Interfor Corporation
Third Quarter Report
For the three and nine months ended September 30, 2017

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and nine months ended September 30, 2017 ("Q3'17"). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2017, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 2, 2017.

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 2016 Annual Report.

Forward-Looking Statements

This MD&A contains information and statements that are forward-looking in nature, including, but not limited to, statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Interfor makes is forward-looking when it uses what is known today, to make a statement about the future. Forward-looking statements are included under the headings "Overview of Third Quarter 2017", "Softwood Lumber Duties", "Outlook", "Summary of Third Quarter 2017 Financial Performance", "Summary of Year-to-Date 2017 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", and "Accounting Policy Changes", and such statements may include words such as "believes", "will", "could", "should", "expected", "anticipate", "intend", "forecast", "target", "outlook" and "strategy". Such forward-looking statements are based on Interfor's current expectations and certain assumptions, including assumptions regarding lumber, log and wood chip prices; the Company's ability to compete; the availability and cost of log supply; the absence of natural or man-made disasters; currency exchange rates; no material changes in government regulation; the availability of the Company's allowable annual cut ("AAC"); the outcome of aboriginal claims and treaty settlements; the Company's ability to export its products; the outcome of the softwood lumber trade dispute between Canada and the U.S.; stumpage rates payable to the Province of British Columbia; environmental effects of the Company's operations; the absence of labour disruptions; and other factors referenced herein and in Interfor's 2016 annual Management's Discussion & Analysis under the heading "Risk and Uncertainties", which is available on www.sedar.com and www.interfor.com. Such forward-looking statements involve known and unknown risks and uncertainties that, if they eventuate, may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except as required by law.

Overview of Third Quarter 2017

Q3'17 Results

Interfor recorded net earnings in Q3'17 of $16.8 million, or $0.24 per share, compared to $24.5 million, or $0.35 per share in Q2'17 and $15.1 million, or $0.22 per share in Q3'16. Adjusted net earnings in Q3'17 were $20.0 million or $0.29 per share, compared to $28.7 million, or $0.41 per share in Q2'17 and $20.7 million, or $0.30 per share in Q3'16.

Adjusted EBITDA for Q3'17 was $60.5 million (or $70.0 million excluding the impact from $9.4 million of softwood lumber duties expense), on sales of $489.2 million versus $77.4 million on sales of $511.4 million in Q2'17.

Notable items in the quarter included:

- Mixed Benchmark Lumber Prices and Stronger Canadian Dollar
  - Total lumber production was 645 million board feet, or 10 million board feet fewer than the prior quarter. Accordingly, sales of Interfor–produced lumber were 650 million board feet versus 654 million board feet in Q2'17. Production in the U.S. South region decreased to 281 million board feet from 294 million board feet in the preceding quarter, as the Company took precautionary measures and temporarily suspended operations at most of its U.S. South sawmills for several days in advance of and during Hurricane Irma. Fortunately, the Company's sawmills did not sustain any material damage and have since been operating in a normal manner. The B.C. and U.S. Northwest regions, in spite of facing fire-related log harvest constraints, produced at levels comparable to Q2'17. The B.C. and U.S. Northwest regions accounted for 225 million board feet and 139 million board feet, respectively, compared to 215 million board feet and 146 million board feet in Q2'17, respectively.
  - Interfor's average lumber selling price decreased $31 from Q2'17 to $611 per mfbm, due to a combination of factors, including a US$31 per mfbm decline in the SYP Composite benchmark price and a strengthening of the Canadian Dollar by 6.8% on average, partially offset by a US$26 per mfbm increase in the Western SPF Composite benchmark price.
- Significant Cash Flow and Lower Leverage
  - Interfor generated $57.5 million of cash from operations before changes in working capital, or $0.82 per share, plus a $3.5 million reduction in working capital, for total cash generated from operations of $61.0 million.
  - Capital spending was $28.9 million on a mix of high-return discretionary, maintenance and woodlands projects.
  - Net debt ended the quarter at $177.8 million, or 17.9% of invested capital.

Strategic Capital Plan

- Interfor has been working on a multi-year strategic capital plan (the "Plan") that will involve a number of discretionary projects designed to capture the opportunities within its current operating platform and to pursue opportunities for further growth.
- The Company has received Board approval to proceed with the Plan, the key elements of which include:
  - An increase in discretionary spending on existing assets over the next five years.
    - The Plan includes both large scale projects that involve the rebuilding of a number of machine centres, plus a series of smaller debottlenecking and optimization projects, with attractive paybacks. For 2018, discretionary spending is expected to be in the range of $100 million, representing approximately two-thirds of the Company's total annual capital program.

- As part of the 2018 phase, Interfor is proceeding with projects at two of its sawmills in the U.S. South that involve spending of approximately US$65 million which are designed to increase production by approximately 150 million board feet per year, lower cash conversion costs, improve lumber recovery and enhance grade outturns and product mix. These projects are expected to be completed in Q4'18 and Q1'19, respectively.
- Other large capital projects are continuing to be advanced from an engineering and feasibility standpoint and will be sequenced as appropriate. These projects will be subject to Board approval in the normal course.

- Interfor has completed a detailed feasibility study and business case for a greenfield sawmill capable of producing in excess of 200 million board feet of lumber on an annualized basis. Interfor is now proceeding with the next stage of its process and has identified a potential location in the Central Region of the U.S. South. Interfor has estimated the total capital cost to be approximately US$115 million, including pre-start-up costs and working capital. A decision on the project is expected in early 2018.

Softwood Lumber Duties

Interfor recorded $9.4 million of expense in respect of countervailing and anti-dumping duties imposed by the U.S. on its lumber shipments from Canada into the U.S. during Q3'17. Anti-dumping duties were incurred at a preliminary rate of 6.87% throughout the third quarter while countervailing duties, at a preliminary rate of 19.88%, were only applicable on shipments through August 13th. The countervailing duty ceased in August in accordance with U.S. law and is not expected to resume until late December 2017 or early January 2018, pending final rulings by the U.S. International Trade Commission. In Q3'17, Interfor shipped approximately 115 million board feet from its Canadian operations to the U.S. market, which represented approximately 17% of the Company's total lumber sales.

On November 2, 2017, the U.S. Department of Commerce announced its final determinations. As part of its determinations, the final countervailing duty rate was lowered from 19.88% to 14.25%, while the anti-dumping duty rate was lowered from 6.87% to 6.58%. In addition, the U.S. Department of Commerce concluded that critical circumstances did not exist for countervailing duties, but did exist for anti-dumping duties.

Interfor has not yet submitted any deposits in respect of retroactive duties relating to critical circumstances, which could total approximately US$3.0 million in respect of anti-dumping. Interfor does not believe the retroactive application of such duties will stand up under final scrutiny which, in turn, should result in a full return to the Company of any related deposits.

Interfor is of the view that these duties imposed by the U.S. are without merit and are politically driven. Interfor intends to vigorously defend the Company's and the Canadian industry's positions through various appeal processes, in conjunction with the B.C. and Canadian Governments.

Outlook

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

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

Financial and Operating Highlights [1]

	Unit	For the 3 months ended Sept. 30, 2017	Sept. 30, 2016	Jun. 30, 2017	For the 9 months ended Sept. 30, 2017	Sept. 30, 2016
Financial Highlights [2]						
Total sales	$MM	489.2	457.6	511.4	1,457.3	1,350.4
Lumber	$MM	410.2	374.8	433.7	1,233.4	1,094.8
Logs, residual products and other	$MM	79.0	82.8	77.7	223.9	255.6
Operating earnings	$MM	28.3	20.1	42.7	101.5	53.6
Net earnings	$MM	16.8	15.1	24.5	61.0	39.1
Net earnings per share, basic	$/share	0.24	0.22	0.35	0.87	0.56
Adjusted net earnings [3]	$MM	20.0	20.7	28.7	71.4	40.9
Adjusted net earnings per share, basic [3]	$/share	0.29	0.30	0.41	1.02	0.58
Adjusted EBITDA [3]	$MM	60.5	58.1	77.4	198.2	148.3
Adjusted EBITDA margin [3]	%	12.4%	12.7%	15.1%	13.6%	11.0%
Total assets	$MM	1,296.3	1,326.8	1,296.0	1,296.3	1,326.8
Total debt	$MM	249.6	365.3	259.5	249.6	365.3
Pre-tax return on total assets [3]	%	8.7%	6.5%	13.4%	10.6%	5.7%
Net debt to invested capital [3]	%	17.9%	31.8%	21.1%	17.9%	31.8%
Operating Highlights						
Lumber production	million fbm	645	628	655	1,940	1,883
Total lumber sales	million fbm	671	647	675	1,991	1,942
Lumber sales - Interfor produced	million fbm	650	627	654	1,928	1,871
Lumber sales - wholesale and commission	million fbm	21	20	21	63	71
Lumber - average selling price [4]	$/thousand fbm	611	580	642	620	564

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 a definition and reconciliation of this measure to figures reported in the Company's consolidated financial statements.
(4) Gross sales before export taxes.

Summary of Third Quarter 2017 Financial Performance

Sales

Interfor recorded $489.2 million of total sales, up 6.9% from $457.6 million in the third quarter of 2016, driven by the sale of 671 million board feet of lumber at an average price of $611 per mfbm. Lumber sales volume increased 24 million board feet, or 3.7%, while average selling prices increased $31 per mfbm, or 5.4%, as compared to the same quarter of 2016.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in Q3'17 as compared to Q3'16. The Western SPF Composite and Southern Pine Composite benchmark improved US$93 to US$404 per mfbm and US$4 to US$386 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$65 to US$401 per mfbm. The positive impact of increased U.S. Dollar lumber prices was somewhat reduced by the strengthening of the Canadian Dollar against the U.S. Dollar by 4.0% on average in Q3'17 as compared to Q3'16.

Lumber sales volume in Q3'17 in the U.S. South was impacted by severe weather at the end of the quarter, as the Company temporarily suspended operations at most of its U.S. South sawmills for several days in advance of and during Hurricane Irma. In Q3'16, lumber sales volume was affected by temporary operating shift modifications and down-time taken for capital projects at several mills in the U.S. South.

Sales generated from logs, residual products and other decreased by $3.8 million, or 4.6%, compared to the same quarter of 2016 primarily as a result of a decline in log production in the Canadian operations and fewer surplus logs in the B.C. Interior.

Operations

Production costs increased by $18.5 million or 4.8% over the third quarter of 2016, explained primarily by an increase of 24 million board feet in lumber sales volume and higher average log costs in the B.C. Interior and U.S. Northwest, somewhat offset by the stronger Canadian Dollar in Q3'17 compared to Q3'16.

U.S. countervailing duties, with an effective date of April 28, 2017, and anti-dumping duties, with an effective date of June 30, 2017, totalled $9.4 million of additional expense in Q3'17 as compared to Q3'16. Interfor's shipments of softwood lumber from Canada into the U.S. were subject to countervailing duties and anti-dumping duties, levied at preliminary rates of 19.88% and 6.87%, respectively. The countervailing duty was suspended as of August 26, 2017 in accordance with U.S. law.

Depreciation of plant and equipment was $18.8 million, virtually unchanged over Q3'16 as the increased depreciation from recently completed capital projects was offset by the stronger average Canadian Dollar. Depletion and amortization of timber, roads and other was $10.4 million, up $1.0 million from Q3'16, as a result of increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $11.9 million, up $1.0 million from the third quarter of 2016. The third quarter of 2017 included an incremental accrual for short term incentive compensation, certain IT infrastructure expenses, and costs related to the softwood lumber dispute not reflected in the Q3'16 comparative.

The $3.0 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing, coupled with a 6.5% increase during the quarter in the price of Interfor Common Shares used to value share-based awards. The $8.3 million long term incentive compensation expense in Q3'16 mostly reflects a 34.4% increase in the market price for Interfor Common Shares during that quarter.

Finance costs were $3.3 million, or $1.1 million lower than the third quarter of 2016, due mainly to a lower average level of debt outstanding and the stronger Canadian Dollar in Q3'17 as compared to Q3'16.

Restructuring charge recoveries in Q3'17 relate to adjustments to prior period accruals partially offset by the settlement of various human resource matters. Q3'16 restructuring charges relate to costs associated with the closure of the Tacoma sawmill, and the relocation of a sales office.

Other foreign exchange loss of $1.4 million in Q3'17 and gain of $0.8 million in Q3'16 result primarily from unrealized foreign exchange on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $6.6 million in Q3'17, comprised almost entirely of deferred tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q1'17 following full recognition of previously unrecognized assets for non-capital loss carry-forwards. Q3'16 income tax expense of $1.4 million was comprised of a $0.3 million current tax expense and a $1.2 million deferred tax expense, mainly in respect of its U.S. operations.

Net Earnings

The Company recorded net earnings of $16.8 million or $0.24 per share, compared to net earnings of $15.1 million or $0.22 per share in the comparable period of 2016. Adjusted net earnings were $20.0 million or $0.29 per share compared with $20.7 million or $0.30 per share in Q3'16.

Summary of Year-to-Date 2017 Financial Performance

Sales

Interfor recorded $1.5 billion of total sales, up 7.9% from $1.4 billion in the first nine months of 2016, driven by the sale of 2.0 billion board feet of lumber at an average price of $620 per mfbm. Lumber sales volume increased 49 million board feet, or 2.5%, while average selling prices increased $56 per mfbm, or 10.0%, as compared to the first nine months of 2016.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'17 as compared to YTD'16. The Western SPF Composite and Southern Pine Composite benchmark improved US$83 to US$374 per mfbm and US$28 to US$406 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$45 to US$386 per mfbm in YTD'17 as compared to YTD'16.

Sales generated from logs, residual products and other declined by $31.7 million, or 12.4%, in the first nine months, 2017, as compared to the same period of 2016. Most of this decrease is related to a 7.6% decrease in log production in the Canadian operations and fewer surplus logs in YTD'17 as compared to YTD'16.

Operations

Production costs increased by $36.1 million or 3.1% over the first nine months of 2016, explained primarily by an increase in lumber sales volume of 49 million board feet, higher log costs on average at the Company's B.C. and U.S. Northwest operations, and higher conversion costs in the B.C. sawmills.

U.S. countervailing duties, with an effective date of April 28, 2017, and anti-dumping duties, with an effective date of September 30, 2017, totalled $16.7 million in YTD'17.

Depreciation of plant and equipment was $58.4 million, up 1.4% from the first nine months of 2016 due to increased depreciation on recently completed capital projects partially offset by the stronger average Canadian Dollar. Depletion and amortization of timber, roads and other was $26.8 million, virtually unchanged from the comparable nine months of 2016.

Corporate and Other

Selling and administration expenses were $36.8 million, up $3.3 million from the first nine months of 2016. The first nine months of 2017 included an incremental accrual for short term incentive compensation, certain IT infrastructure expenses, and costs related to the softwood lumber dispute not reflected in the YTD'16 comparative.

The $9.9 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing and a 31.6% year-to-date increase in the price of Interfor Common Shares used to value share-based awards. The $4.4 million long term incentive compensation expense in YTD'16 resulted from the impact of incentive awards maturing and a 6.0% increase in the market price for Interfor Common Shares during the first nine months of 2016.

Finance costs decreased to $10.9 million from $14.5 million in the first nine months of 2016 as a result of a lower average level of debt outstanding in YTD'17 as compared to YTD'16 and the stronger Canadian Dollar.

Restructuring charges in YTD'17 relate to the settlement of various human resource matters, slightly offset by adjustments to prior period accruals. The YTD'16 restructuring charges relate to costs associated with the closure of the Tacoma sawmill, the reorganization of a sales office, and various other severance costs.

Other foreign exchange losses of $2.4 million in YTD'17 and gains of $0.4 million in YTD'16 result primarily from unrealized foreign exchange on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $26.2 million in YTD'17, comprised of a $0.7 million current tax expense and a $25.5 million deferred tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q1'17 following full recognition of previously unrecognized assets for non-capital loss carry-forwards. YTD'16 income tax recovery was negligible, comprised of a $0.7 million current tax expense and a $0.8 million deferred tax credit in respect of job creation in the U.S. South.

Net Earnings

The Company recorded net earnings of $61.0 million, or $0.87 per share, compared to net earnings of $39.1 million, or $0.56 per share, in the comparable period of 2016. Adjusted net earnings were $71.4 million, or $1.02 per share, compared with Adjusted net earnings of $40.9 million, or $0.58 per share in YTD'16.

Summary of Quarterly Results (1)

	Unit	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
Financial Performance (Unaudited)									
Total sales	$MM	489.2	511.4	456.8	442.3	457.6	458.8	433.9	411.4
Lumber	$MM	410.2	433.7	389.6	363.5	374.8	371.1	348.9	325.0
Logs, residual products and other	$MM	79.0	77.7	67.2	78.8	82.8	87.7	85.0	86.4
Operating earnings (loss)	$MM	28.3	42.7	30.4	22.3	20.1	30.0	3.5	(6.3)
Net earnings (loss)	$MM	16.8	24.5	19.7	26.6	15.1	23.2	0.8	(3.5)
Net earnings (loss) per share, basic	$/share	0.24	0.35	0.28	0.38	0.22	0.33	0.01	(0.05)
Adjusted net earnings(2)	$MM	20.0	28.7	22.7	17.7	20.7	17.5	2.7	4.5
Adjusted net earnings per share, basic(2)	$/share	0.29	0.41	0.32	0.25	0.30	0.25	0.04	0.06
Adjusted EBITDA(2)	$MM	60.5	77.4	60.3	51.3	58.1	56.9	33.4	35.8
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	645	655	640	607	628	637	618	568
Total lumber sales	million fbm	671	675	645	619	647	658	637	615
Lumber sales - Interfor produced	million fbm	650	654	624	598	627	634	609	586
Lumber sales - wholesale and commission	million fbm	21	21	21	21	20	24	28	29
Lumber - average selling price(3)	$/thousand fbm	611	642	604	588	580	564	548	529
Average USD/CAD exchange rate(4)	1 USD in CAD	1.2528	1.3449	1.3238	1.3341	1.3050	1.2886	1.3732	1.3354
Closing USD/CAD exchange rate(4)	1 USD in CAD	1.2480	1.2977	1.3322	1.3427	1.3117	1.3009	1.2971	1.3840

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 a definition and reconciliation 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, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and the 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 in the winter season due to reduced construction and renovation activities.

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. Severe weather conditions also impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'17 and Q1'17 and in the U.S. South in Q3'17. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

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, all else equal, and increases net earnings or losses of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Net debt at September 30, 2017 was $177.8 million, or 17.9% of invested capital, representing a decrease of $169.1 million from September 30, 2016 and a decrease of $111.8 million from December 31, 2016. A strengthened Canadian Dollar against the U.S. Dollar reduced debt by $19.0 million over the first nine months of 2017.

	For the 3 months ended			For the 9 months ended	
Thousands of dollars	Sept. 30, 2017	Sept. 30, 2016	Jun. 30, 2017	Sept. 30, 2017	Sept. 30, 2016
Net debt					
Net debt, period opening, CAD	$ 218,252	$ 395,959	$ 306,676	$ 289,551	$ 452,303
Net drawing (repayment) on credit facilities, CAD	2	(44,138)	(59,468)	(40,216)	(77,704)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(9,942)	2,441	(6,359)	(19,005)	(25,734)
Increase in cash and cash equivalents, CAD	(30,525)	(7,333)	(22,597)	(52,543)	(1,936)
Net debt, period ending, CAD	$ 177,787	$ 346,929	$ 218,252	$ 177,787	$ 346,929
Net debt components by currency					
U.S. Dollar debt, period opening, USD	$ 200,000	$ 297,500	$ 235,979	$ 230,000	$ 338,699
Net repayment on credit facilities, USD	-	(22,791)	(35,979)	(30,000)	(63,990)
U.S. Dollar debt, period ending, USD	200,000	274,709	200,000	200,000	274,709
Spot rate, period end				1.2480	1.3117
U.S. Dollar debt expressed in CAD				249,600	360,336
Canadian Dollar debt, CAD				-	4,985
Total debt, CAD				249,600	365,321
Cash and cash equivalents, CAD				(71,813)	(18,392)
Net debt, period ending, CAD				$ 177,787	$ 346,929

Cash Flow from Operating Activities

The Company generated $190.5 million of cash flow from operations before changes in working capital in YTD’17, up $48.3 million over the first nine months of 2016 driven primarily by increased lumber sales volume and margins.

There was a net cash inflow from operations after changes in working capital of $171.5 million in YTD’17, with $19.0 million of cash invested in operating working capital related to higher sales prices, building of inventories, and the payments of the Simpson contingent liability of US$10.0 million and accrued 2016 incentive compensation. There was a net cash inflow from operations after changes in working capital of $150.3 million in YTD’16, with $8.1 million of cash released from operating working capital.

Cash Flow from Investing Activities

Investing activities totalled $66.8 million in YTD’17, including $44.8 million for property, plant and equipment, timber and other intangibles and $25.1 million for development of logging roads and bridges. Discretionary mill improvements totalled $17.4 million during the period, of which the majority was spent on U.S. South operations. Maintenance mill improvements of $27.4 million during YTD’17 included $4.1 million for a kiln conversion project at the Company’s Preston sawmill.

In the first nine months of 2016, investing activities totalled $57.2 million, including $38.2 million for property, plant and equipment, timber and other intangibles and $18.7 million for development of logging roads and bridges. Discretionary spending of $15.0 million during the period included $6.6 million for completion of the Company’s Castlegar sawmill rebuild. Maintenance mill improvements of $23.2 million during the period included $11.1 million for a kiln conversion project at the Company’s Preston sawmill in Georgia.

Cash Flow from Financing Activities

Net repayments on the Company’s credit facilities were $40.2 million which, together with interest payments of $9.6 million, led to cash outflow from financing activities of $50.6 million in YTD’17. Financing activities in the comparable period of 2016 totalled $92.1 million, including $13.4 million of interest payments on higher average debt levels than in YTD’17, and a reduction of drawings under credit facilities by $77.7 million.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2017:

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	$ 249,600	$ 62,400	$ 577,000
Maximum borrowing available	$ 65,000	$ 200,000	$ 249,600	$ 62,400	$ 577,000
Less:					
Drawings	-	-	249,600	-	249,600
Outstanding letters of credit included in line utilization	11,246	-	-	3,869	15,115
Unused portion of facility	$ 53,754	$ 200,000	$ -	$ 58,531	$ 312,285
Add: Cash and cash equivalents					71,813
Available liquidity at September 30, 2017					$ 384,098

As of September 30, 2017, the Company had commitments for capital expenditures totaling $12.6 million, related to both maintenance and discretionary projects.

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

As at September 30, 2017, the Company had net working capital of $201.7 million and available capacity on operating and term facilities of $312.3 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 nine months ended September 30, 2017.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases. At September 30, 2017, such instruments aggregated $55.9 million (December 31, 2016 - $45.7 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 also trades lumber futures to manage price risk. 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, except lumber futures, are the Company's Canadian bankers who are highly-rated and, hence, the risk of credit loss on such instruments is mitigated.

Outstanding Shares

As of November 2, 2017, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2017, 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 quarter ended September 30, 2017. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2016, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

The Company adopted the disclosure requirements in Disclosure Initiative (Amendments to IAS 7), which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in its financial statements in relation to the changes in borrowings arising from financing activities for the three and nine months ended September 30, 2017.

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended September 30, 2017, 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.

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.

Based on the Company's preliminary analysis to date, neither IFRS 9 nor IFRS 15 will have a significant impact on the Company's 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, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Pre-tax return on total assets, Net debt to invested capital and Operating cash flow per share (before working capital changes) 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 except number of shares and per share amounts	For the 3 months ended Sept. 30, 2017	Sept. 30, 2016	Jun. 30, 2017	For the 9 months ended Sept. 30, 2017	Sept. 30, 2016
Adjusted Net Earnings[1]					
Net earnings	$ 16,778	$ 15,093	$ 24,512	$ 60,957	$ 39,093
Add:					
Restructuring (recovery) costs and capital asset write-downs	(21)	1,492	1,457	1,781	4,999
Other foreign exchange loss (gain)	1,353	(792)	913	2,447	(396)
Long term incentive compensation expense	3,004	8,321	3,270	9,867	4,352
Other (income) expense	347	(7)	456	992	358
Beaver sawmill post-closure wind-down costs (recoveries)	(39)	6	5	(27)	17
Tacoma sawmill post-acquisition losses and closure costs	-	94	-	1	777
Income tax effect of above adjustments	(1,456)	(1,408)	(1,883)	(4,588)	(2,887)
Recognition of previously unrecognized deferred tax assets	-	(2,134)	-	-	(5,402)
Adjusted net earnings	$ 19,966	$ 20,665	$ 28,730	$ 71,430	$ 40,911
Weighted average number of shares - basic ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*70,030*
Adjusted net earnings per share	$ 0.29	$ 0.30	$ 0.41	$ 1.02	$ 0.58
Adjusted EBITDA					
Net earnings	$ 16,778	$ 15,093	$ 24,512	$ 60,957	$ 39,093
Add:					
Depreciation of plant and equipment	18,836	18,624	19,967	58,406	57,558
Depletion and amortization of timber, roads and other	10,435	9,441	10,024	26,756	27,062
Restructuring (recovery) costs and capital asset write-downs	(21)	1,492	1,457	1,781	4,999
Finance costs	3,294	4,379	3,535	10,891	14,528
Other foreign exchange loss (gain)	1,353	(792)	913	2,447	(396)
Income tax expense (recovery)	6,559	1,445	13,289	26,168	(29)
EBITDA	57,234	49,682	73,697	187,406	142,815
Add:					
Long term incentive compensation expense	3,004	8,321	3,270	9,867	4,352
Other (income) expense	347	(7)	456	992	358
Beaver sawmill post-closure wind-down costs (recoveries)	(39)	6	5	(27)	17
Tacoma sawmill post-acquisition losses and closure costs	-	94	-	1	777
Adjusted EBITDA[2]	$ 60,546	$ 58,096	$ 77,428	$ 198,239	$ 148,319
Pre-tax return on total assets					
Operating earnings before restructuring costs	$ 28,310	$ 21,610	$ 44,162	$ 103,236	$ 58,553
Total assets[3]	$1,296,015	$1,337,569	$1,318,784	$1,298,964	$ 1,358,294
Pre-tax return on total assets[4]	8.7%	6.5%	13.4%	10.6%	5.7%
Net debt to invested capital					
Net debt					
Total debt	$ 249,600	$ 365,321	$ 259,540	$ 249,600	$ 365,321
Cash and cash equivalents	(71,813)	(18,392)	(41,288)	(71,813)	(18,392)
Total net debt	$ 177,787	$ 346,929	$ 218,252	$ 177,787	$ 346,929
Invested capital					
Net debt	$ 177,787	$ 346,929	$ 218,252	$ 177,787	$ 346,929
Shareholders' equity	817,676	745,333	816,136	817,676	745,333
Total invested capital	$ 995,463	$1,092,262	$1,034,388	$ 995,463	$ 1,092,262
Net debt to invested capital[5]	17.9%	31.8%	21.1%	17.9%	31.8%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$ 60,977	$ 67,689	$ 105,816	$ 171,475	$ 150,291
Cash used in (generated from) operating work capital	(3,474)	(12,814)	(32,531)	19,028	(8,094)
Operating cash flow (before working capital changes)	$ 57,503	$ 54,875	$ 73,285	$ 190,503	$ 142,197
Weighted average number of shares - basic ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*70,030*
Operating cash flow per share (before working capital changes)	*$ 0.82*	*$ 0.78*	*$ 1.05*	*$ 2.72*	*$ 2.03*

Notes:

(1) Certain historical periods have been recast to exclude the recognition of previously unrecognized deferred tax assets from Adjusted net earnings.

(2) If countervailing and anti-dumping duties expense was excluded, Adjusted EBITDA for Q3'17, Q2'17, and YTD'17 would be $70.0 million, $84.7 million, and $215.0 million, respectively. Other periods presented were not impacted by such duties.

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

(4) Annualized rate.

(5) 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, 2016, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties, other than the imposition of softwood lumber duties, during the nine month period ended September 30, 2017.

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
For the three and nine months ended September 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Sales (note 12)	$ 489,169	$ 457,647	$ 1,457,325	$ 1,350,404
Costs and expenses:				
Production	407,222	388,733	1,205,504	1,169,356
Selling and administration	11,936	10,918	36,817	33,523
Long term incentive compensation expense	3,004	8,321	9,867	4,352
U.S. countervailing and anti-dumping duty deposits (note 15)	9,426	-	16,739	-
Depreciation of plant and equipment (note 8)	18,836	18,624	58,406	57,558
Depletion and amortization of timber, roads and other (note 8)	10,435	9,441	26,756	27,062
	460,859	436,037	1,354,089	1,291,851
Operating earnings before restructuring costs	28,310	21,610	103,236	58,553
Restructuring costs (recovery) (note 9)	(21)	1,492	1,781	4,999
Operating earnings	28,331	20,118	101,455	53,554
Finance costs (note 10)	(3,294)	(4,379)	(10,891)	(14,528)
Other foreign exchange gain (loss)	(1,353)	792	(2,447)	396
Other income (expense)	(347)	7	(992)	(358)
	(4,994)	(3,580)	(14,330)	(14,490)
Earnings before income taxes	23,337	16,538	87,125	39,064
Income tax expense (recovery)				
Current	22	288	708	749
Deferred	6,537	1,157	25,460	(778)
	6,559	1,445	26,168	(29)
Net earnings	$ 16,778	$ 15,093	$ 60,957	$ 39,093
Net earnings per share, basic and diluted (note 11)	$ 0.24	$ 0.22	$ 0.87	$ 0.56

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and nine months ended September 30, 2017 and 2016 (unaudited)

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Net earnings	$ 16,778	$ 15,093	$ 60,957	$ 39,093
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial gains (losses), net of tax	1,192	(42)	794	(2,988)
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	(16,589)	2,622	(31,151)	(16,210)
Gain (loss) in fair value of interest rate swaps (note 14)	-	93	(11)	(46)
Total items that are or may be recycled to Net earnings	(16,589)	2,715	(31,162)	(16,256)
Total other comprehensive income (loss), net of tax	(15,397)	2,673	(30,368)	(19,244)
Comprehensive income	$ 1,381	$ 17,766	$ 30,589	$ 19,849

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended September 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars)	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 16,778	$ 15,093	$ 60,957	$ 39,093
Items not involving cash:				
Depreciation of plant and equipment (note 8)	18,836	18,624	58,406	57,558
Depletion and amortization of timber, roads and other (note 8)	10,435	9,441	26,756	27,062
Income tax expense (recovery)	6,559	1,445	26,168	(29)
Finance costs (note 10)	3,294	4,379	10,891	14,528
Other assets	(252)	(22)	(70)	(306)
Reforestation liability	(522)	2,235	1,787	1,692
Provisions and other liabilities	2,178	4,288	4,225	993
Stock options	159	97	420	230
Write-down of plant and equipment (note 9)	-	-	-	1,018
Unrealized foreign exchange gain	(2)	(698)	(11)	-
Other	40	(7)	974	358
	57,503	54,875	190,503	142,197
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(8,785)	2,195	(21,041)	(9,858)
Inventories	10,417	5,507	(5,255)	(261)
Prepayments and other	(1,011)	254	(1,430)	517
Trade accounts payable and provisions	3,576	5,123	9,841	18,427
Income taxes paid	(723)	(265)	(1,143)	(731)
	60,977	67,689	171,475	150,291
Investing activities:				
Additions to property, plant and equipment	(19,805)	(15,223)	(42,957)	(37,220)
Additions to logging roads and bridges	(8,608)	(7,484)	(25,139)	(18,721)
Additions to timber licenses and other intangible assets	(461)	(633)	(1,826)	(988)
Proceeds on disposal of property, plant and equipment	63	2	461	316
Proceeds on disposal of investments	2,136	10,342	2,136	10,342
Investments and other assets	669	(1,347)	517	(10,900)
	(26,006)	(14,343)	(66,808)	(57,171)
Financing activities:				
Interest payments	(2,832)	(2,268)	(9,585)	(13,433)
Debt refinancing costs	(615)	(167)	(785)	(1,009)
Change in operating line components of long-term debt (note 6)	2	2,937	(63)	(8,796)
Additions to long term debt (note 6)	-	-	76,107	28,000
Repayments of long term debt (note 6)	-	(47,074)	(116,260)	(96,908)
	(3,445)	(46,572)	(50,586)	(92,146)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(1,001)	559	(1,538)	962
Increase in cash	30,525	7,333	52,543	1,936
Cash and cash equivalents, beginning of period	41,288	11,059	19,270	16,456
Cash and cash equivalents, end of period	$ 71,813	$ 18,392	$ 71,813	$ 18,392

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2017 and December 31, 2016 (unaudited)

(thousands of Canadian Dollars)	Sept. 30, 2017	Dec. 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 71,813	$ 19,270
Trade accounts receivable and other	113,332	95,059
Income taxes receivable	583	222
Inventories (note 5)	155,624	154,535
Prepayments and other	14,807	14,016
Investments and other assets	921	2,911
	357,080	286,013
Employee future benefits	3,283	2,471
Other investments and assets	2,507	2,341
Property, plant and equipment	678,395	730,981
Logging roads and bridges	26,440	20,739
Timber licences	67,296	69,273
Other intangible assets	14,893	19,017
Goodwill	146,386	156,502
Deferred income taxes	-	14,311
	$ 1,296,280	$ 1,301,648
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 142,499	$ 138,029
Reforestation liability	12,702	11,609
Income taxes payable	223	317
	155,424	149,955
Reforestation liability	28,071	25,931
Long term debt (notes 6 and 14)	249,600	308,821
Employee future benefits	8,409	8,136
Provisions and other liabilities	24,980	21,290
Deferred income taxes	12,120	848
Equity:		
Share capital (note 7)	555,388	555,388
Contributed surplus	8,419	7,999
Translation reserve	38,423	69,574
Hedge reserve	-	11
Retained earnings	215,446	153,695
	817,676	786,667
	$ 1,296,280	$ 1,301,648

Contingencies (note 13) and U.S. Countervailing and Anti-Dumping Duty Deposits (note 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors:

"*L. Sauder*"
Director

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars)	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2016	$ 555,388	$ 7,999	$ 69,574	$ 11	$ 153,695	$ 786,667
Net earnings:	-	-	-	-	60,957	60,957
Other comprehensive income (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	(31,151)	-	-	(31,151)
Defined benefit plan actuarial gain, net of tax	-	-	-	-	794	794
Loss in fair value of interest rate swaps (note 14)	-	-	-	(11)	-	(11)
Contributions:						
Stock options	-	420	-	-	-	420
Balance at September 30, 2017	$ 555,388	$ 8,419	$ 38,423	$ -	$ 215,446	$ 817,676
Balance at December 31, 2015	$ 553,559	$ 7,665	$ 77,425	$ 62	$ 86,543	$ 725,254
Net earnings:	-	-	-	-	39,093	39,093
Other comprehensive loss:						
Foreign currency translation differences for foreign operations, net of tax	-	-	(16,210)	-	-	(16,210)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(2,988)	(2,988)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(46)	-	(46)
Contributions:						
Stock options	-	230	-	-	-	230
Balance at September 30, 2016	$ 553,559	$ 7,895	$ 61,215	$ 16	$ 122,648	$ 745,333

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2017 and 2016 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016. These financial statements were approved by Interfor's Board of Directors on November 2, 2017.

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

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

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

3. Significant accounting policies:

Except for the change noted below, these financial statements have been prepared on a consistent basis with the significant accounting policies and methods of computation applied in the Company's audited December 31, 2016 annual consolidated financial statements, which are available on www.sedar.com.

a) Change in accounting policy:

The Company has adopted the disclosure requirements in *Disclosure Initiative (Amendments to IAS 7),* which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in relation to the changes in borrowings arising from financing activities for the three and nine months ended September 30, 2017 (note 6).

b) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the three and nine months ended September 30, 2017, 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 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.

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.

Based on the Company's preliminary analysis to date, neither IFRS 9 nor IFRS 15 will have a significant impact on the Company's financial statements.

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

4. 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.

(Tabular amounts expressed in thousands except per share amounts)

5. Inventories:

	Sept. 30, 2017	Dec. 31, 2016
Lumber	$ 85,713	$ 80,726
Logs	53,599	58,739
Other	16,312	15,070
	$ 155,624	$ 154,535

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at September 30, 2017 was $8,166,000 (December 31, 2016 - $7,922,000).

6. Cash and borrowings:

September 30, 2017	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 249,600	$ 62,400	$ 577,000
Maximum borrowing available	65,000	200,000	249,600	62,400	577,000
Drawings	-	-	249,600	-	249,600
Outstanding letters of credit included in line utilization	11,246	-	-	3,869	15,115
Unused portion of line	$ 53,754	$ 200,000	$ -	$ 58,531	$ 312,285
December 31, 2016					
Available line of credit	$ 65,000	$ 200,000	$ 268,540	$ 67,135	$ 600,675
Maximum borrowing available	65,000	200,000	268,540	65,627	599,167
Drawings	-	40,281	268,540	-	308,821
Outstanding letters of credit included in line utilization	10,026	-	-	3,296	13,322
Unused portion of line	$ 54,974	$ 159,719	$ -	$ 62,331	$ 277,024

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

Twelve months ending	
September 30, 2018	$ -
September 30, 2019	-
September 30, 2020	-
September 30, 2021	41,600
September 30, 2022	41,600
Thereafter	166,400
	$ 249,600

Reconciliation of movements in borrowings to cash flows arising from financing activities:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Drawings at opening	$ 259,540	$ 407,018	$ 308,821	$ 468,759
Operating line net drawings (repayments)	2	2,937	(63)	(8,796)
Additions to long term debt	-	-	76,107	28,000
Repayments of long term debt	-	(47,074)	(116,260)	(96,908)
Effects of changes in foreign exchange rates	(9,942)	2,440	(19,005)	(25,734)
Drawings at September 30	$ 249,600	$ 365,321	$ 249,600	$ 365,321

(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 net debt divided by trailing twelve months' EBITDA[1]. Borrowing levels under the Lines 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, as defined under the agreement, represents earnings before interest, taxes, depreciation, depletion, amortization and non-cash asset revaluations.

(Tabular amounts expressed in thousands except per share amounts)

6. 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. On September 15, 2017, the Company extended the maturity of the Lines from May 19, 2019 to September 19, 2021 with an additional borrowing margin and stand-by fee tier, reducing the cost for both drawn and undrawn amounts. There were no other significant changes.

As at September 30, 2017, including outstanding letters of credit, the Lines were drawn by $11,065,000 (December 31, 2016 - $10,026,000) and US$145,000 (December 31, 2016 - US$30,000,000) revalued at the quarter-end exchange rate to $181,000 (December 31, 2016 - $40,281,000) for total borrowings of $11,246,000 (December 31, 2016 - $50,307,000).

As at September 30, 2017, $253,754,000 of the Lines were unused (December 31, 2016 - $214,693,000). As U.S. Dollar drawings under the Lines were designated as a hedge against the Company's investment in its U.S. operations, the Company recognized foreign exchange gains of $128,000 in the first nine months, 2017 (first nine months, 2016 - $10,273,000 gain) and nil in the third quarter, 2017 (Quarter 3, 2016 - $975,000 loss) arising on revaluation of the Lines in Foreign currency translation differences in Other comprehensive income.

(b) Senior Secured Notes:

The Company's Senior Secured Notes consist of Series A Senior Secured Notes (US$50,000,000, bearing interest at 4.33%), Series B Senior Secured Notes (US$50,000,000, bearing interest at 4.02%) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at September 30, 2017, US$200,000,000 of Senior Secured Notes were outstanding (December 31, 2016 – US$200,000,000) and revalued at the quarter-end exchange rate to $249,600,000 (December 31, 2016 - $268,540,000).

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.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and an unrealized foreign exchange gain of $18,940,000 in the first nine months, 2017 (first nine months, 2016 - $14,460,000 gain) and an unrealized foreign exchange gain of $9,940,000 in the third quarter, 2017 (Quarter 3, 2016 - $2,160,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. On May 12, 2017, the Company extended the maturity of its U.S. Operating Line from May 1, 2018 to May 1, 2019 with no other significant changes.

As at September 30, 2017, the U.S. Operating Line was drawn by US$3,100,000 including outstanding letters of credit, revalued at the quarter-end exchange rate to $3,869,000 (December 31, 2016 - US$2,455,000 revalued at the quarter-end exchange rate to $3,296,000).

As at September 30, 2017, $58,531,000 (US$46,900,000) of the U.S. Operating Line was unused (December 31, 2016 - $62,331,000, or US$46,422,000).

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2015	70,030,455	$ 553,559
Deferred income tax on share issue costs	-	1,829
Balance, December 31, 2016 and September 30, 2017	70,030,455	$ 555,388

On March 2, 2017, the Company announced a normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 3,5000,000 common shares, representing approximately 5% of its common shares issued and outstanding as at March 2, 2017. This NCIB began on March 7, 2017 and expires on March 6, 2018. During the first nine months of 2017, Interfor did not purchase any of its common shares.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Production	$ 27,478	$ 26,011	$ 79,456	$ 78,384
Selling and administration	1,793	2,054	5,706	6,236
	$ 29,271	$ 28,065	$ 85,162	$ 84,620

(Tabular amounts expressed in thousands except per share amounts)

9. Restructuring costs (recovery):

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Severance and legal	$ 270	$ 104	$ 2,116	$ 893
Tacoma Sawmill:				
Loss on timber sales and other	-	272	-	1,502
Site closure costs	(1)	619	17	1,089
Write-down of plant and equipment	-	-	-	1,018
Onerous contract	(290)	497	(352)	497
	$ (21)	$ 1,492	$ 1,781	$ 4,999

10. Finance costs:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Interest on borrowings	$ 2,818	$ 4,028	$ 9,566	$ 12,975
Net interest expense on defined benefit obligations	98	103	282	299
Unwind of discount on provisions	144	79	410	753
Amortization of deferred finance costs	234	169	633	501
	$ 3,294	$ 4,379	$ 10,891	$ 14,528

11. Net earnings per share:

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

	3 Months Sept. 30, 2017			3 Months Sept. 30, 2016		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Basic earnings per share	$ 16,778	70,030	$ 0.24	$ 15,093	70,030	$ 0.22
Effect of dilutive securities:						
Stock options	-	25		-	2	
Diluted earnings per share	$ 16,778	70,055	$ 0.24	$ 15,093	70,032	$ 0.22

	9 Months Sept. 30, 2017			9 Months Sept. 30, 2016		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Basic earnings per share	$ 60,957	70,030	$ 0.87	$ 39,093	70,030	$ 0.56
Effect of dilutive securities:						
Stock options	-	21		-	-	
Diluted earnings per share	$ 60,957	70,051	$ 0.87	$ 39,093	70,030	$ 0.56

(Tabular amounts expressed in thousands except per share amounts)

12. 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 South regions of the U.S.

Sales by market are as follows:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
United States	$ 322,436	$ 321,056	$ 1,004,305	$ 957,806
Canada	71,633	61,763	181,409	173,411
Japan	36,941	29,837	106,009	100,354
China/Taiwan	29,312	21,974	90,234	62,844
Other export	28,847	23,017	75,368	55,989
	$ 489,169	$ 457,647	$ 1,457,325	$ 1,350,404

Sales by product line are as follows:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Lumber	$ 410,196	$ 374,821	$ 1,233,496	$ 1,094,833
Logs	42,057	45,954	109,758	137,167
Wood chips and other by-products	35,519	35,126	109,086	110,599
Other	1,397	1,746	4,985	7,805
	$ 489,169	$ 457,647	$ 1,457,325	$ 1,350,404

13. Contingency:

A Timber Licence held by Interfor for harvesting within the B.C. Coast region (the "Licence") was cancelled (or taken) by the Government of B.C., following the passing into law of the Great Bear Rainforest (Forest Management) Act and regulations, which took effect January 1, 2017.

Interfor is 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, it is expected that such compensation would exceed the net book value of the Licence as at September 30, 2017.

14. Financial instruments:

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

At September 30, 2017, the fair value of the Company's long term debt exceeded its carrying value by $6,569,000 (December 31, 2016 - exceeded carrying value by $7,378,000) as 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.

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

As at September 30, 2017, the Company had outstanding lumber futures contracts which were designated as held for trading with changes in fair value recorded in Sales in Net Earnings. At September 30, 2017, the Company recognized $38,000 in Trade accounts payable and accrued liabilities (December 31, 2016 - $nil) as measured based on Level 2 of the fair value hierarchy.

As at September 30, 2017, the Company had no outstanding obligations under foreign currency contracts or interest rate swaps.

Gains (losses) on derivative financial instruments recognized in these financial statements are as follows:

	3 Months Sept. 30, 2017	3 Months Sept. 30, 2016	9 Months Sept. 30, 2017	9 Months Sept. 30, 2016
Foreign exchange forward contracts[1]	$ 107	$ 20	$ 343	$ 138
Interest rate swaps[2]	-	93	(11)	(46)
Lumber futures[3]	(39)	-	582	-
Total gain (loss), net	$ 68	$ 113	$ 914	$ 92

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

15. U.S. Countervailing and Anti-Dumping Duty Deposits:

On November 25, 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing and anti-dumping duties on Canadian softwood lumber imports to the U.S. and on January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there is reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada.

On April 24, 2017, the U.S. Department of Commerce ("DoC") preliminarily ruled that Canadian softwood lumber producers benefit from government subsidies and imposed a preliminary countervailing duty rate on each of the five specific companies reviewed, ranging from 3.02% to 24.12%, and the weighted average rate of 19.88% on all other companies including Interfor. As a result, the U.S. Customs and Border Protection Agency ("CBPA") began collecting countervailing duties from Interfor on April 28, 2017, to be posted by cash deposits or bonds, on its shipments of softwood lumber from Canada into the U.S. As of August 26, 2017, preliminary countervailing duties were suspended in accordance with U.S. law pending final rulings by the DoC and ITC.

On June 26, 2017, the DoC announced its ruling for the imposition of a preliminary anti-dumping duty rate on each of the four specific companies reviewed, ranging from 4.59% to 7.72%, and the weighted average rate of 6.87% on all other companies including Interfor. As a result, the CBPA began collecting anti-dumping duties from Interfor on June 30, 2017, to be posted by cash deposits or bonds, on its shipments of softwood lumber from Canada into the U.S. The preliminary anti-dumping duties will only be applicable for 180 days from the date of imposition, until they are suspended in accordance with U.S. law pending final rulings by the DoC and ITC.

In terms of impact to Interfor, countervailing and anti-dumping duties apply to approximately 16% of its total volume on average.

On November 2, 2017, the DoC announced its final determinations and the final rates applicable to Interfor were lowered from 19.88% to 14.25% for countervailing duties, and from 6.87% to 6.58% for anti-dumping duties. These new rates will come into effect separately over the next few months. ITC's final determinations on the countervailing and anti-dumping cases will follow approximately 45 days after the DoC final determinations.

In addition, the DoC concluded that critical circumstances did not exist for countervailing duties, but did exist for anti-dumping duties. Thus, Interfor may be required to submit deposits estimated to be US$3,045,000 for retroactive anti-dumping duties for the 90-day period from April 1 to June 29, 2017. Since Interfor believes it is more likely than not that the ITC will subsequently rule against the retroactive application, resulting in a return of any related deposits in full to Interfor by the CBPA, no associated liability has been recognized in these financial statements.

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to vigorously defend the Company's and industry's positions through various appeals processes, in conjunction with the B.C. and Canadian Governments. The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on determinations yet to be made by the ITC and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

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