39 million board feet, lower net log costs on average at the Company’s U.S. operations and lower conversion costs within the B.C. Interior region, partially offset by higher conversion costs within the U.S. South operations and the stronger U.S. Dollar on average.

As the Softwood Lumber Agreement (“SLA”) expired on October 12, 2015, there were no export taxes in Q3’16. Export taxes of $2.7 million were incurred in Q3’15 in respect of lumber shipments from the Company’s Canadian operations to the U.S.

Depreciation of plant and equipment was $18.6 million, up 1.4% from the third quarter of 2015. The majority of this increase is explained by incremental depreciation on the rebuilt Castlegar sawmill, partially offset by decreased depreciation due to reduced operating hours in the U.S. South operations.

Depletion and amortization of timber, roads and other was $9.4 million, down $0.5 million from the comparable quarter of 2015 with greater heli-logging on the B.C. Coast in Q3’16 versus Q3’15.

Corporate and Other

Selling and administration expenses were $10.9 million, down $1.5 million from the third quarter of 2015. The third quarter of 2015 included $0.9 million in certain IT infrastructure improvement costs.

The $8.3 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing and a 34.4% increase during the quarter in the price of Interfor Common Shares used to value share-based awards. The $17.0 million long term incentive compensation recovery in Q3’15 resulted primarily from a 54.0% decline in the market price for Interfor Common Shares during that quarter.

Finance costs decreased to $4.4 million from $4.9 million in Q3’15, as a result of a lower average level of debt outstanding, partially offset by the impact of a stronger U.S. Dollar.

Restructuring charges in Q3’16 primarily relate to costs associated with the closure of the Tacoma sawmill and a planned reorganization of the U.S. Northwest sales office. Q3’15 restructuring charges of $10.1 million relate to the closure of the Tacoma sawmill.

The Other foreign exchange gains of $0.8 million in Q3’16 and $1.0 million in Q3’15 resulted primarily from unrealized gain on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $1.4 million in Q3’16, comprised of a $0.3 million current tax expense and a $1.2 million deferred tax expense, mainly in respect of its U.S. operations.

Net Earnings (Loss)

The Company recorded net earnings of $15.1 million, or $0.22 per share, compared to a net loss of $6.1 million, or $0.09 per share, in the comparable period of 2015. Adjusted net earnings were $22.8 million, or $0.33 per share in Q3’16, compared with an Adjusted net loss of $15.4 million, or $0.22 per share in Q3’15.

Summary of Year-to-Date 2016 Financial Performance

Sales

Interfor recorded $1.4 billion of total sales, up 5.8% from $1.3 billion in the first nine months of 2015, driven by the sale of 1.9 million board feet of lumber at an average price of $564 per mfbm. Lumber sales volume decreased 95 million board feet, or 4.7%, while average selling prices increased $55 per mfbm, or 10.8%, as compared to the first nine months of 2015.

The sales volume decline was affected by temporary operating shift modifications and down-time taken for capital projects at several mills in the U.S. South, along with the closure of the Tacoma sawmill, partially offset by the inclusion of a full nine months' of sales volume in YTD'16 from the Monticello sawmill acquired in late Q2'15.

The increase in the average selling price of lumber primarily reflects higher benchmark prices in U.S. Dollar terms across all key species, coupled with the weakening of the Canadian Dollar against the U.S. Dollar by 4.9% on average in the first nine months of 2016 compared to the same period of 2015.

Sales generated from logs, residual products and other increased by $15.8 million or 6.6% compared to the same period of 2015. Most of this increase is related to a 10.2% increase in log sales, primarily from B.C. Coast sales to export markets and the strengthened U.S. Dollar, partially offset by fewer surplus logs available in the B.C. Interior.

Operations

Production costs decreased by $19.5 million or 1.6% over the first nine months of 2015, explained primarily by a decrease in lumber sales volume of 95 million board feet, lower net log costs on average at the Company's U.S. operations, and lower conversion costs within the B.C. Interior region, partially offset by higher conversion costs within the U.S. South operations and the stronger U.S. Dollar on average.

As the Softwood Lumber Agreement expired on October 12, 2015, there were no export taxes in YTD'16. Export taxes of $5.2 million were incurred in YTD'15 in respect of lumber shipments from the Company's Canadian operations to the U.S.

Depreciation of plant and equipment was $57.6 million, up 8.6% from the first nine months of 2015. The majority of this increase is explained by incremental depreciation on the rebuilt Castlegar sawmill and the inclusion of a full nine months' depreciation on the Monticello sawmill acquired near the end of Q2'15, partially offset by a temporary reduction in operating hours in the U.S. South operations resulting from capital and improvement initiatives underway.

Depletion and amortization of timber, roads and other was $27.1 million, up $0.3 million from the comparable nine months of 2015.

Corporate and Other

Selling and administration expenses were $33.5 million, down $3.0 million from the first nine months, 2015 which included $2.1 million of non-recurring acquisition and integration costs, and $0.9 million of certain IT infrastructure improvement costs.

The $4.4 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing and a 6.0% year-to-date increase in the price of Interfor Common Shares used to value share-based awards. The $14.8 million long term incentive compensation recovery in YTD'15 resulted from a 57.1% decrease in the market price for Interfor Common Shares partially offset by the impact of incentive awards maturing during the first nine months, 2015.

Finance costs increased to $14.5 million from $12.1 million in the first nine months of 2015 as a result of a higher average level of debt outstanding in YTD'16 as compared to YTD'15 and the stronger U.S. Dollar.

Restructuring charges in YTD'16 relate to costs associated with the closure of the Tacoma sawmill, the reorganization of the U.S. Northwest sales office, and severance costs. YTD'15 restructuring charges include $11.2 million of costs primarily related to the Tacoma sawmill closure, partially offset by a $1.2 million reversal of impairment recorded in 2014 for the Beaver-Forks operations in Washington.

The Other foreign exchange gain of $0.4 million in YTD’16 resulted primarily from unrealized gains on short-term intercompany funding. The YTD’15 balance includes a $1.9 million foreign exchange loss on an intercompany loan denominated in U.S. Dollars.

Income Taxes

The Company recorded a negligible income tax recovery in YTD’16, comprised of a $0.7 million current tax expense and a $0.8 million deferred tax recovery, which includes a $0.8 million tax credit in respect of job creation in the U.S. South.

Net Earnings (Loss)

The Company recorded net earnings of $39.1 million, or $0.56 per share, compared to a net loss of $26.9 million, or $0.39 per share, in the comparable period of 2015. Adjusted net earnings were $46.3 million, or $0.66 per share in YTD’16, compared with an Adjusted net loss of $25.5 million, or $0.37 per share in YTD’15.

Summary of Quarterly Results(1)

		2016			2015				2014
	Unit	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Performance (Unaudited)									
Total sales	$MM	457.6	458.8	433.9	411.4	430.8	429.7	415.4	389.0
Lumber	$MM	374.8	371.1	348.9	325.0	343.3	352.2	340.7	318.6
Logs, residual products and other	$MM	82.8	87.7	85.0	86.4	87.5	77.5	74.7	70.4
Operating earnings (loss)	$MM	20.1	30.0	3.5	(6.3)	(11.6)	(25.8)	7.8	(1.1)
Net earnings (loss)	$MM	15.1	23.2	0.8	(3.5)	(6.1)	(20.6)	(0.2)	(5.2)
Net earnings (loss) per share, basic and diluted	$/share	0.22	0.33	0.01	(0.05)	(0.09)	(0.29)	(0.00)	(0.08)
Adjusted net earnings (loss)(2)	$MM	22.8	20.9	2.6	5.5	(15.4)	(14.7)	4.5	10.2
Adjusted net earnings (loss) per share, basic and diluted(2)	$/share	0.33	0.30	0.04	0.08	(0.22)	(0.21)	0.07	0.15
Adjusted EBITDA(2)	$MM	58.1	56.9	33.4	35.8	11.5	12.7	31.8	37.4
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	66.7
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	70.0	67.8	66.7
Operating Performance									
Lumber production	million fbm	628	637	618	568	618	672	639	578
Total lumber sales	million fbm	647	658	637	615	686	719	632	620
Lumber sales - Interfor produced	million fbm	627	634	609	586	663	688	607	605
Lumber sales - wholesale and commission	million fbm	20	24	28	29	23	31	25	15
Lumber - average selling price(3)	$/thousand fbm	580	564	548	529	500	490	539	514
Average USD/CAD exchange rate(4)	1 USD in CAD	1.3050	1.2886	1.3732	1.3354	1.3089	1.2297	1.2412	1.1350
Closing USD/CAD exchange rate(4)	1 USD in CAD	1.3117	1.3009	1.2971	1.3840	1.3394	1.2474	1.2683	1.1601

Notes:
(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A for definitions.
(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, production from the Company’s B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. 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 lowest during the winter season due to reduced construction and renovation activities.

Four sawmills acquired on March 1, 2015, and one sawmill acquired on June 19, 2015, have all contributed to the growth in production and sales. The permanent closure of the Tacoma sawmill impacted production and sales subsequent to May 22, 2015. Reduced production in Q4'15 primarily reflects temporary market-related adjustments to operating schedules across the U.S. South platform and severe weather events which impacted certain sawmills in that region.

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 September 30, 2016 was $346.9 million, or 31.8% of invested capital, representing a decrease of $114.5 million from September 30, 2015 and a decrease of $105.4 million from December 31, 2015. A 5.2% strengthening of the Canadian Dollar against the U.S. Dollar contributed $25.7 million to the net debt reduction in YTD'16 as the majority of debt is denominated in U.S. Dollars.

	For the 3 months ended			For the 9 months ended	
	September 30,		June 30,	September 30,	
Thousands of dollars	2016	2015	2016	2016	2015
Net debt					
Net debt, period opening, CAD	$ 395,959	$ 430,870	$ 428,062	$ 452,303	$ 202,553
Net drawing (repayment) on credit facilities, CAD	(44,138)	(3,656)	(33,619)	(77,704)	202,156
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	2,441	32,079	1,320	(25,734)	50,799
Decrease (increase) in cash and equivalents, CAD	(7,333)	2,181	196	(1,936)	5,966
Net debt, period ending, CAD	$ 346,929	$ 461,474	$ 395,959	$ 346,929	$ 461,474
Net debt components by currency					
U.S. Dollar debt, period opening, USD	$ 297,500	$ 355,123	$ 338,692	$ 338,699	$ 190,000
Net drawing (repayment) on credit facilities, USD	(22,791)	(9,166)	(41,192)	(63,990)	155,957
U.S. Dollar debt, period ending, USD	274,709	345,957	297,500	274,709	345,957
Spot rate, period end				1.3117	1.3394
U.S. Dollar debt expressed in CAD				360,336	463,374
Canadian Dollar debt, including bank indebtedness, CAD				4,985	10,000
Total debt, CAD				365,321	473,374
Cash and cash equivalents, CAD				(18,392)	(11,900)
Net debt, period ending, CAD				$ 346,929	$ 461,474

Cash Flow from Operating Activities

The Company generated $142.2 million of cash flow from operations before changes in working capital in YTD'16, up $107.4 million over the same period of 2015 as a result of increased lumber sales margins and a strengthened U.S. Dollar, partially offset by lower sales volume.

There was a net cash inflow from operations after changes in working capital of $150.3 million in YTD'16, with $8.1 million of cash released from operating working capital. There was a net cash inflow from operations after changes in working capital of $55.2 million in YTD'15, with $20.4 million released from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $57.2 million in YTD'16, including $38.2 million for property, plant and equipment, timber and other intangibles and $18.7 million for development of logging roads. Discretionary mill improvements of $15.0 million during the period included $6.6 million for completion of the Castlegar sawmill rebuild. Maintenance mill improvements of $23.2 million during the period included $11.1 million for a kiln conversion project at the Preston sawmill in Georgia.

The Company also disposed of fixed income investments for proceeds of $10.3 million, and recognized a nominal gain.

In the same period of 2015, investing activities totaled $314.3 million, including $170.8 million for the Simpson acquisition, $43.8 million for the Monticello acquisition, $8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., $75.1 million for property, plant, and equipment, timber and other intangibles, and $20.9 million for development of logging roads. Discretionary mill improvements of $62.9 million during the period were focused primarily on the Castlegar sawmill rebuild.

Cash Flow from Financing Activities

Net repayments on the Company's credit facilities were $77.7 million which, together with interest payments of $13.4 million, led to cash used in financing activities of $92.1 million in YTD'16. This compares to total cash from financing activities of $253.8 million in YTD'15, generated from net drawings on credit facilities of $202.2 million and net proceeds of $63.2 million from the issuance of 3.3 million Common Shares, including $151.3 million drawn on the Company's credit facilities to fund the acquisition of sawmills in the U.S. South and U.S. Northwest.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2016:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 262,340	$ 65,585	$ 592,925
Maximum borrowing available	$ 65,000	$ 200,000	$ 262,340	$ 65,585	$ 592,925
Less:					
Drawings	10,493	90,246	262,340	2,242	365,321
Outstanding letters of credit included in line utilization	9,826	-	-	3,220	13,046
Unused portion of facility	$ 44,681	$ 109,754	$ -	$ 60,123	$ 214,558
Add cash and cash equivalents					18,392
Available liquidity at September 30, 2016					$ 232,950

As of September 30, 2016, the Company had commitments for capital expenditures totaling $10.5 million, related to both maintenance and discretionary capital projects.

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand.

As at September 30, 2016, the Company had net working capital of $154.6 million and available capacity on operating and term facilities of $214.6 million. These resources, in addition to cash generated from operations, will be used to support ongoing 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.

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 three and nine months ended September 30, 2016.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety bonds, primarily for timber purchases. At September 30, 2016, such arrangements aggregated $45.4 million (December 31, 2015 - $47.4 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign currency exchange rates. The Company's policy is to not use derivatives for trading or speculative purposes. Risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items. The counter-parties for all derivative contracts existing at September 30, 2016, are the Company's Canadian bankers who are highly-rated, thereby mitigating the risk of credit loss on such instruments.

Outstanding Shares

As of November 3, 2016, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2016, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the three months ended September 30, 2016. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2015, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the three and nine months ended September 30, 2016, and have not been applied in preparing the Company's unaudited interim consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future 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 has not yet completed an assessment of the impact of this standard 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 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 corresponding right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company has not yet completed an assessment of the impact of this standard on its financial statements.

Non-GAAP Measures

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

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

	For the 3 months ended			For the 9 months ended	
	September 30,		June 30,	September 30,	
Thousands of Canadian dollars	2016	2015	2016	2016	2015
Adjusted Net Earnings (Loss)					
Net earnings (loss)	15,093	(6,133)	23,205	39,093	(26,879)
Add:					
Restructuring costs and capital asset write-downs	1,492	10,097	2,304	4,999	9,963
Other foreign exchange loss (gain)	(792)	(986)	(503)	(396)	2,124
Long term incentive compensation expense (recovery)	8,321	(16,965)	(4,147)	4,352	(14,766)
Other (income) expense	(7)	77	458	358	106
Beaver sawmill post-closure wind-down costs	6	7	3	17	359
Tacoma sawmill post-acquisition losses and closure costs	94	1,652	311	777	10,311
Income tax effect of above adjustments	(1,408)	(3,100)	(725)	(2,887)	(6,747)
Adjusted net earnings (loss)	22,799	(15,351)	20,906	46,313	(25,529)
Weighted average number of shares - basic and diluted ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*69,305*
Adjusted net earnings (loss) per share[1]	0.33	(0.22)	0.30	0.66	(0.37)
Adjusted EBITDA					
Net earnings (loss)	15,093	(6,133)	23,205	39,093	(26,879)
Add:					
Depreciation of plant and equipment	18,624	18,365	18,765	57,558	53,010
Depletion and amortization of timber, roads and other	9,441	9,891	9,652	27,062	26,744
Restructuring costs and capital asset write-downs	1,492	10,097	2,304	4,999	9,963
Finance costs	4,379	4,948	4,965	14,528	12,110
Other foreign exchange loss (gain)	(792)	(986)	(503)	(396)	2,124
Income tax expense (recovery)	1,445	(9,492)	1,852	(29)	(17,074)
EBITDA	49,682	26,690	60,240	142,815	59,998
Add:					
Long term incentive compensation expense (recovery)	8,321	(16,965)	(4,147)	4,352	(14,766)
Other (income) expense	(7)	77	458	358	106
Beaver sawmill post-closure wind-down costs	6	7	3	17	357
Tacoma sawmill post-acquisition losses and closure costs	94	1,645	311	777	10,230
Adjusted EBITDA	58,096	11,454	56,865	148,319	55,925
Pre-tax return on total assets					
Operating earnings (loss) before restructuring costs	21,610	(1,489)	32,281	58,553	(19,650)
Total assets[1]	1,337,569	1,364,560	1,323,788	1,358,294	1,226,137
Pre-tax return on total assets[2]	6.5%	(0.4%)	9.8%	5.7%	(2.1%)
Net debt to invested capital					
Net debt					
Total debt	365,321	473,374	407,018	365,321	473,374
Cash and cash equivalents	(18,392)	(11,900)	(11,059)	(18,392)	(11,900)
Total net debt	346,929	461,474	395,959	346,929	461,474
Invested capital					
Net debt	346,929	461,474	395,959	346,929	461,474
Shareholders' equity	745,333	718,540	727,470	745,333	718,540
Total invested capital	1,092,262	1,180,014	1,123,429	1,092,262	1,180,014
Net debt to invested capital[3]	31.8%	39.1%	35.2%	31.8%	39.1%

Notes:
(1) Total assets at period beginning for three month periods; average of opening and closing total assets for nine month periods.
(2) Annualized rate.
(3) 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: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; and labour disruptions. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2015, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the nine month period ended September 30, 2016.

Uncertainty remains regarding lumber trade between Canada and the U.S., with the standstill provision of the Softwood Lumber Agreement expiring October 12, 2016. In the event that a new agreement is not reached, the earliest that the U.S. could impose protective measures such as countervailing and anti-dumping duties is sometime in the first quarter of 2017. If protective measures are ultimately implemented by the U.S., the Company's expectation is that they would be applied prospectively from the preliminary determination date.

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.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three and nine months ended September 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars except earnings per share)	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Sales (note 13)	$ 457,647	$ 430,835	$ 1,350,404	$ 1,275,964
Costs and expenses:				
Production	388,733	405,847	1,169,356	1,188,892
Selling and administration	10,918	12,451	33,523	36,520
Long term incentive compensation expense (recovery)	8,321	(16,965)	4,352	(14,766)
Export taxes	-	2,735	-	5,214
Depreciation of plant and equipment (note 9)	18,624	18,365	57,558	53,010
Depletion and amortization of timber, roads and other (note 9)	9,441	9,891	27,062	26,744
	436,037	432,324	1,291,851	1,295,614
Operating earnings (loss) before restructuring costs	21,610	(1,489)	58,553	(19,650)
Restructuring costs (note 10)	1,492	10,097	4,999	9,963
Operating earnings (loss)	20,118	(11,586)	53,554	(29,613)
Finance costs (note 11)	(4,379)	(4,948)	(14,528)	(12,110)
Other foreign exchange gain (loss)	792	986	396	(2,124)
Other income (expense)	7	(77)	(358)	(106)
	(3,580)	(4,039)	(14,490)	(14,340)
Earnings (loss) before income taxes	16,538	(15,625)	39,064	(43,953)
Income tax expense (recovery)				
Current	288	(162)	749	310
Deferred	1,157	(9,330)	(778)	(17,384)
	1,445	(9,492)	(29)	(17,074)
Net earnings (loss)	$ 15,093	$ (6,133)	$ 39,093	$ (26,879)
Net earnings (loss) per share, basic and diluted (note 12)	$ 0.22	$ (0.09)	$ 0.56	$ (0.39)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2016 and 2015 (unaudited)

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Net earnings (loss)	$ 15,093	$ (6,133)	$ 39,093	$ (26,879)
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial loss	(42)	(1,834)	(2,988)	(394)
Income tax recovery	-	-	-	376
Total items that will not be recycled to Net earnings (loss)	(42)	(1,834)	(2,988)	(18)
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	2,622	22,886	(16,210)	46,024
Gain (loss) in fair value of interest rate swaps (note 14)	93	(130)	(46)	(418)
Total items that are or may be recycled to Net earnings (loss)	2,715	22,756	(16,256)	45,606
Total other comprehensive income (loss), net of tax	2,673	20,922	(19,244)	45,588
Comprehensive income	$ 17,766	$ 14,789	$ 19,849	$ 18,709

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars)	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 15,093	$ (6,133)	$ 39,093	$ (26,879)
Items not involving cash:				
Depreciation of plant and equipment (note 9)	18,624	18,365	57,558	53,010
Depletion and amortization of timber, roads and other (note 9)	9,441	9,891	27,062	26,744
Income tax expense (recovery)	1,445	(9,492)	(29)	(17,074)
Finance costs (note 11)	4,379	4,948	14,528	12,110
Other assets	(22)	155	(306)	527
Reforestation liability	2,235	832	1,692	140
Other liabilities and provisions	4,288	(9,170)	993	(12,640)
Stock options	97	56	230	155
Reversal of write-down of plant and equipment (note 10)	-	-	-	(1,195)
Write-down of plant and equipment (note 10)	-	140	1,018	140
Unrealized foreign exchange gain	(698)	(13)	-	(341)
Other	(7)	76	358	105
	54,875	9,655	142,197	34,802
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	2,195	14,595	(9,858)	5,174
Inventories	5,507	35,176	(261)	44,748
Prepayments	254	4,838	517	1,990
Trade accounts payable and provisions	5,123	(28,368)	18,427	(30,851)
Income taxes paid	(265)	(180)	(731)	(635)
	67,689	35,716	150,291	55,228
Investing activities:				
Additions to property, plant and equipment	(15,223)	(21,600)	(37,220)	(73,718)
Additions to logging roads	(7,484)	(8,015)	(18,721)	(20,918)
Additions to timber and other intangible assets	(633)	(240)	(988)	(1,377)
Proceeds on disposal of property, plant and equipment	2	852	316	4,642
Proceeds on disposal of investments (note 14)	10,342	-	10,342	-
Acquisitions (note 4)	-	98	-	(223,263)
Investments and other assets	(1,347)	132	(10,900)	312
	(14,343)	(28,773)	(57,171)	(314,322)
Financing activities:				
Issuance of capital stock, net of share issue expenses (note 8)	-	-	-	63,196
Interest payments	(2,268)	(4,685)	(13,433)	(11,315)
Debt refinancing costs	(167)	(24)	(1,009)	(278)
Change in operating line components of long-term debt (note 7)	2,937	(3,656)	(8,796)	29,265
Additions to long term debt (note 7)	-	-	28,000	362,582
Repayments of long term debt (note 7)	(47,074)	-	(96,908)	(189,691)
	(46,572)	(8,365)	(92,146)	253,759
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	559	(759)	962	(631)
Increase (decrease) in cash	7,333	(2,181)	1,936	(5,966)
Cash and cash equivalents, beginning of period	11,059	14,081	16,456	17,866
Cash and cash equivalents, end of period	$ 18,392	$ 11,900	$ 18,392	$ 11,900

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2016 and December 31, 2015 (unaudited)

(thousands of Canadian dollars)	Sept. 30, 2016	Dec. 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 18,392	$ 16,456
Trade accounts receivable and other	101,975	95,218
Income taxes receivable	387	459
Inventories (note 6)	151,951	155,740
Prepayments and other	14,168	15,512
Assets held for sale (note 4)	25,224	27,836
	312,097	311,221
Employee future benefits	257	1,570
Other investments and assets	5,203	3,191
Property, plant and equipment	729,041	777,590
Logging roads and bridges	20,009	20,611
Timber licences	70,040	72,429
Other intangible assets	18,592	23,601
Goodwill	153,191	160,914
Deferred income taxes	18,362	18,669
	$ 1,326,792	$ 1,389,796
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 145,073	$ 130,840
Reforestation liability	12,064	11,052
Income taxes payable	392	398
	157,529	142,290
Reforestation liability	26,999	25,074
Long term debt (notes 7 and 14)	365,321	468,759
Employee future benefits	10,587	8,391
Provisions and other liabilities	21,023	20,028
Equity:		
Share capital (note 8)	553,559	553,559
Contributed surplus	7,895	7,665
Translation reserve	61,215	77,425
Hedge reserve	16	62
Retained earnings	122,648	86,543
	745,333	725,254
	$ 1,326,792	$ 1,389,796

Contingencies (note 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors:

"*L. Sauder*"
Director

"*D.W.G. Whitehead*"
Director

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars)	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2015	$ 553,559	$ 7,665	$ 77,425	$ 62	$ 86,543	$ 725,254
Net earnings:	-	-	-	-	39,093	39,093
Other comprehensive loss:						
Foreign currency translation differences for foreign operations, net of tax	-	-	(16,210)	-	-	(16,210)
Defined benefit plan actuarial loss	-	-	-	-	(2,988)	(2,988)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(46)	-	(46)
Contributions:						
Stock options	-	230	-	-	-	230
Balance at September 30, 2016	$ 553,559	$ 7,895	$ 61,215	$ 16	$ 122,648	$ 745,333
Balance at December 31, 2014	$ 490,363	$ 7,476	$ 20,950	$ 133	$ 117,558	$ 636,480
Net loss:	-	-	-	-	(26,879)	(26,879)
Other comprehensive earnings (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	46,024	-	-	46,024
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(18)	(18)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(418)	-	(418)
Contributions:						
Shares issuance, net of share issue expenses (note 8)	63,196	-	-	-	-	63,196
Stock options	-	155	-	-	-	155
Balance at September 30, 2015	$ 553,559	$ 7,631	$ 66,974	$ (285)	$ 90,661	$ 718,540

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 exists 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 unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2016 and 2015 (these "financial statements") comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements were approved by Interfor's Board of Directors on November 3, 2016.

(b) Basis of measurement:

These financial statements are prepared on the historical cost basis except for the following items in the Statements of Financial Position:

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

(ii) Available for sale financial assets are measured at fair value;

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

(iv) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

The functional and presentation currency of Interfor Corporation is the Canadian Dollar.

3. Significant accounting policies:

These financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2015 annual consolidated financial statements, which are available on www.sedar.com.

New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2016, and have not been applied in preparing these financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the Company's financial statements in the future.

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 has not yet completed an assessment of the impact of this standard on its financial statements.

IFRS 15, Revenue from Contracts with Customers, 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, 2018, with earlier adoption permitted. The Company does not expect this standard to have a significant effect 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, a lease becomes an on-balance sheet liability that attracts interest, together with a corresponding right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company has not yet completed an assessment of the impact of this standard on its financial statements.

4. Acquisitions and assets held for sale:

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 total contingent future payments 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 its plan to exit its operation of the Tacoma sawmill. On December 22, 2015, the Company signed an agreement to sell the related real estate, subject to customary closing conditions. The sale is expected to close by the end of 2016.

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

4. Acquisitions and assets held for sale (continued):

As at September 30, 2016, the contingent liability of US$10,000,000 was revalued at the quarter-end exchange rate to $13,117,000 (December 31, 2015 – US$9,643,000 revalued at the year-end exchange rate to $13,345,000). The Company recorded accretion expense of $476,000 for the nine months, 2016 (nine months, 2015 - $nil) and $nil in the third quarter, 2016 (Quarter 3, 2015 – $nil).

As part of its announcement to exit operations of the Tacoma sawmill, the Company classified US$19,230,000 of the Tacoma sawmill property and buildings as assets held for sale and ceased amortization. As at September 30, 2016, these assets have been revalued at the quarter-end exchange rate to $25,224,000 (December 31, 2015 - $27,836,000).

There is a cumulative foreign currency translation gain of $1,181,000 (December 31, 2015 – $2,689,000) included in the Translation reserve relating to the assets held for sale.

5. Seasonality of operating results:

Quarterly operating results of the Company reflect the seasonality of its operations and markets. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. 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 lowest during the winter season due to reduced construction and renovation activities.

6. Inventories:

	Sept. 30, 2016	Dec. 31, 2015
Lumber	$ 73,779	$ 69,046
Logs	60,842	69,980
Other	17,330	16,714
	$ 151,951	$ 155,740

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at September 30, 2016 was $8,675,000 (December 31, 2015 - $11,961,000).

7. Cash and borrowings:

September 30, 2016	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 262,340	$ 65,585	$ 592,925
Maximum borrowing available	65,000	200,000	262,340	65,585	592,925
Drawings	10,493	90,246	262,340	2,242	365,321
Outstanding letters of credit included in line utilization	9,826	-	-	3,220	13,046
Unused portion of line	$ 44,681	$ 109,754	$ -	$ 60,123	$ 214,558
December 31, 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

Minimum principal amounts due on long term debt are as follows:

Year ending	
September 30, 2017	$ -
September 30, 2018	2,242
September 30, 2019	100,739
September 30, 2020	-
September 30, 2021	43,723
Thereafter	218,617
	$ 365,321

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

7. Cash and borrowings (continued):

(a) Operating Line and Revolving Term Line:

The Canadian Operating Line of credit and Revolving Term Line (the "Lines") may be drawn in either CAD$ or US$ advances, and bear 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 trailing twelve months' EBITDA[1]. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Lines are 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 of the Company's sawmills. The Lines 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.

As at December 31, 2015, maximum borrowings available under the Company's Lines were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Lines' limits. This restriction was removed based on changes to the agreement terms effective on February 9, 2016.

On February 9, 2016, the Company extended the maturity of the Lines from February 27, 2017 to May 19, 2019 and on September 22, 2016, further amended certain terms.

As at September 30, 2016, the Lines were drawn by US$73,145,000 (December 31, 2015 – US$130,145,000) and $14,620,000 (December 31, 2015 - $9,195,000), including letters of credit.

All outstanding U.S. Dollar drawings under the Lines have been designated as a hedge against the Company's investment in its U.S. operations. The Company recognized an unrealized foreign exchange gain of $10,273,000 in nine months, 2016 (nine months, 2015 - $24,852,000 loss) and an unrealized foreign exchange loss of $975,000 in the third quarter, 2016 (Quarter 3, 2015 - $11,960,000 loss) arising on revaluation of the Lines in Foreign currency translation differences in Other comprehensive income.

(b) Senior Secured Notes:

The Company's Senior Secured Notes consist of Series A Senior Secured Notes (US$50,000,000, bearing interest at 4.33%), Series B Senior Secured Notes (US$50,000,000, bearing interest at 4.02%) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at September 30, 2016, US$200,000,000 of Senior Secured Notes were outstanding (December 31, 2015 – US$200,000,000) and revalued at the quarter-end exchange rate to $262,340,000 (December 31, 2015 - $276,800,000).

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 7(a), certain terms and conditions of the Senior Secured Notes were also modified.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and an unrealized foreign exchange gain of $14,460,000 in the nine months, 2016 (nine months, 2015 - $23,840,000 loss) and an unrealized foreign exchange loss of $2,160,000 in the third quarter, 2016 (Quarter 3, 2015 - $18,400,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) 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 June 15, 2016, the Company extended the maturity of its U.S. Operating Line from May 1, 2017 to May 1, 2018 with no other significant changes.

As at September 30, 2016, the U.S. Operating Line was drawn by US$4,164,000, including outstanding letters of credit and US$45,836,000 was unused (December 31, 2015 - US$39,647,000).

8. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2014	66,730,455	$ 490,363
Shares issuance on March 2, 2015, net of share issue costs	3,300,000	63,196
Balance, December 31, 2015 and September 30, 2016	70,030,455	$ 553,559

[1] EBITDA represents earnings before interest, taxes, depreciation, depletion, amortization and non-cash asset revaluations as defined under the agreement.

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Production	$ 26,011	$ 26,200	$ 78,384	$ 73,926
Selling and administration	2,054	2,056	6,236	5,828
	$ 28,065	$ 28,256	$ 84,620	$ 79,754

10. Restructuring costs:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Tacoma sawmill:				
Losses on timber sales and other	$ 272	$ 6,643	$ 1,502	$ 6,643
Site closure costs	619	143	1,089	143
Write-down of plant and equipment	-	140	1,018	140
Severance	-	2,988	-	2,988
Onerous contract	-	162	-	162
Beaver-Forks operation:				
Reversal of write-down of plant and equipment	-	-	-	(1,195)
Onerous contract	-	-	-	175
Severance	-	-	-	5
Other				
Severance	104	(7)	893	874
Onerous contract	497	-	497	-
Other	-	28	-	28
	$ 1,492	$ 10,097	$ 4,999	$ 9,963

During the first quarter, 2015, the Company sold substantially all of its assets at its Beaver-Forks operations, located on the Olympic Peninsula in Washington.

On July 30, 2015, the Company announced a plan to exit the Tacoma sawmill, classified the assets as Assets held for sale (see note 4) and recorded related restructuring charges.

11. Finance costs:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Interest on borrowings	$ 4,028	$ 4,609	$ 12,975	$ 11,125
Net interest expense on defined benefit obligations	103	10	299	13
Unwind of discount on provisions	79	114	753	331
Amortization of deferred finance costs	169	215	501	641
	$ 4,379	$ 4,948	$ 14,528	$ 12,110

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

12. Net earnings (loss) per share:

Net earnings (loss) per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	3 Months Sept. 30, 2016			3 Months Sept. 30, 2015		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at July 1		70,030			70,030	
Basic earnings (loss) per share	$ 15,093	70,030	$ 0.22	$ (6,133)	70,030	$ (0.09)
Effect of dilutive securities:						
Stock options		2			-	
Diluted earnings (loss) per share	$ 15,093	70,032*	$ 0.22	$ (6,133)	70,030*	$ (0.09)

	9 Months Sept. 30, 2016			9 Months Sept. 30, 2015		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at December 31		70,030			66,730	
Effect of shares issued on March 2, 2015		-			2,575	
Basic earnings (loss) per share	$ 39,093	70,030	$ 0.56	$ (26,879)	69,305	$ (0.39)
Effect of dilutive securities:						
Stock options		-			-	
Diluted earnings (loss) per share	$ 39,093	70,030*	$ 0.56	$ (26,879)	69,305*	$ (0.39)

* Where 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.

13. 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.

Sales by market are as follows:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
United States	$ 321,056	$ 301,320	$ 957,806	$ 867,609
Canada	61,763	59,734	173,411	179,357
Japan	29,837	31,600	100,354	103,154
China/Taiwan	21,974	20,335	62,844	74,963
Other export	23,017	17,846	55,989	50,881
	$ 457,647	$ 430,835	$ 1,350,404	$ 1,275,964

Sales by product line are as follows:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Lumber	$ 374,821	$ 343,327	$ 1,094,833	$ 1,036,194
Logs	45,954	48,390	137,167	124,430
Wood chips and other by-products	35,126	36,177	110,599	107,082
Ocean freight and other	1,746	2,941	7,805	8,258
	$ 457,647	$ 430,835	$ 1,350,404	$ 1,275,964

Certain prior year figures have been reclassified to conform to the presentation adopted in the current year.

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

14. Financial instruments:

Derivative financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while derivative financial instruments in a liability position are classified as Trade accounts payable and provisions. Fixed income and equity investments maturing within one year of the balance sheet date are classified as Trade accounts receivable and other in the Statements of Financial Position, and fixed income and equity investments maturing more than one year from the balance sheet date are classified as Other investments and assets. Assets and liabilities are not netted for purposes of presentation in the financial statements.

At September 30, 2016, the fair value of the Company's long term debt exceeded its carrying value by $13,434,000 (December 31, 2015 - approximated carrying value) measured based on Level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

In the three and nine months ended September 30, 2016, the Company sold fixed income investments for proceeds of $10,342,000 and recognized a gain of $23,000. As at September 30, 2016, the fair value of the Company's remaining fixed income and equity investments was US$2,060,000, revalued at the quarter-end exchange rate to $2,702,000 (December 31, 2015 – US$1,120,000 revalued at the year-end exchange rate to $1,550,000).

The Company may use a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, interest rates and lumber prices. These include foreign currency forward, collar and option contracts, and interest rate swaps. As at September 30, 2016, the Company had no outstanding obligations under foreign currency contracts.

Two of the Company's interest rate swaps matured on April 14, 2016. Two interest rate swaps remained outstanding at September 30, 2016, each with a notional value of US$25,000,000. Under these two interest rate swaps, maturing February 27, 2017, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. At September 30, 2016, the fair value of the Company's interest rate swaps was an asset of $15,000 (December 31, 2015 – $61,000 asset). Fair value of the Company's interest rate swaps are measured based on Level 2 of the fair value hierarchy.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine months ended September 30, 2016 and 2015:

	3 Months Sept. 30, 2016	3 Months Sept. 30, 2015	9 Months Sept. 30, 2016	9 Months Sept. 30, 2015
Foreign exchange forward contracts[1]	$ 20	$ 261	$ 138	$ (1,460)
Interest rate swaps[2]	93	(130)	(46)	(418)
Total gain (loss), net	$ 113	$ 131	$ 92	$ (1,878)

Notes: [1] Recognized in Other foreign exchange gain (loss) in Net earnings (loss).
[2] Recognized in Other comprehensive income (loss).

15. Contingencies:

A Timber Licence held by Interfor for harvesting within the B.C. Coast region (the "Licence") is expected to be cancelled (or taken) by the Government of B.C., following the passing into law of the Great Bear Rainforest (Forest Management) Act (the "Act"). The Act received first reading in the B.C. Legislature on March 1, 2016 and the Government of B.C. is drafting regulations.

If the License is taken, Interfor would be entitled to compensation from the Government of B.C. based upon the value of the harvesting rights under the Licence. Although it is not practicable at this time to estimate the value or form of compensation that would be received by Interfor if the Licence were taken, it is expected that such compensation would exceed the net book value of the Licence as at September 30, 2016.

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