INTERFOR CORPORATION

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 2016 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"	*"John A. Horning"*
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

February 09, 2017

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, 2016 and December 31, 2015, the consolidated statements of earnings (loss), comprehensive income, changes in equity and cash flows for the years ended December 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2016 and December 31, 2015 in accordance with International Financial Reporting Standards.

KPMG LLP, Chartered Professional Accountants

February 09, 2017
Vancouver, Canada

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2016 and 2015

	Note	December 31 2016	December 31 2015
Assets			
Current assets:			
Cash and cash equivalents	*10*	$ 19,270	$ 16,456
Trade accounts receivable and other		95,059	95,218
Income tax receivable	*19*	222	459
Inventories	*6*	154,535	155,740
Prepayments and other		14,016	15,512
Investments and other assets	7	2,911	-
Assets held for sale	*5*	-	27,836
		286,013	311,221
Employee future benefits	*22(d)*	2,471	1,570
Investments and other assets	*7*	2,341	3,191
Property, plant and equipment	*4, 8*	730,981	777,590
Logging roads and bridges	*9*	20,739	20,611
Timber licences	*9*	69,273	72,429
Other intangible assets	*9*	19,017	23,601
Goodwill	*9*	156,502	160,914
Deferred income taxes	*19*	14,311	18,669
		$1,301,648	$ 1,389,796
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	*11, 22(d)*	$ 138,029	$ 130,840
Reforestation liability	*12*	11,609	11,052
Income taxes payable	*19*	317	398
		149,955	142,290
Reforestation liability	*12*	25,931	25,074
Long term debt	*10*	308,821	468,759
Employee future benefits	*22(d)*	8,136	8,391
Provisions and other liabilities	*11*	21,290	20,028
Deferred income taxes	19	848	-
Equity:			
Share capital	*13*	555,388	553,559
Contributed surplus		7,999	7,665
Translation reserve		69,574	77,425
Hedge reserve		11	62
Retained earnings		153,695	86,543
		786,667	725,254
		$ 1,301,648	$ 1,389,796

Commitments and contingencies *(note 20)*; Subsequent events *(note 5, 20 (c))*.

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director   *"D.W.G. Whitehead"*, Director

Interfor Corporation
Consolidated Statements of Earnings (Loss)
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2016 and 2015

	Note	2016	2015
Sales		$1,792,712	$1,687,375
Costs and expenses:			
Production		1,550,912	1,554,975
Selling and administration	*4*	43,092	46,756
Long term incentive compensation expense (recovery)	*11*	4,551	(5,431)
Export taxes		-	5,216
Depreciation of plant and equipment	*8, 14*	76,092	71,492
Depletion and amortization of timber, roads and other	*9, 14*	34,895	37,478
		1,709,542	1,710,486
Operating earnings (loss) before restructuring costs		83,170	(23,111)
Restructuring costs	*18*	(7,280)	(12,829)
Operating earnings (loss)		75,890	(35,940)
Finance costs	*16*	(18,602)	(17,569)
Other foreign exchange gain (loss)		1,468	(1,651)
Other income	*17*	14,094	757
		(3,040)	(18,463)
Earnings (loss) before income taxes		72,850	(54,403)
Income tax expense (recovery):	*19*		
Current		853	614
Deferred		6,354	(24,631)
		7,207	(24,017)
Net earnings (loss)		$ 65,643	$ (30,386)
Net earnings (loss) per share, basic and diluted	*21*	$ 0.94	$ (0.44)

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2016 and 2015

	Note	2016	2015
Net earnings (loss)		$ 65,643	$ (30,386)
Other comprehensive income (loss):			
Items that will not be recycled to Net earnings (loss):			
Defined benefit plan actuarial gains (losses), net of tax	*19, 22*	1,509	(629)
Items that are or may be recycled to Net earnings (loss):			
Foreign currency translation differences for foreign operations, net of tax		(7,851)	56,475
Loss in fair value of interest rate swaps	*16, 26*	(51)	(71)
Total items that are or may be recycled to Net earnings (loss)		(7,902)	56,404
Total other comprehensive income (loss), net of tax		(6,393)	55,775
Comprehensive income		$ 59,250	$ 25,389

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2016 and 2015

	Note	Common Shares	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
Balance at December 31, 2014		$ 490,363	$ 7,476	$ 20,950	$ 133	$ 117,558	$ 636,480
Net 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 costs	*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
Net earnings:		-	-	-	-	65,643	65,643
Other comprehensive income (loss):							
Foreign currency translation differences for foreign operations, net of tax		-	-	(7,851)	-	-	(7,851)
Defined benefit plan actuarial gains, net of tax	*22*	-	-	-	-	1,509	1,509
Loss in fair value of interest rate swaps	*26*	-	-	-	(51)	-	(51)
Contributions:							
Deferred income tax on share issue costs	*13(a), 19*	1,829	-	-	-	-	1,829
Stock options	*13(b)*	-	334	-	-	-	334
Balance at December 31, 2016		$ 555,388	$ 7,999	$ 69,574	$ 11	$153,695	$ 786,667

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2016 and 2015

	Note	2016	2015
Cash provided by (used in):			
Operating activities:			
Net earnings (loss)		$ 65,643	$ (30,386)
Items not involving cash:			
Depreciation of plant and equipment	8	76,092	71,492
Depletion and amortization of timber, roads and other	*9*	34,895	37,478
Income tax expense (recovery)	*19*	7,207	(24,017)
Finance costs	*16*	18,602	17,569
Other assets		(217)	639
Reforestation liability	*12*	559	1,612
Other liabilities and provisions		789	(8,252)
Stock options	*13(b)*	334	189
Reversal of write-down of plant and equipment	*18*	-	(1,195)
Write-down of plant and equipment	*8, 18*	2,172	2,812
Unrealized foreign exchange losses (gains)		596	(337)
Other income	*17*	(14,095)	(758)
		192,577	66,846
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		(2,666)	8,748
Inventories		(2,338)	48,717
Prepayments and other		704	3,017
Trade accounts payable and accrued liabilities		11,702	(24,986)
Income taxes paid		(707)	(965)
		199,272	101,377
Investing activities:			
Additions to property, plant and equipment	*8*	(50,393)	(93,832)
Additions to logging roads	*9*	(24,631)	(26,133)
Additions to timber and other intangible assets	*9*	(1,682)	(1,500)
Acquisitions	*4*	-	(223,263)
Proceeds on disposal of property, plant and equipment	*5,17*	41,437	12,509
Proceeds on disposal of investments	*17*	10,342	-
Investments and other assets		(11,324)	(1,033)
		(36,251)	(333,252)
Financing activities:			
Issuance of capital stock, net of share issue expenses	*4, 13(a)*	-	63,196
Interest payments		(17,174)	(16,186)
Debt refinancing costs		(1,112)	(292)
Change in operating line components of long term debt	*10*	(11,663)	10,057
Additions to long term debt	*10*	56,974	362,582
Repayments of long term debt	*10*	(189,193)	(189,691)
		(162,168)	229,666
Foreign exchange gain on cash and cash equivalents held in a foreign currency		1,961	799
Increase (decrease) in cash and cash equivalents		2,814	(1,410)
Cash and cash equivalents, beginning of year		16,456	17,866
Cash and cash equivalents, end of year		$ 19,270	$ 16,456

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 consolidated financial statements of the Company as at and for the years ended December 31, 2016 and 2015 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 09, 2017.

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

(ii) 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:

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

Certain investments are classified as held for trading and are measured at fair value.

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 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 and interest rate 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 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.

(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.

3. Significant accounting policies (continued):

(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 compromising 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.

(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.

3. Significant accounting policies (continued):

(g) Property, plant and equipment (continued):

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, for which costs 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.

(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.

3. Significant accounting policies (continued):

(j) Impairment of non-financial assets (continued):

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.

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.

3. Significant accounting policies (continued):

(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 be required 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 risk-free rate. 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, salary escalation, and health care costs and are calculated using the projected unit credit method.

Plan assets are valued at fair value.

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

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 Statements of Financial Position.

3. Significant accounting policies (continued):

(o) Equity-settled share based compensation:

The Company has a 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 takes 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.

(p) Sales revenue:

The Company recognizes sales 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.

3. Significant accounting policies (continued):

(r) Income tax (continued):

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 taxable 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.

(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, 2016, 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.

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

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

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

4. Acquisitions:

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.

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 with a minimum payment of US$10,000,000. 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 and recorded accretion expense of US$476,000 in 2016 (2015 – US$238,000) in Finance costs in Net earnings.

As at December 31, 2016, the provision of US$10,000,000 was revalued at the year-end exchange rate to $13,427,000 (2015 - US$9,643,000 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.

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).

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	*8*	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(a)*	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 included in Selling and administration expenses in Net earnings in 2015.

4. Acquisitions (continued):

For the period of March 1 to December 31, 2015, 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 for 2015 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.

5. Assets held for sale:

	2016	2015
Opening balance	$ 27,836	$ -
Additions	-	26,239
Impairment	(1,018)	-
Disposals	(25,947)	-
Exchange rate movements	(871)	1,597
Ending Balance	$ -	$ 27,836

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).

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 of the Tacoma property was completed on November 30, 2016 for net proceeds of $40,830,000 (note 17) and on January 13, 2017, the minimum contingent amount of US$10,000,000 (note 4) was paid to Simpson, with no further amounts due. US$900,000 was paid into escrow to be used for environmental remediation, if required. Any unused funds as at November 30, 2021, if any, will be returned to the Company and recognized as additional proceeds at that time.

6. Inventories:

	2016	2015
Logs	$ 80,726	$ 69,980
Lumber	58,739	69,046
Other	15,070	16,714
	$ 154,535	$ 155,740

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, 2016, was $7,922,000 (2015 - $11,961,000).

7. Investments and other assets:

	2016	2015
Investments designated as fair value through profit and loss	$ 2,911	$ 1,528
Deferred financing fees, net of accumulated amortization	2,078	1,663
Timber deposits and other	263	-
	$ 5,252	$ 3,191
Current	$ 2,911	$ -
Long term	2,341	3,191
	$ 5,252	$ 3,191

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, 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
Additions		-	-	(2)	-	133	-	23	49,142	49,296
Disposals		(64)	(150)	(2,396)	(740)	(860)	-	(304)	(100)	(4,614)
Transfers		-	4,771	19,368	351	3,505	1,706	23	(31,361)	(1,637)
Exchange rate movements		(578)	(2,102)	(16,039)	(414)	(626)	(1,000)	(139)	(436)	(21,334)
Balance at December 31, 2016		$ 51,308	$ 133,650	$ 861,543	$ 31,202	$ 43,713	$ 70,438	$ 13,561	$ 35,631	$ 1,241,046

Accumulated Depreciation	Note	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Total
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
Depreciation		6,796	53,527	3,276	6,072	5,003	1,418	76,092
Disposals		(86)	(1,564)	(596)	(677)	-	(284)	(3,207)
Transfers		-	(27)	-	27	-	-	-
Impairment		-	1,154	-	-	-	-	1,154
Exchange rate movements		(463)	(4,389)	(162)	(344)	(329)	(32)	(5,719)
Balance at December 31, 2016		$ 49,936	$ 366,853	$ 20,629	$ 28,717	$ 38,321	$ 5,609	$ 510,065

Net book value at	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
December 31, 2015	$ 51,950	$ 87,442	$ 542,460	$ 13,894	$ 17,922	$ 36,085	$ 9,451	$ 18,386	$ 777,590
December 31, 2016	51,308	83,714	494,690	10,573	14,996	32,117	7,952	35,631	730,981

There were no borrowing costs capitalized in 2016 (2015 - $477,000). Additions in 2016 include $2,912,000 of accrued contract costs (2015 - $4,009,000; 2014 - $1,731,000).

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, 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
Additions		24,631	195	1,487	-
Transfers		-	-	1,637	-
Disposals		(824)	-	(18)	-
Exchange rate movements		(69)	-	(916)	(4,412)
Balance at December 31, 2016		$ 118,780	$ 118,629	$ 42,459	$ 157,379

Accumulated amortization	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
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
Amortization	24,478	3,351	7,066	-
Disposals	(824)	-	(6)	-
Exchange rate movements	(44)	-	(286)	-
Balance at December 31, 2016	$ 98,041	$ 49,356	$ 23,442	$ 877
Net book value at				
December 31, 2015	$ 20,611	$ 72,429	$ 23,601	$ 160,914
December 31, 2016	20,739	69,273	19,017	156,502

For the purpose of impairment testing, goodwill components of $13,078,000 and $143,424,000 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 2015 and 2016. 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, 2016, and December 31, 2015 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 post-tax discount rate of 10.5 percent (2015 – 10.5 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 1.3 percent (2015 – 1.0 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:

2016	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 268,540	$ 67,135	$ 600,675
Maximum borrowing available	65,000	200,000	268,540	65,627	599,167
Drawings	-	40,281	268,540	-	308,821
Outstanding letters of credit included in line utilization	10,026	-	-	3,296	13,322
Unused portion of line	$ 54,974	$ 159,719	$ -	$ 62,331	$ 277,024
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 follows:

2017	$ -
2018	-
2019	40,281
2020	-
2021	44,756
Thereafter	223,784
	$ 308,821

10.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' trailing EBITDA[1]. The amount available under the Operating Line is 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 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 other terms.

As at December 31, 2016, the Lines were drawn by US$30,000,000 (2015 - US$130,000,000) revalued at the year end exchange rate to $40,281,000 (2015 - $179,920,000, and by $10,026,000 (2015 - $9,396,000) representing outstanding 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 and foreign exchange gains of $7,420,000 for the year ended December 31, 2016 (2015 - $30,649,000 losses) arising on revaluation of the Lines were recognized in Foreign currency translation differences in Other comprehensive income.

As at December 31, 2016, $214,693,000 (2015 - $57,227,000) of available credit on the Lines was unused.

(b) Senior Secured Notes:

The Company's Senior Secured Notes consist of Series A and Series B Senior Secured Notes (each $US50,000,000 and bearing interest at 4.33% and 4.02%, respectively) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at December 31, 2016, US$200,000,000 of Senior Secured Notes were outstanding (2015 – US$200,000,000) and revalued at the quarter-end exchange rate to $268,540,000 (2015 - $276,800,000).

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

10.Cash and borrowings (continued):

(b) 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 conjuction with the modifications to the Operating Line and Revolving Term Line effective February 9, 2016, as per note 10(a), certain terms and conditions 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 gains of $8,260,000 (2015 - $32,760,000 losses) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2016.

(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 December 31, 2016, the U.S. Operating Line was drawn by US$2,455,000 including outstanding letters of credit, revalued at the year-end exchange rate to $3,296,000 (2015 – US$10,354,000 revalued at the year-end exchange rate to $14,330,000).

As at December 31, 2016, $62,331,000 (US$46,422,000) of the available U.S. Operating Line was unused (2015 - $54,871,000, US$39,647,000).

(d) Cash and cash equivalents:

At December 31, 2016, $515,000 of the Company's cash balances are restricted (2015 - $1,299,000).

11. Provisions and other liabilities:

2016	*Note*	Current	Non-current	Total
Restructuring	*11(a), 18*	$ 987	$ 1,618	$ 2,605
Road deactivation	*11(a)*	221	4,158	4,379
Environmental	*11(a)*	56	753	809
Cash-settled share based compensation				
SAR Plan	*11(b)*	5,904	385	6,289
TSR Plan	*11(c)*	1,188	1,625	2,813
DSU Plan	*11(d)*	1,515	9,468	10,983
Storm damage remediation funds	*11(e)*	220	236	456
Contingent future payment	*4, 5*	13,427	-	13,427
Retained compensation liabilities	*11(f)*	-	1,076	1,076
Lease incentives and other		1,075	1,971	3,046
		$ 24,593	$ 21,290	$ 45,883

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

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 required 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 risk-free discount rate. The unwinding of the discount is recognized as a Finance cost in Net earnings.

11. Provisions and other liabilities (continued):

(a) Provisions (continued):

	Note	Restructuring	Road deactivation	Environmental
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
Provisions made during year	*18*	1,370	446	-
Expenditures made during year		(895)	(143)	-
Unwind of discount		-	46	8
Changes in estimated future expenditures		-	(138)	(25)
Exchange rate movements		(45)	-	-
Balance at December 31, 2016		$ 2,605	$ 4,379	$ 809

(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.

Details of the Company's SAR Plan for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	929,808	$ 7.52	1,113,953	$ 7.35
Granted	6,053	15.01	-	-
Exercised	(173,800)	4.96	(149,100)	5.77
Expired or cancelled	(23,862)	12.63	(35,045)	9.52
Outstanding, end of year	738,199	$ 8.02	929,808	$ 7.52
Units exercisable, end of year	533,389	$ 6.73	509,250	$ 5.03

11. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

Weighted average fair value assumptions for grants made in 2016 and 2015 are as follows:

	2016	2015
Risk-free interest rate	0.87%	-
Expected life	6.7 years	-
Annualized volatility	41%	-
Dividend rate	0%	-
Termination rate	6%	-
Grant date fair value	$15.01	-

Details of units outstanding under the SAR Plan at December 31, 2016 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2016	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2016	Weighted average strike price
$1.38-$4.64	212,250	4.1	$ 3.64	168,950	$ 3.39
$4.77-$5.40	109,000	2.6	4.92	108,000	4.91
$6.01-$8.02	104,300	3.6	6.18	104,300	6.18
$9.18-$17.43	312,649	6.4	12.69	152,139	12.12
	738,199		$ 8.02	533,389	$ 6.73

For the year ended December 31, 2016, the Company recorded a Long term incentive compensation expense in respect of the SAR Plan of $1,010,000 (2015 – recovery of $4,730,000).

(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, 2016 and 2015 are as follows:

	2016	2015
Outstanding, beginning of year	518,199	709,214
Granted	237,497	144,975
Matured	(209,647)	(335,990)
Cancelled	-	-
Outstanding, end of year	546,049	518,199

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.

11. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan (continued):

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

	2016	2015
Risk-free interest rate	0.8%	0.9%
Expected life	3 years	3 years
Annualized volatility	46% to 56%	47% to 56%
Dividend rate	0.00%	0.00%
Termination rate	0.00%	0.00%
Grant date fair value	$1,532	$2,340

For the year ended December 31, 2016, the Company recorded Long term incentive compensation expense under the TSR Plan of $1,289,000 (2015 – $655,000).

(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.

DSUs may be granted directly to directors or officers of the Company at the discretion of the Board of Directors, who are required to take DSU's as payment of at least 60% of their annual retainer.

For performance periods ending prior to 2016, participants in the TSR Plan had the option to elect, subject to the approval of the Company's Board of Directors, to receive their award in DSUs at the end of the performance period.

The number of DSUs outstanding at December 31, 2016 and 2015 are as follows:

	2016		2015	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	622,951	$14.06	551,249	$21.27
Granted[1]	116,124	13.62	157,973	18.73
Exercised	(14,157)	11.67	(86,271)	21.91
Outstanding, end of year	724,918	$15.15	622,951	$14.06

[1]Fair value at the date of the grants.

Changes to the market value of the Company's Common Shares subsequent to issuance of awards results in adjustments to the compensation accrual and Long term incentive compensation expense in Net earnings. For the year ended December 31, 2016, the Company recorded an expense of $1,775,000 (2015 – recovery of $2,835,000) in respect of the DSU Plan, of which a $916,000 expense (2015 – recovery of $3,795,000) was recorded in Long term compensation and a $860,000 expense (2015 - $960,000), related to payment for director's fees, was recorded in Selling and administration.

11. Provisions and other liabilities (continued):

(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, 2016, $456,000 (2015 - $515,000) of this provision remains unspent.

(f) Retained compensation liabilities:

Upon acquisition of the Tolleson sawmills on March 17, 2014, the Company assumed 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. For the year ended December 31, 2016, the Company recorded a long term incentive compensation expense of $1,029,000 (2015 - $2,240,000) in respect of the retained compensation liabilities. The liability of US$801,000 (2015 – US$1,954,000) was revalued at the year-end exchange rate to $1,076,000 (2015 - $2,705,000).

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:

	2016	2015
Reforestation liability, beginning of year	$ 36,126	$ 32,896
Reforestation expense on current logging and market logging agreements	12,605	12,888
Reforestation expenditures	(10,924)	(9,691)
Unwind of discount	302	360
Changes in estimated future reforestation expenditures	(569)	(327)
	$ 37,540	$ 36,126
Consisting of:		
Current reforestation liability	$ 11,609	$ 11,052
Long term reforestation liability	25,931	25,074
	$ 37,540	$ 36,126

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2016 is $39,419,000 (2015 - $37,848,000). 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% (2015 – 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, 2016 consists of:

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

Share transactions during 2016 and 2015 were as follows:

Issued and Fully Paid	*Note*	Number	Amount
Balance, December 31, 2014		66,730,455	490,363
Share issuance, net of share issue costs	*4*	3,300,000	63,196
Balance, December 31, 2015		70,030,455	553,559
Deferred income tax on share issue costs	*19*	-	1,829
Balance, December 31, 2016		70,030,455	$ 555,388

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.

At December 31, 2016, 1,631,740 Shares are reserved for possible future issuance pursuant to the stock option plan.

(b) Equity-settled share based compensation:

The Company has a 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 1,450,215 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.

Details of the Company's stock option plan for the years ended December 31, 2016 and 2015 are as follows:

	2016		2015	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	64,175	$ 21.77	-	$ -
Granted	130,879	10.61	78,926	21.85
Exercised	-	-	-	-
Expired or cancelled	(13,529)	16.76	(14,751)	22.22
Outstanding, end of year	181,525	$ 14.10	64,175	$ 21.77
Options exercisable, end of year	-	$ -	-	$ -

13. Share capital (continued):

(b) Equity-settled share based compensation continued:

Weighted average fair value assumptions for grants made in 2016 and 2015 are as follows:

	2016	2015
Risk-free interest rate	0.8%	1.3%
Expected life	6.7 years	8.2 years
Annualized volatility	43%	45%
Dividend rate	0%	0%
Termination rate	6%	12%
Grant date fair value	$4.63	$10.48

Details of options outstanding under the option plan at December 31, 2016 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2016	Weighted average remaining unit life (yrs)	Weighted average exercise price	Number exercisable, December 31, 2016	Weighted average strike price
$9.77-$15.01	124,936	9.2	$ 10.65	-	$ -
$17.26-$22.22	56,589	8.2	$ 21.70	-	$ -
	181,525		$ 14.10	-	$ -

The Company recognized an expense of $334,000 for the year ended December 31, 2016 (2015 –$189,000) in Contributed surplus.

14. Depreciation, depletion, and amortization:

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

	2016	2015
Production	$ 102,539	$ 100,988
Selling and administration	8,448	7,982
	$ 110,987	$ 108,970

15. Personnel expenses:

	Note	2016	2015
Wages and salaries		$ 232,342	$ 219,362
Government administered pensions and unemployment insurance		13,071	12,817
Workers' compensation insurance		6,182	7,505
Contributions to defined contribution plans	*22*	9,866	10,948
Expenses related to defined benefit plans	*22*	1,648	1,304
Cash-settled share based payment transactions and other long term compensation expense	*11*	4,551	5,431
Medical, dental, group insurance and other		36,796	34,027
		$ 304,456	$ 291,394

16. Finance costs:

Recognized in Net earnings (loss):

	2016	2015
Interest on borrowing	$ (16,659)	$ (16,034)
Net interest on defined benefit plans	(428)	(11)
Unwind of discount on provisions	(832)	(667)
Amortization of deferred finance costs	(683)	(857)
	$ (18,602)	$ (17,569)

Recognized in Other comprehensive income:

	2016	2015
Effective portion of changes in fair value of interest rate swap	$ (51)	$ (71)

17. Other income:

	2016	2015
Gain on disposal of surplus property, plant and equipment, licences and roads	$ 14,072	$ 758
Gain (loss) on disposal of investments and other	22	(1)
	$ 14,094	$ 757

On November 30, 2016, Interfor completed the sale of its former sawmill in Tacoma, Washington for net proceeds of $40,830,000 and a gain of $15,012,000.

During 2016, Interfor also sold fixed income investments for proceeds of $10,342,000 and recognized a gain of $23,000.

18. Restructuring costs:

	Note	2016	2015
Tacoma sawmill:			
Write-down of inventories	5	$ 1,533	$ 6,475
Write-down of buildings	5	1,018	-
Severance		-	3,016
Site closure costs		1,738	574
Onerous contract		-	64
Beaver-Forks operation:			
Write-down (reversal of write-down) of plant and equipment	8	-	(1,195)
Severance		-	5
Onerous contract (recovery)		(82)	175
Write-down of inventories		-	32
Other			
Write-down of equipment	8	1,155	2,812
Severance		955	871
Onerous contract		497	-
Other		466	-
		$ 7,280	$ 12,829

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 operating equipment replaced in 2016 for regulatory compliance.

In December, 2016, the Company recorded an impairment against surplus operating equipment.

19. Income taxes:

Income tax expense is as follows:

	2016	2015
Current tax expense:		
Current year	$ 802	$ 895
Adjustments for prior periods	51	(281)
	853	614
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	12,525	(25,767)
Change in unrecognized deferred income tax assets	(6,171)	1,136
	6,354	(24,631)
	$ 7,207	$ (24,017)

19. Income taxes (continued):

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

	2016	2015
Defined benefit plan actuarial losses	$ -	$ (376)
Foreign currency translation differences for foreign operations	691	(321)
	$ 691	$ (697)

Income tax expense (recovery) recognized in Equity is as follows:

	2016	2015
Amortized and unamortized share issuance costs	$ (1,829)	$ -

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

	2016	2015
Income tax expense (recovery) at the statutory rate of 26.00% (2015 – 26.00%)	$ 18,941	$ (14,145)
Change in unrecognized deferred income tax assets	(6,171)	1,136
Entities with different tax rates and foreign rate adjustments	(4,884)	(12,702)
Income Tax Credit	(715)	-
Other	36	1,694
	$ 7,207	$ (24,017)

The statutory tax rate did not change from 2015.

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

(a) Canadian non-capital loss carry-forwards which total approximately $101,215,000 (2015 - $125,000,000), and expire between 2029 and 2036.
(b) U.S. net operating loss carry-forwards which total approximately US$175,176,000 (2015 - US$179,000,000), and expire between 2023 and 2035.

Unrecognized deferred income taxes:

As at December 31, 2016, the Company has unrecognized deferred income tax assets in relation to accrued foreign exchange losses on U.S. Dollar denominated debt. These losses, if realized, will result in allowable capital losses which can be applied against the taxable portion of capital gains, if any, arising in future years.

As at December 31, 2015, the Company had unrecorded deferred income tax assets related to non-capital loss carry-forwards, accrued and realized foreign exchange losses on U.S. Dollar denominated debt, actuarial pension losses and unamortized shar issuance costs.

19. Income taxes (continued):

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

	2016	2015
Non-capital losses carried forward	$ -	$ 27,313
Deductible temporary differences	8,009	15,466
	$ 8,009	$ 42,779

Recognized deferred income taxes:

December 31, 2016	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
Deferred income tax assets					
Losses	$ 117,627	$ (3,986)	$ -	$ 1,137	$ 114,778
Reserves	20,494	870	-	-	21,364
Tax credits	111	759	-	-	870
Share issue costs	-	-	-	692	692
Other	2,520	2,152	-	-	4,672
Deferred income tax liabilities					
Capital assets	(122,228)	(6,149)	-	-	(128,377)
Foreign currency translation differences for foreign operations	145	-	(681)	-	(536)
Total	$ 18,669	$ (6,354)	$ (681)	$ 1,829	$ 13,463

December 31, 2015	Opening Balance	Recognized in Income Tax Expense	Recognized in in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
Deferred income tax assets					
Losses	$ 72,304	$ 45,323	$ -	$ -	$ 117,627
Reserves	25,965	(5,847)	376	-	20,494
Tax credits	955	(844)	-	-	111
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
Total	$ (6,659)	$ 24,631	$ 697	$ -	$ 18,669

Represented by the following:

	2016	2015
Deferred income tax assets	$ 14,311	$ 18,669
Deferred income tax liabilities	(848)	-
	$ 13,463	$ 18,669

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:

2017	$ 19,570
2018	12,790
2019	10,530
2020	5,430
2021	4,790

(b) Surety Performance Bonds:

The Company has posted $32,375,000 in surety performance bonds, with various expiry dates extending through January, 2025.

(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.

On November 25, 2016, the U.S. Lumber Coalition ("Coalition") filed a petition with the U.S. Department of Commerce ("DoC") and the U.S. International Trade Commission ("ITC") seeking countervailing and anti-dumping duties on Canadian softwood lumber imports to the U.S.

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

The DoC is expected to announce its ruling in the Countervailing Duty ("CVD") investigation in the second quarter, 2017. A ruling in the Anti-dumping Duty ("AD") investigation is expected to come approximately 60 days thereafter.

If the DoC rules that "critical circumstances" apply, duties could be applied retroactively up to 90 days prior to the preliminary determinations. It is not anticipated that this would give rise to a liability as at December 31, 2016.

(d) Timber Licence:

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") and regulations, which took effect January 1, 2017.

If the Licence 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 December 31, 2016.

(e) 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.

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

	2016			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		-			2,758	
Basic and diluted earnings (loss) per share	$ 65,643	70,030	$ 0.94	$ (30,386)	69,488	$ (0.44)

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 2016, the pension expense for this plan is equal to the Company's contribution of $1,639,000 (2015 - $1,785,000).

For certain eligible employees of the Canadian Merchant Services Guild ("CMSG"), the Company makes required contributions based on a percentage of earnings into a defined contribution plan. For 2016, the pension expense is equal to the Company's contribution of $49,000 (2015 - $44,000).

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

(a) Defined contribution plans (continued):

Employees of two 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 2016, the pension expense for this plan is equal to the Company's contribution of $4,267,000 (2015 - $4,374,000).

(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 2016, the pension expense for these plans is equal to the Company's contribution of $3,352,000 (2015 - $3,499,000). 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 2016 the Company recorded an expense of $559,000 (2015 - $738,000) in respect of these plans.

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

	2016	2015
Trade accounts payable and provisions	$ 721	$ 418
Employee future benefits obligation	5,499	5,644
	$ 6,220	$ 6,062

(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.

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

(d) Defined benefit plans continued:

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 received a supplemental pension based on a percentage of final average earnings at retirement, and years of service. Effective December 12, 2016, the supplemental pension was settled and all liabilities were paid out through the purchase of an annuity.

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 2016, the Company paid contributions of $1,150,000 (2015 - $698,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credits totaling $2,555,000 (2015 - $2,464,000). In 2017, the Company expects to pay contributions of $803,000 to its defined benefit plans, and hold a total of $2,555,000 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	
	2016	2015	2016	2015
Defined benefit obligation:				
Beginning of year	$ 51,505	$ 48,729	$ 1,813	$ 1,700
Service cost	944	920	51	45
Employee contributions	377	339	-	-
Interest cost	1,875	1,990	91	67
Benefit payments	(1,986)	(2,094)	(66)	(48)
Actuarial loss due to:				
Financial assumptions	48	1,593	-	49
Experience adjustment	126	28	-	-
Settlements	(1,680)	-	-	-
End of year	$ 51,209	$ 51,505	$ 1,889	$ 1,813
Plan assets:				
Beginning of year	$ 52,020	$ 50,575	$ -	$ -
Interest on plan assets	1,925	1,995	-	-
Employer contributions	1,084	650	66	48
Employee contributions	377	339	-	-
Benefit payments	(1,986)	(2,094)	(66)	(48)
Administration costs	(146)	(110)	-	-
Actuarial gain	1,683	665	-	-
Settlements	(2,146)	-	-	-
End of year	$ 52,811	$ 52,020	$ -	$ -

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

	Pension Benefits		Other Post-retirement Benefits	
	2016	2015	2016	2015
Fair value of plan assets	$ 52,811	$ 52,020	$ -	$ -
Present value of unfunded obligations	(345)	(371)	(1,889)	(1,813)
Present value of funded obligation	(50,864)	(51,134)	-	-
Net employee future benefits asset (liability)	$ 1,602	$ 515	$ (1,889)	$ (1,813)
Employee future benefits asset	$ 2,471	$ 1,570	$ -	$ -
Trade accounts payable and provisions	(71)	(71)	(50)	(50)
Employee future benefits obligation	(798)	(984)	(1,839)	(1,763)
Net employee future benefits asset (liability)	$ 1,602	$ 515	$ (1,889)	$ (1,813)

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

(d) Defined benefit plans (continued):

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	
	2016	2015	2016	2015
Statement of Earnings				
Production expense	$ 1,090	$ 1,030	$ 51	$ 45
Finance (income) costs	(50)	(5)	91	67
Restructuring costs	466	-	-	-
	$ 1,506	$ 1,025	$ 142	$ 112
Other comprehensive income (loss)				
Actuarial gains (losses)	$ 1,509	$ (956)	$ -	$ (49)

Plan assets consist of:

Asset category	2016	2015
Investment Funds		
Canadian Equity	$ 15,787	$ 13,735
Global	16,766	16,946
Money Market	985	831
Fixed Income	18,715	19,050
Balanced	457	483
Cash	101	8
Other	-	967
Total	$ 52,811	$ 52,020

The plan assets held in investment funds are managed by third party 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	
	2016	2015	2016	2015
Defined benefit obligation as of December 31				
Discount rate	3.75%	3.75%	3.75%	3.75%
Compensation increases[1]	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.75%	3.99%	3.75%	3.96%
Compensation increases[1]	3.50%	3.50%	-	-

[1] Compensation increases only relate to the CMSG plan.

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

(d) Defined benefit plans (continued):

For measurement purposes at December 31, 2016, the Company has assumed a 5.36% health care cost trend in 2017 grading down to 4.38% in 2021 (2015 – 5.60% health care cost trend in 2016 grading down to 4.38% in 2021).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	$ 7,321	$ 247

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.

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

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:

	2016	2015
Salary and short-term employee benefits	$ 6,013	$ 4,838
Post-employment benefits	512	729
Share-based compensation expense (recovery)	3,112	(3,447)
	$ 9,637	$ 2,120

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

	2016	2015
Trade accounts payable and provisions	$ 3,947	$ 5,669
Employee future benefits obligation	3,998	3,591
Provisions and other liabilities	10,840	10,239
	$ 18,785	$ 19,499

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:

	2016	2015
United States	$ 1,248,684	$ 1,144,927
Canada	234,308	236,517
Japan	137,795	140,900
China/Taiwan	91,606	110,828
Other export	80,319	54,203
	$ 1,792,712	$ 1,687,375

Sales by product line are as follows:

	2016	2015
Lumber	$ 1,458,296	$ 1,361,192
Logs	179,275	174,090
Wood chips and other by products	145,608	141,717
Ocean freight and other	9,533	10,376
	$ 1,792,712	$ 1,687,375

Non-current assets by geographic location are as follows:

	2016	2015
United States	$ 666,839	$ 709,002
Canada	348,796	369,573
	$ 1,015,635	$ 1,078,575

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 2016. 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 a limit; 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, a minimum net worth requirement and a miminum EBITDA coverage ratio contingent on the total debt to total capitalization ratio.

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, 2016, the fair value of the Company's long term debt exceeded its carrying value by $7,378,000 (2015 – below carrying value by $8,188,000), measured based on the level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative 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. Financial instrument assets and liabilities are not netted for purposes of presentation in the financial statements.

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.

Two of the Company's interest rate swaps matured on April 14, 2016. Two interest rate swaps remained outstanding at December 31, 2016, each with a notional value of US$25,000,000. Under these two interest rate swaps, maturing February 27, 2017, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. At December 31, 2016, the fair value of the Company's interest rate swaps was an asset of $10,000 (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.

In respect of its trading in foreign currency exchange 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, 2016, the Company had no outstanding obligations under foreign currency contracts.

26. Financial instruments (continued):

(b) Derivative financial instruments (continued):

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2016 and 2015.

	2016	2015
Foreign exchange collars and forward contracts[1]	$ 271	$ (1,420)
Interest rate swaps[2]	(51)	(71)
Lumber futures[3]	(1)	(1)
Total gain (loss), net	$ 219	$ (1,492)

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

(c) Hedge of investment in foreign operations:

As at December 31, 2016, 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] 2016	2015
June 26, 2013[4]	50,000	-	-	50,000	2,065	(11,195)
March 13, 2014[3]	75,000	-	(67,000)	8,000	4,414	(17,313)
December 17, 2014[4]	50,000	-	-	50,000	2,065	(11,195)
January 14, 2015[3]	10,000	-	(10,000)	-	352	(1,892)
February 26, 2015[3]	-	-	-	-	-	(4,112)
March 16, 2015[4]	100,000	-	-	100,000	4,130	(10,370)
March 30, 2015[3]	10,000	-	(10,000)	-	704	(1,260)
May 12, 2015[3]	35,000	-	(35,000)	-	2,516	(6,073)
October 5, 2016[3]	-	22,000	-	22,000	(566)	-
	$330,000	$ 22,000	$(122,000)	$230,000	$ 15,680	$(63,410)

[1] Denominated in U.S. Dollars.
[2] Denominated in Canadian Dollars.
[3] Drawn on Revolving Term Line.
[4] Drawn 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, trade and other receivables and certain investments and advances. 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.

26. Financial instruments (continued):

(d) Financial risk management (continued):

Certain Other investments and advances are classified as held for trading and are measured at fair value.

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 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.

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. All 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.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

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, no reserve in respect of doubtful accounts was recorded as at December 31, 2016 (2015 - $67,000).

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 2016.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As all 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:

	2016	2015
United States	$ 61,755	$ 62,148
Canada	14,243	16,233
Japan	5,312	5,837
China/Taiwan	7,397	5,523
Other	6,352	5,477
	$ 95,059	$ 95,218

(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.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

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

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

(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, 2016, the Company has U.S. Dollar drawings under its Revolving Term Line and Senior Secured Notes of US$230,000,000 (2015 – US$330,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk:

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

2016	CAD	USD	Japanese ¥
Accounts receivable	18,072	20,614	19,230
Accounts receivable held by foreign subsidiaries with USD functional currency	-	36,559	-
	18,072	57,173	19,230

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

As at December 31, 2016, the domestic operations of the Company held cash and cash equivalents of US$7,503,000 (2015 – US$5,118,000). Cash and cash equivalents held by foreign subsidiaries totaled US$5,195,000 (2015 - US$320,000).

Based on the Company's net exposure to foreign currencies as at December 31, 2016, 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	$29,000 decrease in net earnings

Based on the Company's net exposure to foreign currencies as at December 31, 2016, 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	$2,564,000 increase in OCI

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$200,000,000 of Senior Secured Notes (note 10(b)), which bear interest at fixed rates ranging from 4.02 to 4.33%.

Based on the Company's average debt level during 2016, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $343,000 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.