Interfor Corporation
Fourth Quarter Report
For the three and twelve months ended December 31, 2015

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2015 ("Q4'15" and "2015", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2015, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 11, 2016.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2015 Annual Report.

Forward-Looking Statements

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

Overview of 2015

Q4'15 Results

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

- Higher Lumber Prices
  - Key product benchmark prices strengthened throughout Q4'15 as the market adjusted to production curtailments in a number of regions, greater stability in Chinese demand and an extended fall buying period in North America due to favourable weather.
- Weaker Canadian Dollar
  - The Canadian Dollar weakened against the U.S. Dollar, averaging $0.749 in Q4'15 versus $0.764 in Q3'15, resulting in favourable currency translations of U.S. Dollar revenues.
- Castlegar Mill Re-Start
  - The Castlegar sawmill modernization project commenced start-up procedures on October 5th. Productivity and product quality were ahead of expectations throughout the quarter, resulting in a positive earnings contribution in Q4'15 versus a negative contribution in Q3'15.
- Tacoma Sawmill Monetization
  - Monetization of the former Tacoma sawmill assets progressed well in Q4'15, with: (i) the sale of the remaining log and lumber inventories; (ii) a successful auction of machinery, equipment and parts; and (iii) the signing of an agreement to sell the mill property. Cash proceeds from the monetization of assets are expected to exceed the total of the operating losses, exit costs and remaining asset value associated with the facility, with the property sale expected to close in mid-2016 subject to customary closing conditions.
- Free Cash Flow Generation and Debt Reduction with Increased Liquidity
  - Interfor generated $46.1 million in cash from operations after considering working capital changes. During Q4'15, the Company's net debt position expressed in U.S. Dollars dropped from US$344.5 million to US$326.8 million.
  - On February 9, 2016, Interfor extended the maturity dates of its Canadian Operating Line and Revolving Term Line to May 19, 2019, which improved liquidity and enhanced financial flexibility. At December 31, 2015, the Company's net debt to invested capital ratio was 38.4% and available liquidity would have been $147.0 million after considering the revised credit terms, versus $103.3 million at September 30, 2015.

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

Significant Financings, Investments & Operational Changes

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

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

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

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

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

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

<u>Markets and Pricing</u>

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

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

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

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

<u>Production</u>

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

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

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

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

Outlook

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

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

Financial and Operating Highlights [1]

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

Notes:

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

Summary of Fourth Quarter 2015 Financial Performance

Sales

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

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

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

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

Operations

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

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

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

Corporate and Other

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

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

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

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

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

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

Income Taxes

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

Net Earnings (Loss)

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

Summary of 2015 Financial Performance

Sales

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

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

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

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

Operations

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

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

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

Corporate and Other

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

The $5.4 million long term incentive compensation recovery in 2015 mainly reflects a 36.0% decrease in the market price of Interfor Common Shares over the same period, partially offset by the impact of incentive awards maturing.

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

In the first quarter, 2015, Interfor sold substantially all of the assets of its Beaver-Forks operation, located on the Olympic Peninsula in Washington, resulting in a reversal of a $1.2 million impairment recorded in 2014.

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

In Q4'15, the Company took an impairment charge recorded in Restructuring costs of $2.8 million on equipment to be replaced in 2016 as a result of changes to government regulations.

Finance costs increased to $17.6 million from $8.9 million in 2014. Financing the acquisition of seven sawmills since March 14, 2014, and capital improvements through borrowings contributed to a higher average level of debt outstanding in 2015.

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

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

Income Taxes

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

Net Earnings (Loss)

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

Summary of Quarterly Results(1)

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

Notes:

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

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

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

Two sawmills acquired on March 14, 2014, four sawmills acquired on March 1, 2015, and one sawmill acquired on June 19, 2015, have all contributed to the growth in production and sales. The permanent closures of the Beaver sawmill and Tacoma sawmill impacted production and sales subsequent to June 30, 2014, and May 22, 2015, respectively.

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

Liquidity

Balance Sheet

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

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

As at December 31, 2015, the Company had net working capital of $168.9 million and available liquidity of $112.1 million, including cash and borrowing capacity on operating and term facilities.

On February 9, 2016, the Company extended the maturity of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019. Certain other terms were also changed, resulting in an increase in the maximum borrowing available under the financing agreement. Based on the revised terms, available liquidity would have been $147.0 million as at December 31, 2015.

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

Cash Flow from Operating Activities

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

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

Cash Flow from Investing Activities

Investing activities totaled $333.3 million in 2015, including $170.8 million for the Simpson acquisition, $43.7 million for the Monticello acquisition, $8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., $95.3 million for property, plant and equipment and timber licences and other intangibles and $26.1 million for development of logging roads. Discretionary mill improvements of $71.5 million during the period included $43.9 million for the Castlegar sawmill rebuild.

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

Cash Flow from Financing Activities

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

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

Summary of Contractual Obligations

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

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

Note: (1) Figures in this table may not add due to rounding.
(2) On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

Capital Resources

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

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 276,800	$ 69,200	$ 611,000
Maximum borrowing available	$ 62,820	$ 183,723	$ 276,800	$ 69,200	$ 592,543
Less:					
Drawings	-	179,920	276,800	12,039	468,759
Outstanding letters of credit included in line utilization	9,396	-	-	2,290	11,686
Unused portion of facility	$ 53,424	$ 3,803	-	$ 54,871	$ 112,098

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

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

As of December 31, 2015, the Company had commitments for capital expenditures totaling $7.8 million, related to both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 2015.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber purchases. At December 31, 2015, such instruments aggregated $47.4 million (December 31, 2014 - $30.9 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

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

Interest Rate Swaps

As at December 31, 2015, Interfor had drawn a total of $192.0 million of floating rate debt, excluding letters of credit, from its Revolving Term Line and U.S. Operating Line. The Company's facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at LIBOR for U.S. Dollar loans, in all cases dependent upon a financial ratio.

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

On April 14, 2014, the Company entered into two interest rate swaps, each with a notional value of US$25.0 million maturing on April 14, 2016. Under the terms of these swaps, the Company pays an amount based a fixed annual interest rate of 0.58% and receives payment based on 90 day LIBOR which is recalculated at set interval dates.

These interest rate swaps convert a portion of the Company's floating-rate interest expense to fixed-rate interest expense and have been designated as cash flow hedges. The fair value of these interest rate swaps at December 31, 2015, being an asset of $0.1 million (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (2014 - $0.1 million) and a loss of $0.1 million (2014 – nil) has been recognized in Other comprehensive income.

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

Foreign Currency Contracts

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

As at December 31, 2015, the Company had no outstanding forward currency exchange contract obligations (2014 - $0.2 million liability recorded in Trade accounts payable and provisions). All foreign currency gains or losses on foreign currency contracts in 2015 have been recognized in Other foreign exchange gain (loss) in Net earnings.

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

As at December 31, 2015, the Company had designated the US$130.0 million drawn under its Revolving Term Line and US$200.0 million drawn under its Senior Secured Notes as hedges against the net investment in its U.S. operations.

The Company recorded a $56.5 million unrealized foreign exchange gain on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net in investment in U.S. operations, to Other comprehensive income in 2015 (2014 - $20.4 million gain).

Outstanding Shares

As of December 31, 2015, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2015.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2015, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

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

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

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

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

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

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

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

Interfor assesses the recoverability of Property, Plant and Equipment, Logging Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. The Company assessed the recoverability of goodwill as at December 31, 2015 and concluded that there were no impairments.

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

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

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

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

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

Accounting Policy Changes

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

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

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

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

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings (loss), Adjusted net earnings (loss) per share, EBITDA, Adjusted EBITDA, Pre-tax return on total assets and Net debt to invested capital, which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's audited consolidated financial statements prepared (unaudited for interim periods) in accordance with IFRS:

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

Notes:

(1) 2015 adjusted net earnings, adjusted net earnings per share and adjusted EBITDA have been revised for inclusion of Tacoma sawmill post-acquisition losses arising in Q1'15.

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

(3) Annualized rate.

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

Risks and Uncertainties

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

Price Volatility

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

Competition

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

Factors which affect the Company's competitive position include:

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

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

Availability and Cost of Log Supply

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

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

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

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 75% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen. While the Canadian operations also incur some U.S. Dollar–denominated expenses, primarily for ocean freight and other transportation and for equipment operating leases, the majority of expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

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

Government Regulation

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

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

Allowable Annual Cut ("AAC")

The Company holds cutting rights in British Columbia that represent an AAC of approximately of 3.7 million cubic metres. Of this amount, 3.65 million cubic metres is in the form of replaceable tenures (4 Tree Farm Licences and 19 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time. In 2015, the Company sold two non-replaceable Forest Licences associated with dead pine stands in the B.C. Interior.

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

Reductions in the Company's AAC from any new protected areas are subject to compensation once these areas have been formally removed. Currently there is a Government plan in 2016 to set aside some additional area for conservation purposes in the Mid Coast region that may affect some of the Company's Timber Licences and trigger a claim for compensation. The timber volume impacted has not been finalized, and the amount of compensation is not known at this time.

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

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

Aboriginal Issues

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

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

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

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

Softwood Lumber Agreement

The majority (approximately 85%) of Interfor's softwood lumber production is not impacted by the SLA. The Company's financial results are dependent on continued access to the U.S. market for the portion of Company's products that are manufactured in Canada and exported to the U.S. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations. The SLA implemented by the federal governments of Canada and the United States in 2006, expired on October 12, 2015. As part of that agreement the U.S. government agreed to a standstill period, where it would not take any trade action against Canada for a twelve month period following expiry. If the governments do not negotiate a new agreement, the U.S. may launch trade action after the standstill period ends. This may result in the imposition of U.S. protective measures such as countervailing and anti-dumping duties leveled against Canadian softwood lumber producers.

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

Stumpage Fees

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

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

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) expires on June 30, 2018, while the USW agreement for the B.C. Coast (Acorn and Hammond) expires on June 15, 2019. The Company also has 22 employees in the B.C. Interior who are members of the Canadian Marine Service Guild ("CMSG"). A new collective agreement was negotiated with the CMSG in 2015, which expires September 30, 2019.

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

Additional Information

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