INTERFOR

Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2016

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and six months ended June 30, 2016 ("Q2'16" and "YTD'16", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and six months ended June 30, 2016, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of July 28, 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 Second Quarter 2016", "Outlook", "Summary of Second Quarter 2016 Financial Performance", "Summary of Year-to-Date 2016 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Such statements involve known and unknown risks and uncertainties that may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among other things: price volatility, competition, availability and cost of log supply, natural or man-made disasters, currency exchange sensitivity, regulatory changes, allowable annual cut reductions, Aboriginal title and rights claims, potential countervailing and anti-dumping duties, stumpage fee variables and changes, environmental impact and performance, labour disruptions, and other factors referenced herein and in Interfor's Annual Report available on www.sedar.com and www.interfor.com. The forward-looking information and statements contained in this MD&A are based on Interfor's current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

Overview of Second Quarter 2016

Q2’16 Results

Interfor recorded net earnings in Q2’16 of $23.2 million, or $0.33 per share, compared to $0.8 million, or $0.01 per share in Q1’16. Adjusted net earnings in Q2’16 were $20.9 million, or $0.30 per share, compared to $2.6 million, or $0.04 per share, in Q1’16.

Adjusted EBITDA was $56.9 million on sales of $458.8 million in Q2’16, versus Adjusted EBITDA of $33.4 million on sales of $433.9 million in Q1’16.

Highlights for the quarter include:

- Higher Lumber Prices
  - Product prices were higher in Q2’16 versus Q1’16, with the Western SPF Composite and the Southern Pine (“SP”) Composite up over the prior quarter by US$38 and US$27 per mfbm, respectively. As somewhat of an offsetting factor, the Canadian Dollar was stronger quarter-over-quarter, averaging 1.2886 in Q2’16 versus 1.3732 in Q1’16.
- Higher Lumber Production
  - The Company produced an additional 19 million board feet in Q2’16 versus Q1’16, mostly reflective of productivity gains at several operations as ongoing improvement initiatives take effect.
- Business Optimization Initiative
  - The Company is focused on capturing margin expansion opportunities across its operations and has taken a number of steps to advance this initiative.
  - In particular, the Company has achieved strong productivity, cost and product mix gains at its Gilchrist, Oregon operation, which resulted in a significant margin improvement over Q1’16. In addition, a number of margin improvement projects are underway across the US South platform, with early stage results being realized.
- Tacoma Sawmill Monetization
  - The monetization process for the Tacoma sawmill property is proceeding on track, with the sale expected to close in the second half of 2016.
- Free Cash Flow Generation
  - Interfor generated $62.6 million of cash from operations, with a reduction in working capital contributing $6.3 million. Capital spending amounted to $15.8 million during the quarter.
  - The Company’s net debt decreased by $32.1 million during the quarter to $396.0 million, or 35.2% of invested capital, providing the Company with $181.2 million of available liquidity as at June 30, 2016.

Production

Lumber production in Q2’16 was 637 million board feet versus 618 million board feet in Q1’16.

Production from Canadian operations totaled 218 million board feet in Q2’16, up 8 million board feet compared to Q1’16. Production increased most significantly at Castlegar, which produced an additional 4 million board feet as productivity gains have continued following the resumption of operations at that mill in Q4’15.

Production from the Company’s nine U.S. South sawmills totaled 270 million board feet, up 5 million board feet compared to Q1’16 as a result of a modest increase in total productivity.

Production from U.S. Northwest operations totaled 149 million board feet in Q2’16, an increase of 6 million board feet over the preceding quarter. The Company’s three stud mills in the region contributed an additional 3 million board feet while its specialty board mill at Gilchrist also added 3 million board feet, both as a result of productivity improvements.

Lumber Markets and Pricing

Lumber markets were relatively strong in the second quarter on increased demand, as reflected by improvements in all three of Interfor's key price benchmarks over the first quarter. The Western SPF Composite improved by US$38 to US$300 per mfbm, the SP Composite increased by US$27 to US$390 per mfbm and the KD HF Stud 2x4 9' benchmark rose by US$23 to US$355 per mfbm.

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.

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

Financial and Operating Highlights (1)

	Unit	For the 3 months ended June 30, 2016	2015	For the 6 months ended June 30, 2016	2015
Financial Highlights(2)					
Total sales	$MM	458.8	429.7	892.8	845.1
Lumber	$MM	371.1	352.2	720.0	692.9
Logs, residual products and other	$MM	87.7	77.5	172.8	152.2
Operating earnings (loss)	$MM	30.0	(25.8)	33.4	(18.0)
Net earnings (loss)	$MM	23.2	(20.6)	24.0	(20.7)
Net earnings (loss) per share, basic and diluted	$/share	0.33	(0.29)	0.34	(0.30)
Adjusted net earnings (loss) (3)	$MM	20.9	(14.7)	23.5	(10.2)
Adjusted net earnings (loss) per share, basic and diluted(3)	$/share	0.30	(0.21)	0.34	(0.15)
EBITDA(3)	$MM	60.2	1.0	93.1	33.3
Adjusted EBITDA(3)	$MM	56.9	12.7	90.2	44.5
Adjusted EBITDA margin(3)	%	12.4%	3.0%	10.1%	5.3%
Total assets	$MM	1,337.6	1,364.6	1,337.6	1,364.6
Total debt	$MM	407.0	445.0	407.0	445.0
Pre-tax return on total assets(3)	%	9.8%	-7.7%	5.4%	-3.0%
Net debt to invested capital(3)	%	35.2%	38.0%	35.2%	38.0%
Operating Highlights					
Lumber production	million fbm	637	672	1,255	1,311
Total lumber sales	million fbm	658	719	1,295	1,351
Lumber sales - Interfor produced	million fbm	634	688	1,243	1,295
Lumber sales - wholesale and commission	million fbm	24	31	52	56
Lumber - average selling price(4)	$/thousand fbm	564	490	556	513

Notes:
(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS but is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions.
(4) Gross sales before export taxes.

Summary of Second Quarter 2016 Financial Performance

Sales

Interfor recorded $458.8 million of total sales, up 6.8% from $429.7 million in the second quarter of 2015, driven by the sale of 658 million board feet of lumber at an average price of $564 per mfbm. Lumber sales volume decreased by 61 million board feet, or 8.5%, while average selling prices increased $74 per mfbm, or 15.1%, as compared to the same quarter of 2015.

Lumber sales volume fell in all markets as compared to the second quarter, 2015. The sales volume decline quarter-over-quarter was affected by the closure of the Tacoma sawmill, partially offset by the inclusion of a full quarter of sales volume in Q2'16 from the Monticello sawmill acquired in late Q2'15.

The increase in the average selling price of lumber reflects higher benchmark prices in U.S. Dollar terms across all key species together and the weakening of the Canadian Dollar against the U.S. Dollar by 4.8% on average as compared to the second quarter, 2015.

Sales generated from logs, residual products and other increased by $10.2 million or 13.2% compared to the same quarter of 2015. Most of this increase is related to a 21.1% increase in log sales, primarily from domestic sales in the U.S. Northwest, and the strengthened U.S. Dollar.

Operations

Production costs decreased by $19.5 million or 4.7% over the second quarter of 2015, explained primarily by a decrease in lumber sales volume of 61 million board feet, lower net log costs on average at the Company's U.S. operations and lower conversion costs at the rebuilt Castlegar sawmill, partially offset by higher conversion costs at the U.S. Southeast operations, and the stronger U.S. Dollar on average.

As the Softwood Lumber Agreement expired on October 12, 2015, there were no export taxes in Q2'16. Export taxes of $2.5 million were incurred in Q2'15 in respect of lumber shipments from the Company's Canadian operations to the U.S.

Depreciation of plant and equipment was $18.8 million, up 3.5% from the second quarter of 2015. The majority of this increase is explained by depreciation on the rebuilt Castlegar sawmill and the inclusion in Q2'16 of a full quarter's depreciation on the Monticello sawmill acquired near the end of Q2'15.

Depletion and amortization of timber, roads and other was $9.7 million, up $0.7 million from the comparable quarter of 2015 as a result of increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $11.8 million, down $0.4 million from the second quarter of 2015. The second quarter of 2015 included $0.6 million of non-recurring acquisition and integration costs.

The $4.1 million long term incentive compensation recovery mostly reflects the impact of incentive awards maturing and a 23.0% decrease during the quarter in the price of Interfor Common Shares used to value share-based awards. The $3.9 million long term incentive compensation expense in Q2'15 resulted primarily from a 7.0% increase in the market price for Interfor Common Shares during that quarter.

Finance costs increased to $5.0 million from $4.1 million in Q2'15, as a result of a higher average level of debt outstanding and the impact of a stronger U.S. Dollar.

Restructuring charges in Q2'16 relate to costs associated with the closure of the Tacoma sawmill.

The Other foreign exchange gain of $0.5 million in Q2'16 resulted primarily from an unrealized gain on short-term intercompany funding, whereas the gain in Q2'15 includes a $2.4 million gain on an intercompany loan denominated in U.S. Dollars.

Income Taxes

The Company recorded an income tax expense of $1.9 million in Q2'16, comprised of a $0.3 million current tax expense and a $1.5 million deferred tax expense, mainly in respect of its U.S. operations and net of a $0.8 million tax credit in respect of job creation in the U.S. Southeast.

Net Earnings (Loss)

The Company recorded net earnings of $23.2 million, or $0.33 per share, compared to a net loss of $20.6 million, or $0.29 per share, in the comparable period of 2015. Adjusted net earnings were $20.9 million, or $0.30 per share, compared with an Adjusted net loss of $14.7 million, or $0.21 per share in Q2'15.

Summary of Year-to-Date 2016 Financial Performance

Sales

Interfor recorded $892.8 million of total sales, up 5.6% from $845.1 million in the first half of 2015, driven by the sale of 1.3 million board feet of lumber at an average price of $556 per mfbm. Lumber sales volume decreased 56 million board feet, or 4.1%, while average selling prices increased $43 per mfbm, or 8.4%, as compared to the first six months of 2015.

The sales volume decline was affected by a decline in export markets and the closure of the Tacoma sawmill, partially offset by the inclusion of a full six months' of sales volume in YTD'16 from the Monticello sawmill acquired in late Q2'15.

The increase in the average selling price of lumber primarily reflects the weakening of the Canadian Dollar against the U.S. Dollar by 7.7% on average in the first half of 2016 compared to the same period of 2015, supported by higher benchmark prices in U.S. Dollar terms across all key species.

Sales generated from logs, residual products and other increased by $20.6 million or 13.5% compared to the same period of 2015. Most of this increase is related to a 20.0% increase in log sales, primarily from domestic sales in the U.S. Northwest, export log sales from the B.C. Coast and the strengthened U.S. Dollar.

Operations

Production costs decreased by $2.4 million or 0.3% over the first half of 2015, explained primarily by an decrease in lumber sales volume of 56 million board feet, lower net log costs on average at the Company's U.S. operations, and lower conversion costs at the rebuilt Castlegar sawmill, partially offset by higher conversion costs at the U.S. Southeast operations and the stronger U.S. Dollar on average.

As the Softwood Lumber Agreement expired on October 12, 2015, there were no export taxes in YTD'16. Export taxes of $2.5 million were incurred in YTD'15 in respect of lumber shipments from the Company's Canadian operations to the U.S.

Depreciation of plant and equipment was $38.9 million, up 12.4% from the first half of 2015. The majority of this increase is explained by depreciation on the rebuilt Castlegar sawmill and the inclusion in of a full six months' depreciation on the Monticello sawmill acquired near the end of Q2'15.

Depletion and amortization of timber, roads and other was $17.6 million, up $0.8 million from the comparable six months of 2015 as a result of increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $22.6 million, down $1.5 million from the first half of 2015 which included $1.9 million of non-recurring acquisition and integration costs.

The $4.0 million long term incentive compensation recovery mostly reflects the impact of incentive awards maturing and a 21.2% year-to-date decrease in the price of Interfor Common Shares used to value share-based awards. The $2.2 million long term incentive compensation expense in YTD'15 resulted from the impact of incentive awards maturing, partially offset by a 6.7% decrease in the market price for Interfor Common Shares during the first half, 2015.

Finance costs increased to $10.1 million from $7.2 million in the first half of 2015 as a result of a higher average level of debt outstanding in YTD'16 as compared to YTD'15 and the stronger U.S. Dollar.

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

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

Income Taxes

The Company recorded an income tax recovery of $1.5 million in YTD'16, comprised of a $0.5 million current tax expense and a $2.0 million deferred tax recovery, mainly in respect of its U.S. operations and net of a $0.8 million tax credit in respect of job creation in the U.S. Southeast.

Net Earnings (Loss)

The Company recorded net earnings of $24.0 million, or $0.34 per share, compared to a net loss of $20.6 million, or $0.30 per share, in the comparable period of 2015. Adjusted net earnings were $23.5 million, or $0.34 per share, compared with an Adjusted net loss of $10.2 million, or $0.15 per share in YTD'15.

Summary of Quarterly Results(1)

		2016		2015				2014	
	Unit	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial Performance (Unaudited)									
Total sales	$MM	458.8	433.9	411.4	430.8	429.7	415.4	389.0	373.1
Lumber	$MM	371.1	348.9	325.0	343.3	352.2	340.7	318.6	303.0
Logs, residual products and other	$MM	87.7	85.0	86.4	87.5	77.5	74.7	70.4	70.1
Operating earnings (loss)	$MM	30.0	3.5	(6.3)	(11.6)	(25.8)	7.8	(1.1)	20.1
Net earnings (loss)	$MM	23.2	0.8	(3.5)	(6.1)	(20.6)	(0.2)	(5.2)	11.0
Net earnings (loss) per share, basic and diluted	$/share	0.33	0.01	(0.05)	(0.09)	(0.29)	(0.00)	(0.08)	0.16
Adjusted net earnings (loss)(2)	$MM	20.9	2.6	5.5	(15.4)	(14.7)	4.5	10.2	16.1
Adjusted net earnings (loss) per share, basic and diluted(2)	$/share	0.30	0.04	0.08	(0.22)	(0.21)	0.07	0.15	0.24
Adjusted EBITDA(2)	$MM	56.9	33.4	35.8	11.5	12.7	31.8	37.4	45.4
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	66.7	66.7
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	67.8	66.7	66.7
Operating Performance									
Lumber production	million fbm	637	618	568	618	672	639	578	567
Total lumber sales	million fbm	658	637	615	686	719	632	620	595
Lumber sales - Interfor produced	million fbm	634	609	586	663	688	607	605	581
Lumber sales - wholesale and commission	million fbm	24	28	29	23	31	25	15	14
Lumber - average selling price(3)	$/thousand fbm	564	548	529	500	490	539	514	509
Average USD/CAD exchange rate(4)	1 USD in CAD	1.2886	1.3732	1.3354	1.3089	1.2297	1.2412	1.1350	1.0890
Closing USD/CAD exchange rate(4)	1 USD in CAD	1.3009	1.2971	1.3840	1.3394	1.2474	1.2683	1.1601	1.1208

Notes:
(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A for definitions.
(3) Gross sales before export taxes.
(4) Based on Bank of Canada foreign exchange rates.

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

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest during the winter season due to reduced construction and renovation activities.

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

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

Liquidity

Balance Sheet

Net debt at June 30, 2016 was $396.0 million, or 35.2% of invested capital, representing a decrease of $34.9 million from June 30, 2015 and a decrease of $56.3 million from December 31, 2015. A 6.0% strengthening of the Canadian Dollar against the U.S. Dollar contributed $28.2 million to the net debt reduction in YTD’16 as the majority of debt is denominated in U.S. Dollars.

	For the 3 months ended June 30,		For the 6 months ended June 30,	
Thousands of dollars	**2016**	**2015**	**2016**	**2015**
Net debt				
Net debt, period opening, CAD	$ 428,062	$ 369,683	$ 452,303	$ 202,553
Net drawing (repayment) on credit facilities, CAD	(33,619)	60,061	(33,566)	205,812
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	1,320	(4,897)	(28,175)	18,720
Decrease in cash and cash equivalents, CAD	196	6,023	5,397	3,785
Net debt, period ending, CAD	$ 395,959	$ 430,870	$ 395,959	$ 430,870
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$ 338,692	$ 305,099	$ 338,699	$ 190,000
Net drawing (repayment) on credit facilities, USD	(41,192)	50,024	(41,199)	165,123
U.S. Dollar debt, period ending, USD	297,500	355,123	297,500	355,123
Spot rate, period end			1.3009	1.2474
U.S. Dollar debt expressed in CAD			387,018	442,980
Canadian Dollar debt, including bank indebtedness, CAD			20,000	-
Canadian Dollar operating line, CAD			-	1,971
Total debt, CAD			407,018	444,951
Cash and cash equivalents, CAD			(11,059)	(14,081)
Net debt, period ending, CAD			$ 395,959	$ 430,870

Cash Flow from Operating Activities

The Company generated $87.3 million of cash flow from operations before changes in working capital in YTD’16, up $62.2 million over the first half of 2015 as a result of increased lumber sales margins and a strengthened U.S. Dollar, partially offset by lower sales volume.

There was a net cash inflow from operations after changes in working capital of $82.6 million in YTD’16, with $4.7 million of cash invested in operating working capital. There was a net cash inflow from operations after changes in working capital of $19.5 million in YTD’15, with $5.6 million invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $42.8 million in YTD’16, including $22.0 million for property, plant and equipment and $11.2 million for development of logging roads. Discretionary mill improvements of $12.1 million during the period included $5.8 million for completion of the Castlegar sawmill rebuild.

In the first half of 2015, investing activities totaled $285.5 million, including $170.8 million for the Simpson acquisition, $43.8 million for the Monticello acquisition, $8.7 million for payment of the contingent purchase price to Keadle Lumber Enterprises Inc., $52.1 million for property, plant and equipment and $12.9 million for development of logging roads.

Cash Flow from Financing Activities

Financing activities totaled $45.6 million in YTD’16, including $11.2 million of interest payments on long term debt. The Company reduced its drawings under credit facilities by $33.6 million. This compares to YTD’15 net drawings of $205.8 million which, together with net proceeds of $63.2 million from the issuance of 3.3 million shares, were used primarily to fund the acquisition of sawmills in the U.S. South and U.S. Northwest.

Capital Resources

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

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 260,180	$ 65,045	$ 590,225
Maximum borrowing available	$ 65,000	$ 200,000	$ 260,180	$ 65,045	$ 590,225
Less:					
Drawings	13,009	133,829	260,180	-	407,018
Outstanding letters of credit included in line utilization	9,891	-	-	3,194	13,085
Unused portion of facility	$ 42,100	$ 66,171	$ -	$ 61,851	$ 170,122
Add cash and cash equivalents					11,059
Available liquidity at June 30, 2016					$ 181,181

As of June 30, 2016, the Company had commitments for capital expenditures totaling $17.5 million, related to both maintenance and discretionary capital projects.

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

As at June 30, 2016, the Company had net working capital of $161.2 million and available capacity on operating and term facilities of $170.1 million. 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.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and six months ended June 30, 2016.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety bonds, primarily for timber purchases. At June 30, 2016, such instruments aggregated $48.7 million (December 31, 2015 - $47.4 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company’s current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

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

Two of the Company’s four interest rate swaps matured in Q2’16.

Outstanding Shares

As of July 28, 2016, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

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

Critical Accounting Estimates

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

Accounting Policy Changes

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the three and six months ended June 30, 2016, and have not been applied in preparing the Company’s unaudited interim consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements:

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

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

Non-GAAP Measures

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

Thousands of Canadian dollars	For the 3 months ended June 30, 2016	2015	For the 6 months ended June 30, 2016	2015
Adjusted Net Earnings (Loss)				
Net earnings (loss)	23,205	(20,583)	24,000	(20,746)
Add:				
Restructuring (recovery) costs and capital asset write-downs	2,304	(12)	3,507	(134)
Other foreign exchange loss (gain)	(503)	(2,303)	396	3,110
Long term incentive compensation expense (recovery)	(4,147)	3,908	(3,969)	2,199
Other expense	458	162	365	29
Beaver sawmill post-closure wind-down costs	3	11	11	352
Tacoma sawmill post-acquisition losses and closure costs	311	7,651	683	8,659
Income tax effect of above adjustments	(725)	(3,505)	(1,479)	(3,647)
Adjusted net earnings (1)	20,906	(14,671)	23,514	(10,178)
Weighted average number of shares - basic and diluted ('000)	*70,030*	*70,030*	*70,030*	*68,937*
Adjusted net earnings per share (1)	0.30	(0.21)	0.34	(0.15)
Adjusted EBITDA				
Net earnings (loss)	23,205	(20,583)	24,000	(20,746)
Add:				
Depreciation of plant and equipment	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other	9,652	8,909	17,621	16,853
Restructuring (recovery) costs and capital asset write-downs	2,304	(12)	3,507	(134)
Finance costs	4,965	4,088	10,149	7,162
Other foreign exchange loss (gain)	(503)	(2,303)	396	3,110
Income tax expense (recovery)	1,852	(7,199)	(1,474)	(7,582)
EBITDA	60,240	1,030	93,133	33,308
Add:				
Long term incentive compensation expense (recovery)	(4,147)	3,908	(3,969)	2,199
Other expense	458	162	365	29
Beaver sawmill post-closure wind-down costs	3	10	11	350
Tacoma sawmill post-acquisition losses and closure costs	311	7,604	683	8,585
Adjusted EBITDA (1)	56,865	12,714	90,223	44,471
Pre-tax return on total assets				
Operating earnings (loss) before restructuring costs	32,281	(25,847)	36,943	(18,161)
Total assets (2)	1,323,788	1,343,211	1,363,683	1,216,542
Pre-tax return on total assets (3)	9.8%	(7.7%)	5.4%	(3.0%)
Net debt to invested capital				
Net debt				
Total debt	407,018	444,951	407,018	444,951
Cash and cash equivalents	(11,059)	(14,081)	(11,059)	(14,081)
Total net debt	395,959	430,870	395,959	430,870
Invested capital				
Net debt	395,959	430,870	395,959	430,870
Shareholders' equity	727,470	703,695	727,470	703,695
Total invested capital	1,123,429	1,134,565	1,123,429	1,134,565
Net debt to invested capital (4)	35.2%	38.0%	35.2%	38.0%

Notes:
(1) Q1'15 adjusted net earnings, adjusted net earnings per share and adjusted EBITDA have been revised for inclusion of Tacoma sawmill post-acquisition losses arising during that period.
(2) Total assets at period beginning for three month periods; average of opening and closing total assets for six 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: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; and labour disruptions. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2015, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the six month period ended June 30, 2016.

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

Additional Information

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

INTERFOR

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

(thousands of Canadian dollars except earnings per share)	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Sales (note 13)	$ 458,813	$ 429,683	$ 892,757	$ 845,129
Costs and expenses:				
Production	390,487	409,949	780,623	783,045
Selling and administration	11,775	12,155	22,605	24,069
Long term incentive compensation (recovery) expense	(4,147)	3,908	(3,969)	2,199
Export taxes	-	2,479	-	2,479
Depreciation of plant and equipment (note 9)	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other (note 9)	9,652	8,909	17,621	16,853
	426,532	455,530	855,814	863,290
Operating earnings (loss) before restructuring costs	32,281	(25,847)	36,943	(18,161)
Restructuring costs (recovery) (note 10)	2,304	(12)	3,507	(134)
Operating earnings (loss)	29,977	(25,835)	33,436	(18,027)
Finance costs (note 11)	(4,965)	(4,088)	(10,149)	(7,162)
Other foreign exchange gain (loss)	503	2,303	(396)	(3,110)
Other expense	(458)	(162)	(365)	(29)
	(4,920)	(1,947)	(10,910)	(10,301)
Earnings (loss) before income taxes	25,057	(27,782)	22,526	(28,328)
Income tax expense (recovery)				
Current	330	308	461	472
Deferred	1,522	(7,507)	(1,935)	(8,054)
	1,852	(7,199)	(1,474)	(7,582)
Net earnings (loss)	$ 23,205	$ (20,583)	$ 24,000	$ (20,746)
Net earnings (loss) per share, basic and diluted (note 12)	$ 0.33	$ (0.29)	$ 0.34	$ (0.30)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and six months ended June 30, 2016 and 2015 (unaudited)

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Net earnings (loss)	$ 23,205	$ (20,583)	$ 24,000	$ (20,746)
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss)	(3,580)	1,158	(2,946)	1,440
Income tax recovery	-	376	-	376
Total items that will not be recycled to Net earnings (loss)	(3,580)	1,534	(2,946)	1,816
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	2,607	(7,184)	(18,832)	23,138
Loss in fair value of interest rate swaps (note 15)	(32)	(10)	(139)	(288)
Total items that are or may be recycled to Net earnings (loss)	2,575	(7,194)	(18,971)	22,850
Total other comprehensive income (loss), net of tax	(1,005)	(5,660)	(21,917)	24,666
Comprehensive income (loss)	$ 22,200	$ (26,243)	$ 2,083	$ 3,920

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six months ended June 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars)	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 23,205	$ (20,583)	$ 24,000	$ (20,746)
Items not involving cash:				
Depreciation of plant and equipment (note 9)	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other (note 9)	9,652	8,909	17,621	16,853
Income tax expense (recovery)	1,852	(7,199)	(1,474)	(7,582)
Finance costs (note 11)	4,965	4,088	10,149	7,162
Other assets	(83)	26	(284)	372
Reforestation liability	(2,157)	(1,931)	(543)	(692)
Other liabilities and provisions	(2,120)	2,951	(3,295)	(3,470)
Stock options	56	99	133	99
Reversal of write-down of plant and equipment (note 10)	-	-	-	(1,195)
Write-down of plant and equipment (note 10)	1,018	-	1,018	-
Unrealized foreign exchange loss (gain)	689	(2,355)	698	(328)
Other	458	162	365	29
	56,300	2,297	87,322	25,147
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(11,134)	6,170	(12,053)	(9,421)
Inventories	(8,512)	13,348	(5,768)	9,572
Prepayments	2,410	1,312	263	(2,848)
Trade accounts payable and provisions	23,703	(2,666)	13,304	(2,483)
Income taxes paid	(208)	(319)	(466)	(455)
	62,559	20,142	82,602	19,512
Investing activities:				
Additions to property, plant and equipment	(9,446)	(30,543)	(21,997)	(52,118)
Additions to logging roads	(6,148)	(7,765)	(11,237)	(12,903)
Additions to timber and other intangible assets	(219)	(297)	(355)	(1,137)
Proceeds on disposal of property, plant and equipment	139	587	314	3,790
Acquisitions (note 4)	-	(46,568)	-	(223,361)
Investments and other assets	(8,764)	74	(9,553)	180
	(24,438)	(84,512)	(42,828)	(285,549)
Financing activities:				
Issuance of capital stock, net of share issue expenses	-	-	-	63,196
Interest payments	(4,354)	(3,679)	(11,165)	(6,630)
Debt refinancing costs	(110)	(95)	(842)	(254)
Change in operating line components of long-term debt (note 7)	(18,467)	17,694	(11,733)	32,921
Additions to long term debt (note 7)	28,000	42,367	28,000	362,582
Repayments of long term debt (note 7)	(43,154)	-	(49,834)	(189,691)
	(38,085)	56,287	(45,574)	262,124
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(232)	2,060	403	128
Decrease in cash	(196)	(6,023)	(5,397)	(3,785)
Cash and cash equivalents, beginning of period	11,255	20,104	16,456	17,866
Cash and cash equivalents, end of period	$ 11,059	$ 14,081	$ 11,059	$ 14,081

See accompanying notes to consolidated financial statements

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

(thousands of Canadian dollars)	June 30, 2016	Dec. 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 11,059	$ 16,456
Trade accounts receivable and other	104,158	95,218
Income taxes receivable	454	459
Inventories (note 6)	157,471	155,740
Prepayments and other	14,415	15,512
Assets held for sale (note 4)	25,016	27,836
	312,573	311,221
Employee future benefits	247	1,570
Other investments and assets	14,153	3,191
Property, plant and equipment (note 10)	729,420	777,590
Logging roads and bridges	19,405	20,611
Timber licences	70,889	72,429
Other intangible assets	19,489	23,601
Goodwill	152,037	160,914
Deferred income taxes	19,356	18,669
	$ 1,337,569	$ 1,389,796
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 137,862	$ 130,840
Reforestation liability	13,064	11,052
Income taxes payable	433	398
	151,359	142,290
Reforestation liability	24,700	25,074
Long term debt (notes 7 and 15)	407,018	468,759
Employee future benefits	10,313	8,391
Provisions and other liabilities	16,709	20,028
Equity:		
Share capital (note 8)	553,559	553,559
Contributed surplus	7,798	7,665
Translation reserve	58,593	77,425
Hedge reserve	(77)	62
Retained earnings	107,597	86,543
	727,470	725,254
	$ 1,337,569	$ 1,389,796

Contingencies (note 14)

See accompanying notes to consolidated financial statements
Approved on behalf of the Board:

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

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

(thousands of Canadian dollars)	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2015	**$ 553,559**	**$ 7,665**	**$ 77,425**	**$ 62**	**$ 86,543**	**$ 725,254**
Net earnings:	**-**	**-**	**-**	**-**	**24,000**	**24,000**
Other comprehensive earnings (loss):						
Foreign currency translation differences for foreign operations, net of tax	**-**	**-**	**(18,832)**	**-**	**-**	**(18,832)**
Defined benefit plan actuarial loss	**-**	**-**	**-**	**-**	**(2,946)**	**(2,946)**
Loss in fair value of interest rate swaps (note 15)	**-**	**-**	**-**	**(139)**	**-**	**(139)**
Contributions:						
Stock options	**-**	**133**	**-**	**-**	**-**	**133**
Balance at June 30, 2016	**$ 553,559**	**$ 7,798**	**$ 58,593**	**$ (77)**	**$ 107,597**	**$ 727,470**
Balance at December 31, 2014	**$ 490,363**	**$ 7,476**	**$ 20,950**	**$ 133**	**$ 117,558**	**$ 636,480**
Net loss:	**-**	**-**	**-**	**-**	**(20,746)**	**(20,746)**
Other comprehensive earnings (loss):						
Foreign currency translation differences for foreign operations, net of tax	**-**	**-**	**23,138**	**-**	**-**	**23,138**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**-**	**1,816**	**1,816**
Loss in fair value of interest rate swaps (note 15)	**-**	**-**	**-**	**(288)**	**-**	**(288)**
Contributions:						
Shares issuance, net of share issue expenses (note 8)	**63,196**	**-**	**-**	**-**	**-**	**63,196**
Stock options	**-**	**99**	**-**	**-**	**-**	**99**
Balance at June 30, 2015	**$ 553,559**	**$ 7,575**	**$ 44,088**	**$ (155)**	**$ 98,628**	**$ 703,695**

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2016 and 2015 ("financial statements") comprise the accounts of the Company and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements were approved by Interfor's Board of Directors on July 28, 2016.

(b) Basis of measurement:

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

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

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

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

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

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

3. Significant accounting policies:

These financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2015 annual consolidated financial statements, which are available on www.sedar.com. The adoption of new accounting standards or interpretations under IFRS had no effect on these financial statements.

New standards and interpretations not yet adopted:

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

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

IFRS 15, Revenue from Contracts with Customers, will supersede IAS 18, Revenue, IAS 11, Construction Contracts and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet completed an assessment of the impact of this standard on its financial statements.

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

4. Acquisitions and assets held for sale:

On March 1, 2015, Interfor concluded the acquisition of sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington from Simpson Lumber Company, LLC ("Simpson"), pursuant to an Asset Purchase Agreement ("APA") for total consideration of US$146,088,000 ($182,654,000). Consideration per the APA included a series of future payments tied to the financial performance of the Tacoma sawmill. The total contingent future payments are US$10,000,000 and the Company recorded a discounted provision of US$9,464,000 ($11,833,000) in Provisions and other liabilities in the Consolidated Statements of Financial Position as part of the acquisition. On July 30, 2015, the Company announced its plan to exit its operation of the Tacoma sawmill. On December 22, 2015, the Company signed an agreement to sell the related real estate, subject to customary closing conditions. The sale is expected to close in the second half of 2016.

As at June 30, 2016, the contingent liability of US$10,000,000 was revalued at the quarter-end exchange rate to $13,009,000 (December 31, 2015 – US$9,643,000 revalued at the year-end exchange rate to $13,345,000). The Company recorded accretion expense of $476,000 for the first six months, 2016 (first six months, 2015 - $nil) and $230,000 in the second quarter, 2016 (Quarter 2, 2015 – $nil).

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

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

As part of its announcement to exit operations of the Tacoma sawmill, the Company classified US$19,239,000 of the Tacoma sawmill property and buildings as assets held for sale and ceased amortization. As at June 30, 2016, these assets have been revalued at the quarter-end exchange rate to $25,016,000 (December 31, 2015 - $27,836,000).

There is a cumulative foreign currency translation gain of $962,000 (December 31, 2015 – $2,689,000) included in the Translation reserve relating to the assets held for sale.

5. Seasonality of operating results:

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

6. Inventories:

	June 30, 2016	Dec. 31, 2015
Logs	$ 67,600	$ 69,980
Lumber	73,204	69,046
Other	16,667	16,714
	$ 157,471	$ 155,740

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at June 30, 2016 was $9,493,000 (December 31, 2015 - $11,961,000).

7. Cash and borrowings:

June 30, 2016	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 260,180	$ 65,045	$ 590,225
Maximum borrowing available	65,000	200,000	260,180	65,045	590,225
Drawings	13,009	133,829	260,180	-	407,018
Outstanding letters of credit included in line utilization	9,891	-	-	3,194	13,085
Unused portion of line	$ 42,100	$ 66,171	$ -	$ 61,851	$ 170,122
December 31, 2015					
Available line of credit	$ 65,000	$ 200,000	$ 276,800	$ 69,200	$ 611,000
Maximum borrowing available	62,820	183,723	276,800	69,200	592,543
Drawings	-	179,920	276,800	12,039	468,759
Outstanding letters of credit included in line utilization	9,396	-	-	2,290	11,686
Unused portion of line	$ 53,424	$ 3,803	$ -	$ 54,871	$ 112,098

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

Year ending	
June 30, 2017	$ -
June 30, 2018	-
June 30, 2019	146,838
June 30, 2020	-
June 30, 2021	43,363
Thereafter	216,817
	$ 407,018

(a) Operating Line and Revolving Term Line:

The Canadian operating line of credit and revolving term line (the "Lines") may be drawn in either CAD$ or US$ advances, and bear interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by trailing twelve months' EBITDA[1]. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on certain of the Company's sawmills.

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

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

7. Cash and borrowings (continued):

(a) Operating Line and Revolving Term Line (continued):

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 the 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. Certain other terms were also changed.

As at June 30, 2016, the Lines were drawn by US$97,645,000 (December 31, 2015 – US$130,145,000) and $29,703,000 (December 31, 2015 - $9,195,000), including letters of credit.

All outstanding U.S. Dollar drawings under the Lines have been designated as a hedge against the Company's investment in its U.S. operations. The Company recognized unrealized foreign exchange gains of $11,248,000 in the first six months, 2016 (first six months, 2015 - $12,892,000 loss) and $145,000 in the second quarter, 2016 (Quarter 2, 2015 - $694,000 gain) arising on revaluation of the Lines in Foreign currency translation differences in Other comprehensive income.

(b) Senior Secured Notes:

The Company's Senior Secured Notes consist of Series A Senior Secured Notes (US$50,000,000, bearing interest at 4.33%), Series B Senior Secured Notes (US$50,000,000, bearing interest at 4.02%) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at June 30, 2016, US$200,000,000 of Senior Secured Notes were outstanding (December 31, 2015 – US$200,000,000) and revalued at the quarter-end exchange rate to $260,180,000 (December 31, 2015 - $276,800,000).

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Total payments of US$33,333,000 (US$16,667,000 for each of the Series A and Series B Senior Secured Notes) are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes. In conjunction with the modifications to the Operating Line and Revolving Term Line effective February 9, 2016, as per note 7(a), certain terms and conditions of the Senior Secured Notes were also modified.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $16,620,000 in the first six months, 2016 (first six months, 2015 - $5,440,000 loss) and an unrealized foreign exchange loss $760,000 in the second quarter, 2016 (Quarter 2, 2015 - $4,180,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. On June 15, 2016, the Company extended the maturity of its U.S. Operating Line from May 1, 2017 to May 1, 2018 with no other significant changes.

As at June 30, 2016, the U.S. Operating Line was drawn by US$2,455,000, including outstanding letters of credit and US$47,545,000 was unused (December 31, 2015 - US$39,647,000).

8. Share capital:

The transactions in share capital are described below:

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Production	$ 26,354	$ 24,998	$ 52,374	$ 47,726
Selling and administration	2,063	2,041	4,181	3,772
	$ 28,417	$ 27,039	$ 56,555	$ 51,498

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

10. Restructuring costs:

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Tacoma sawmill:				
Losses on timber sales and other	$ 1,108	-	$ 1,230	-
Site closure costs	178	-	470	-
Write-down of buildings	1,018	-	1,018	-
Beaver-Forks operation:				
Reversal of write-down of plant and equipment	-	-	-	(1,195)
Onerous contract	-	(36)	-	175
Severance	-	24	-	886
Other				
Severance	-	-	789	-
	$ 2,304	$ (12)	$ 3,507	$ (134)

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

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

11. Finance costs:

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Interest on borrowings	$ 4,383	$ 3,777	$ 8,947	$ 6,516
Net interest expense on defined benefit obligations	98	4	196	3
Unwind of discount on provisions	326	94	674	217
Amortization of deferred finance costs	158	213	332	426
	$ 4,965	$ 4,088	$ 10,149	$ 7,162

12. Net earnings (loss) per share:

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

	3 Months June 30, 2016			3 Months June 30, 2015		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at April 1		70,030			70,030	
Basic and diluted earnings (loss) per share	$ 23,205	70,030	$ 0.33	$ (20,583)	70,030	$ (0.29)

	6 Months June 30, 2016			6 Months June 30, 2015		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at December 31		70,030			66,730	
Effect of shares issued on March 2, 2015		-			2,207	
Basic and diluted earnings (loss) per share	$ 24,000	70,030	$ 0.34	$ (20,746)	68,937	$ (0.30)

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

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

13. Segmented information:

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

Sales by market are as follows:

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
United States	$ 328,178	$ 291,621	$ 636,750	$ 556,289
Canada	59,340	55,272	111,648	119,623
Japan	33,315	37,053	70,517	71,700
China/Taiwan	20,702	30,790	40,870	54,928
Other export	17,278	14,947	32,972	32,589
	$ 458,813	$ 429,683	$ 892,757	$ 845,129

Sales by product line are as follows:

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Lumber	$ 371,108	$ 352,139	$ 720,012	$ 692,867
Logs	48,232	39,820	91,213	76,040
Wood chips and other by-products	36,864	36,034	75,473	70,905
Ocean freight and other	2,609	1,690	6,059	5,317
	$ 458,813	$ 429,683	$ 892,757	$ 845,129

14. Contingencies:

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

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

15. Financial instruments:

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

At June 30, 2016, the fair value of the Company's long term debt approximated its carrying value of $407,018,000 (December 31, 2015 - $468,759,000) measured based on Level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

As at June 30, 2016, the fair value of the Company's fixed income and equity investments was US$9,523,000, revalued at the quarter-end exchange rate to $12,388,000 (December 31, 2015 – US$1,120,000 revalued at the year-end exchange rate to $1,550,000).

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

Two of the Company's interest rate swaps matured on April 14, 2016. Two interest rate swaps remained outstanding at June 30, 2016, each with a notional value of US$25,000,000. Under these two interest rate swaps, maturing February 27, 2017, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. At June 30, 2016, the fair value of the Company's interest rate swaps was a liability of $77,000 (December 31, 2015 – $61,000 asset). Fair value of the Company's derivative financial instruments is measured based on Level 2 of the fair value hierarchy.

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

15. Financial instruments (continued):

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

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Foreign exchange forward contracts[1]	$ (15)	$ 116	$ 118	$ (1,721)
Interest rate swaps[2]	(32)	(10)	(139)	(288)
Total gain (loss), net	$ (47)	$ 106	$ (21)	$ (2,009)

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

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