



INTERFOR

Building Value™

2017
Annual Report

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FINANCIAL HIGHLIGHTS

(in millions of dollars, except share and per share amounts)

	<u>2017</u>	<u>2016</u>
Financial Summary		
Sales	1,990.1	1,792.7
Net earnings	97.2	65.6
Adjusted EBITDA ⁽¹⁾	287.8	199.6
Per Share Data		
Net earnings per share		
- basic and diluted	1.39	0.94
Price range per share		
High	22.43	15.99
Low	13.49	8.67
Net book value per share	12.20	11.23
Operating cash flow (before working capital change) per share	3.91	2.75
Weighted average shares outstanding (millions)	70.0	70.0
Financial Position		
Total assets	1,353.0	1,301.6
Net debt ⁽¹⁾	119.3	289.6
Total shareholders' equity	854.2	786.7
Invested capital ⁽¹⁾	973.5	1,076.2
Financial Ratios (%)		
Net debt as a % of invested capital	12.3%	26.9%
Return on invested capital ⁽¹⁾	28.1%	17.7%
Adjusted EBITDA margin ⁽¹⁾	14.5%	11.1%

Notes:

1. See Glossary for definition.

“With well-positioned mills, a strong balance sheet and a clear vision, Interfor is in a great position to deliver on our goal of building long-term value for our shareholders.”

Message to Shareholders – February 2018

For further highlights, please see the 2017 Message to Shareholders and Management’s Discussion and Analysis on the following pages.

MESSAGE TO SHAREHOLDERS

Overview

2017 was a record-breaking year for Interfor. The combination of strong markets and gains in operating performance resulted in new standards for production, sales revenue and profitability. Equally important, we took steps during the year to build out the Company's organizational structure and to launch the next phase of our strategic plan which we believe will deliver additional gains in the years ahead.

Highlights for the year included:

- Production increased 4% to 2.6 billion board feet;
- Sales revenue increased to \$2.0 billion;
- Earnings and cash flow increased significantly;
- Net debt was reduced by \$170 million;
- Major investments were announced for our mills in Monticello, AR, and Meldrim, GA; and
- Plans were launched to determine the next steps in our investment program including a feasibility study on a potential greenfield mill in the U.S. South.

We are pleased with the results delivered in 2017 and excited about the opportunities ahead of us.

I invite you to review the material covered in the next few pages and later in this report and to form your own views on our progress.

Please feel free to forward any comments you may have to me directly at duncan.davies@interfor.com.

Production Continues to Increase; Record Sales Revenue and Profitability Achieved

Interfor's production volumes increased 4% to 2.6 billion board feet in 2017 as the Company focused on digesting its recent growth and laying the foundation to capture additional gains.

Sales volumes, including agency and wholesale activities, came in at 2.7 billion board feet.

Product prices were better across-the-board in 2017 as demand in the U.S. continued to grow and supply disruptions and growing offshore sales limited availability.

All-in, Interfor made \$97.2 million after tax in 2017 on sales of \$2.0 billion compared with earnings of \$65.6 million on sales of \$1.8 billion in 2016.

EBITDA reported before non-recurring items and share-based compensation expense came in at an all-time high of \$287.8 million versus \$199.6 million in 2016.

Strong Cash Flow Contributes to \$170 Million Reduction in Net Debt

Maintaining a strong balance sheet has been a hallmark of our management philosophy since the beginning, with a target ratio of net debt to invested capital of 25-35% with the flexibility to go up to 40% under certain circumstances.

At year-end 2015, our debt ratio was in the upper end of the range at 38.4%. Net debt was reduced by \$163 million in 2016, bringing the ratio down to 26.9%. In 2017, net debt was reduced by an additional \$170 million to \$119 million, the equivalent of 12.3% of invested capital, well below our target range.

The reduction in debt over the last two years, along with the corresponding increase in available liquidity which, at year-end, stood at \$444 million (versus \$128 million at the end of 2015), provides protection against uncertainty and puts Interfor in a strong position to pursue additional value-creating opportunities in the years ahead.

Next Phase of Strategic Plan Launched; Projects Approved at Monticello and Meldrim

In November, we announced plans to proceed with the next phase of our strategy to build value.

The plan includes a number of discretionary capital projects designed to capture the potential within our existing platform of assets and to pursue opportunities for additional growth.

The plan is entirely consistent with the strategy we employed in the B.C. Interior where we invested more than \$300 million over 10 years to transform three outdated plants into three of the top-performing mills in North America.

The good news is the opportunity in some regions today is even better than the one we saw in the B.C. Interior ten years ago.

In that regard, we intend to spend upwards of \$500 million on high-return projects over the next 5 years over-and-above our budget for roads and maintenance, with a focus on the U.S. South. The average payback on these investments has been estimated using conservative assumptions at less than 4 years.

As part of the 2018 program, we are proceeding with projects at our mills in Monticello, AR, and Meldrim, GA.

The Monticello project has a capital cost of US\$46.0 million and involves a complete rebuild of the mill's primary breakdown system, the installation of a new continuous dry kiln and an upgrade to the planer mill, including the installation of a computerized grading system.

The Meldrim project has been costed at US\$16.5 million and includes the addition of a new continuous dry kiln and a new autograder, along with other improvements to the planer.

In addition to delivering significant improvements in mill level productivity and product quality, the Monticello and Meldrim projects will together add more than 150 million board feet to Interfor's production capacity. Both projects are scheduled for completion in the first quarter of 2019.

Projects at other mills are being advanced from an engineering and feasibility standpoint and will be sequenced as appropriate.

We've also completed a detailed feasibility study and business case for a greenfield sawmill in the Central Region of the U.S. South that will produce in excess of 200 million board feet per year. The capital cost of this facility is over-and-above the \$500 million earmarked for internal projects. A decision on this project will be made in the next few months.

All of these projects will be funded from internally generated cash flow or from the Company's existing financial resources.

We also remain interested in growing our platform in the U.S. South and elsewhere by way of acquisitions, provided the economics make sense and other strict criteria are met.

Changes to the Company's Board of Directors Announced

In December, Paul Herbert, who had served on our Board of Directors since 2014, stepped down as a result of Ilim Timber terminating its right to nominate a director to Interfor's Board. And, in January of this year, Peter Lynch, who has served on the Board since 2006, announced he would not be standing for re-election at the upcoming AGM.

Paul and Peter made important contributions during their time on our Board. We would like to thank them both for their wise counsel and wish them well in their future endeavours.

At the same time, we are pleased to announce that Curt Stevens, formerly the CEO of Louisiana Pacific Corporation, has been nominated to stand for election as a director at the Company's AGM in May.

Curt is an outstanding individual with a long track record of success in the building products industry in Canada, the U.S. and internationally.

We look forward to the benefit of Curt's involvement going forward.

Senior Management Changes Announced

In November, John Horning, Interfor's long-time CFO, announced his plan to retire at the end of 2018. John, who is 63, has been with Interfor since 1997 and has played an important role in our repositioning and growth initiatives over the last two decades. Those of you who know or have worked with John over the years know we wouldn't be the company we are today without his involvement. I would personally like to extend my gratitude for all he's done and, especially, for the support he's provided me over all these years.

In February this year, our Board appointed Ian Fillinger as COO and Marty Juravsky as CFO.

Ian, who is 49, joined Interfor in 2005 as General Manager of our Adams Lake Division and has served in a series of increasingly responsible positions since that time. He was appointed Senior Vice President and Head of Operations in 2015.

Marty, who is 54 and a CPA, CA, joined Interfor in 2012 in a consulting capacity and took formal responsibility for our corporate development activities in 2013. He has more than twenty years of experience with some of North America's largest investment banks including Salomon Brothers/Citigroup and National Bank Financial. Immediately prior to his appointment, Marty served as Interfor's Senior Vice President, Corporate Development and Strategy.

Ian and Marty join with Bart Bender, our Senior Vice President, Sales & Marketing, and Mark Stock, our Senior Vice President, Human Resources and IT as the leaders of Interfor's key line and staff groups and as members of our Senior Management Group.

In my opinion, we're fortunate to have such a talented group helping to drive our agenda.

Business Outlook Encouraging; Vision Intact

The first weeks of 2018 have shown continued strength in spite of poor weather in many parts of North America, supporting the view that markets will remain strong throughout the year.

With well-positioned mills, a strong balance sheet and a clear vision, Interfor is in great shape to deliver on our goal of building long-term value for our shareholders.

In closing, I would like to thank our employees, Board of Directors and shareholders for their on-going support.

I look forward to reporting to you on our progress again this time next year.

Duncan Davies
President & CEO
February, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 8, 2018

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2017 ("Q4'17" and "2017", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 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 February 8, 2018.

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 2017 Annual Report.

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Fourth Quarter, 2017", "Softwood Lumber Duties", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report, are described under the heading "Risks and Uncertainties". Material factors and assumptions used to develop the forward-looking information in this report, include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; cyber-security measures; and the assumptions described under the heading "Critical Accounting Estimates" herein.

Unless otherwise indicated, the forward-looking statements in this report are based on the Company's expectations at the date of this report. Interfor undertakes no obligation to update such forward-looking information or statements, except as required by law.

Overview of Fourth Quarter, 2017

Q4'17 Results

Interfor recorded net earnings in Q4'17 of \$36.2 million, or \$0.52 per share, compared to \$16.8 million, or \$0.24 per share in Q3'17 and \$26.6 million, or \$0.38 per share in Q4'16. Adjusted net earnings in Q4'17 were \$45.1 million or \$0.64 per share, compared to \$20.0 million, or \$0.29 per share in Q3'17 and \$17.7 million, or \$0.25 per share in Q4'16.

Adjusted EBITDA was a record \$89.5 million on sales of \$532.8 million in Q4'17 versus \$60.5 million on sales of \$489.2 million in Q3'17.

For the year, net earnings were \$97.2 million, or \$1.39 per share, compared to \$65.6 million or \$0.94 per share in 2016. Adjusted EBITDA and sales were both records at \$287.8 million and \$2.0 billion, respectively.

Notable items in the quarter included:

- Strong Lumber Prices
 - The key benchmark prices improved quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' increasing by US\$30, US\$35 and US\$4 per mfbm, respectively. Interfor's average lumber selling price increased \$39 from Q3'17 to a record \$650 per mfbm on 686 million board feet of lumber sales.
- Increased Production
 - Total lumber production was 655 million board feet or 10 million board feet more than the prior quarter. Production in the U.S. South region increased to 296 million board feet from 281 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 219 million board feet and 140 million board feet, respectively, compared to 225 million board feet and 139 million board feet in Q3'17, respectively.
- Significant Cash Flow
 - Interfor generated \$83.4 million of cash from operations before changes in working capital, or \$1.19 per share, plus a \$3.3 million reduction in working capital, for total cash generated from operations of \$86.7 million.
 - Capital spending was \$25.0 million on a mix of high-return discretionary, maintenance and woodlands projects.
 - Net debt ended the quarter at \$119.3 million, or 12.3% of invested capital.
- Tax Reform Impact
 - The U.S. tax reform enacted in December 2017 reduced the effective tax rate on Interfor's U.S. operations from approximately 37% to 24%. As a result, Q4'17 deferred tax expense includes a \$2.9 million recovery related to the preceding three quarters of 2017. The Company continues to have significant tax loss carry-forwards, with US\$132.4 million and \$66.7 million available as at December 31, 2017 in the U.S. and Canada, respectively.

Strategic Capital Plan

- Interfor continues to make progress on its multi-year strategic capital plan that involves a number of discretionary projects designed to capture the opportunities within its current operating platform and to pursue opportunities for further growth.

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- The previously announced large scale projects at the Company's Meldrim and Monticello sawmills, which represent a total investment of approximately US\$65 million, are on track for completion in Q1'19. These two projects are designed to add annual lumber production capacity of approximately 150 million board feet and enhance operating margins at these operations. Positive progress on a series of smaller debottlenecking and optimization projects is also being made.
 - Other large capital projects to enhance existing operations are continuing to be advanced from an engineering and feasibility standpoint and will be sequenced after the Meldrim and Monticello projects. These projects will be subject to Board approval in the normal course.
 - Assessment of the greenfield sawmill opportunity in the Central Region of the U.S. South continues with a decision on the project expected by mid-2018. This sawmill would produce in excess of 200 million board feet of lumber per year for an estimated total cost, including working capital and start-up costs, of approximately US\$115 million.

Softwood Lumber Duties

- In Q4'17, the U.S. Department of Commerce announced amended final rates for countervailing and anti-dumping duties of 14.19% and 6.04% on softwood lumber shipments from Canada, down from the preliminary rates set in Q2'17 of 19.88% and 6.87%, respectively. In addition, negative findings were made in respect of critical circumstances for both countervailing and anti-dumping duties. To reflect lower amended final rates set for U.S. countervailing and anti-dumping duties, Interfor recorded a \$3.7 million reduction to duties expense in Q4'17 relating to shipments in Q2'17 and Q3'17.
- In Q4'17, Interfor shipped approximately 109 million board feet from its Canadian operations to the U.S. market, which represented approximately 16% of the Company's total lumber sales.
- Interfor is of the view that these duties imposed by the U.S. are without merit and are politically driven. Interfor will continue to work with the B.C. and Canadian governments to vigorously defend Canada's position through various appeal processes.

Executive Appointments Announced

At its meeting earlier today, the Company's Board of Directors confirmed the appointments of Ian Fillinger as Senior Vice-President & Chief Operating Officer, and Marty Juravsky as Senior Vice-President & Chief Financial Officer, effective February 9, 2018. Fillinger, who is 49, joined Interfor in 2005 as General Manager of the Company's Adams Lake Division and has served in a series of increasingly responsible positions since that time. He was appointed Senior Vice-President & Head of Operations with responsibility for all of the Company's operations and capital project activities in December 2015. Juravsky, who is 54, and a CPA, CA, joined Interfor in 2012 in a consulting capacity and took formal responsibility for the Company's corporate development activities in 2013. He has more than twenty years of experience working with some of North America's largest investment banks including Salomon Brothers/Citigroup and National Bank Financial. Immediately prior to his appointment, Juravsky served as the Company's Senior Vice-President, Corporate Development & Strategy.

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 multi-year strategic capital plan 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 three months ended			For the year ended Dec. 31		
		Dec. 31, 2017	Dec. 31, 2016	Sep. 30, 2017	2017	2016	2015
Financial Highlights⁽²⁾							
Total sales	\$MM	532.8	442.3	489.2	1,990.1	1,792.7	1,687.4
Lumber	\$MM	446.0	363.5	410.2	1,679.4	1,458.3	1,361.2
Logs, residual products and other	\$MM	86.8	78.8	79.0	310.7	334.4	326.2
Operating earnings (loss)	\$MM	47.9	22.3	28.3	149.3	75.9	(35.9)
Net earnings (loss)	\$MM	36.2	26.6	16.8	97.2	65.6	(30.4)
Net earnings (loss) per share, basic	\$/share	0.52	0.38	0.24	1.39	0.94	(0.44)
Adjusted net earnings (loss) ⁽³⁾	\$MM	45.1	17.7	20.0	116.5	58.7	(18.9)
Adjusted net earnings (loss) per share, basic ⁽³⁾	\$/share	0.64	0.25	0.29	1.66	0.84	(0.27)
Adjusted EBITDA ⁽³⁾	\$MM	89.5	51.3	60.5	287.8	199.6	91.7
Adjusted EBITDA margin ⁽³⁾	%	16.8%	11.6%	12.4%	14.5%	11.1%	5.4%
Total assets	\$MM	1,353.0	1,301.6	1,296.3	1,353.0	1,301.6	1,389.8
Total debt	\$MM	250.9	308.8	249.6	250.9	308.8	468.8
Net debt to invested capital ⁽³⁾	%	12.3%	26.9%	17.9%	12.3%	26.9%	38.4%
Operating Highlights							
Lumber production	million fbm	655	607	645	2,595	2,490	2,497
Total lumber sales	million fbm	686	619	671	2,677	2,561	2,652
Lumber sales - Interfor produced	million fbm	666	598	650	2,594	2,469	2,544
Lumber sales - wholesale and commission	million fbm	20	21	21	83	92	108
Lumber - average selling price ⁽⁴⁾	\$/thousand fbm	650	588	611	627	570	513
Average USD/CAD exchange rate ⁽⁵⁾	1 USD in CAD	1.2713	1.3341	1.2528	1.2986	1.3248	1.2787
Closing USD/CAD exchange rate ⁽⁵⁾	1 USD in CAD	1.2545	1.3427	1.2480	1.2545	1.3427	1.3840

Notes:

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

Summary of Fourth Quarter 2017 Financial Performance

Sales

Interfor recorded \$532.8 million of total sales, up 20.5% from \$442.3 million in the fourth quarter of 2016, driven by the sale of 686 million board feet of lumber at an average price of \$650 per mfbm. Lumber sales volume increased 67 million board feet, or 10.8%, while average selling price increased \$62 per thousand board feet, or 10.6%, as compared to the same quarter of 2016.

The increase in the average selling price of lumber reflects significantly higher prices across all benchmark products in Q4'17 as compared to Q4'16. The Western SPF Composite improved by US\$134 to US\$439 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US\$87 to US\$405 per mfbm and US\$23 to US\$416 per mfbm, respectively. 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 4.7% on average in Q4'17 as compared to Q4'16.

Sales generated from logs, residual products and other increased by \$8.0 million or 10.2% compared to the same quarter of 2016. Increased availability of surplus logs and higher chip volumes resulted from increased log and lumber production as compared to Q4'16.

Operations

Production costs increased by \$45.8 million, or 12.0% over Q4'16, explained primarily by an increase of 67 million board in lumber sales volume and higher average log costs in the U.S. Northwest, somewhat offset by the stronger Canadian Dollar in Q4'17 compared to Q4'16.

Lumber production of 655 million board feet in Q4'17 was 48 million board feet higher than Q4'16, which supported the sales volume growth.

Production from the Company's nine U.S. South sawmills totaled 296 million board feet in Q4'17, up 36 million board feet compared to Q4'16, as the Company increased operating schedules at several of the mills.

Canadian production totaled 219 million board feet in Q4'17, up 10 million board feet as compared to Q4'16, primarily in the B.C. Interior where productivity was impacted by winter-related issues in Q4'16.

Production from the Company's U.S. Northwest operations totaled 140 million board feet in Q4'17, representing an increase of 3 million board feet from Q4'16.

U.S. countervailing ("CV") and anti-dumping ("AD") duty deposits are levied on Interfor's shipments of softwood lumber from Canada into the U.S. Q4'17 charges of \$1.9 million represent an expense for AD duties, net of an adjustment of \$4.2 million to correct the 2017 duty expense to the amended final CV and AD duty rates of 14.19% and 6.04%, respectively. CV duties ceased in August, 2017, and did not resume again until December 28, 2017. AD duties were applicable throughout Q4'17 except for one day in December.

Depreciation of plant and equipment was \$19.2 million, an increase of \$0.7 million over Q4'16, mostly as a result increased operating hours partially offset by the stronger average Canadian Dollar. Depletion and amortization of timber, roads and other was \$11.9 million, up \$4.1 million from Q4'16, as a result of increased conventional logging on the B.C. Coast as compared to Q4'16 which was impacted by winter storms.

Corporate and Other

Selling and administration expenses were \$14.0 million, up \$4.4 million from Q4'16. The fourth quarter, 2017, included an incremental accrual for short term incentive compensation and certain IT project and improvement costs.

The \$3.1 million long term incentive compensation expense mostly reflects the impact of a 6.8% increase in the market price for Interfor Common Shares during the quarter. The Q4'16 long term incentive compensation expense of \$0.2 million is due primarily to the vesting of awards in the quarter.

Restructuring charges of \$7.4 million in Q4'17 relate to impairment charges on operating equipment to be replaced in conjunction with planned capital projects in the U.S. South in 2018. In Q4'16, the Company recorded \$1.2 million in impairment charges on surplus equipment, \$0.6 million in costs associated with the closure of the Tacoma sawmill, and \$0.5 million for the settlement of a defined benefit pension plan.

Finance costs decreased to \$3.1 million in Q4'17 from \$4.1 million in the fourth quarter, 2016 as a result of a reduced average debt level.

Other foreign exchange gains of \$0.4 million in Q4'17 and \$1.1 million in Q4'16 resulted primarily from unrealized gains on short-term intercompany funding.

Other income in Q4'17 decreased by \$15.5 million as compared to Q4'16, primarily as the result of the sale of the Tacoma sawmill property which completed on November 30, 2016.

Income Taxes

The Company recorded an income tax expense of \$8.0 million in Q4'17, comprised of \$0.4 million of current income taxes and \$7.6 million of deferred tax expense. Tax legislation enacted in the U.S. at the end of 2017 substantially reduced the federal U.S. corporate tax rate applicable to years after 2017. As a result, Interfor recorded deferred income tax expense in respect of its U.S. operations at an income tax rate of 24% (2016 - 37.37%) in Q4'17. Under pre-U.S. tax reform rates, the deferred income tax expense for Q4'17 would have been \$1.8 million higher. In addition, Interfor recorded a deferred income tax recovery of \$2.9 million in Q4'17 for the preceding three quarters previously recognized at a higher rate.

Net Earnings

The Company recorded Net earnings of \$36.2 million or \$0.52 per share, compared to Net earnings of \$26.6 million or \$0.38 per share in the comparable period, 2016. Adjusted net earnings were \$45.1 million or \$0.64 per share compared with \$17.7 million or \$0.25 per share in Q4'16.

Summary of 2017 Financial Performance

Sales

Interfor recorded \$2.0 billion in total sales, up 11.0% from \$1.8 billion in 2016, driven by the sale of 2.7 billion board feet of lumber at an average price of \$627 per mfbm. Lumber sales volume increased 116 million board feet, or 4.5%, while average selling price increased \$57 per thousand board feet, or 10.1%, as compared to 2016.

Sales volume was up in 2017 as a result of returning to more normal shift schedules in the U.S. South following temporary reductions taken for capital and business optimization projects at several mills in 2016.

The increase in the average selling price of lumber reflects significantly higher prices across all benchmark products in 2017 as compared to 2016. The Western SPF Composite improved by US\$95 to US\$390 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US\$56 to US\$391 per mfbm and US\$27 to US\$409 per mfbm, respectively. 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 2.0% on average in 2017 as compared to 2016.

Sales generated from logs, residual products and other decreased by \$23.7 million, or 7.1% compared to 2016 due to reduced availability of surplus logs and lower chip prices in 2017.

Operations

Production costs increased by \$82 million or 5.3% as compared to 2016, explained primarily by the 4.5% increase in lumber sales volume and higher log costs on average at the Company's B.C. Interior and U.S. Northwest operations somewhat offset by a stronger Canadian Dollar on average.

Lumber production of 2.6 billion board feet in 2017 was 105 million board feet higher than in 2016.

Production from the Company's nine U.S. South sawmills totaled 1.2 billion board feet in 2017, up 113 million board feet compared to 2016, as a result of returning to more normal shift schedules in the U.S. South following temporary reductions taken for capital and business optimization projects at several mills in 2016.

Canadian production totaled 875 million board feet in 2017, down 2 million board feet as compared to 2016. Production from the Company's U.S. Northwest operations totaled 564 million board feet in 2017, for a decline of 6 million board feet from 2016.

CV and AD duty deposits totalled \$18.6 million in 2017, reflecting CV and AD amended final duty rates of 14.19% and 6.04%, respectively, on Interfor's shipments of softwood lumber from Canada into the U.S. CV duties were in effect from April 28, 2017 through August, 26, 2017, and resumed again on December 28, 2017. AD duties were in effect from June 30, 2017 through December 26, 2017, and resumed again on December 28, 2017.

Depreciation of plant and equipment was \$77.6 million, up 2.0% from 2016 due to increased operating hours partially offset by the stronger average Canadian Dollar. Depletion and amortization of timber, roads and other was \$38.6 million, up 10.6% as compared with 2016, as a result of increased conventional logging on the B.C. Coast as compared to 2016.

Corporate and Other

Selling and administration expenses were \$50.8 million, up \$7.7 million from 2016. 2017 included an incremental accrual for short term incentive compensation, certain IT project and improvement costs, and costs related to the softwood lumber dispute not reflected in the 2016 comparative.

The \$13.0 million long term incentive compensation expense in 2017 mainly reflects a 40.5% increase in the market price of Interfor Common Shares over the same period, coupled with the impact of incentive awards maturing. The \$4.6 million long term incentive compensation expense in 2016 resulted from an increase of 7.6% in the market price of Interfor Common Shares over the same period, coupled with the impact of incentive awards maturing.

In 2017, the Company recognized restructuring charges of \$9.2 million, related primarily to the settlement of various human resource matters and a \$7.0 million impairment charge on operating equipment to be replaced in conjunction with planned capital projects in the U.S. South in 2018. In 2016, Interfor recorded restructuring charges of \$4.3 million for the Tacoma site and \$3.0 million related to a number of costs, the most significant of which was a \$1.2 million impairment charge on surplus equipment.

Finance costs decreased to \$14.0 million from \$18.6 million in 2016 as a result of lower average levels of debt outstanding in 2017 as compared to 2016, together with the impact of a stronger Canadian Dollar.

Other foreign exchange losses of \$2.0 million in 2017 and gains of \$1.5 million in 2016 are comprised primarily of foreign exchange movements on short term intercompany funding.

Other expense of \$2.0 million in 2017 is comprised of the disposal of surplus equipment. Other income of \$14.1 million in 2016 is comprised primarily of a gain on the sale of the Tacoma sawmill property which completed on November 30, 2016.

Income Taxes

The Company recorded an income tax expense of \$34.1 million in 2017, comprised of \$1.1 million of current income taxes and \$33.1 million in deferred income tax expense. Tax legislation enacted in the U.S. at the end of 2017 substantially reduced the federal U.S. corporate tax rate applicable to years after 2017. As a result, Interfor recorded deferred income tax expense in respect of its U.S. operations at an income tax rate of 24% (2016 - 37.37%). Under pre-U.S. tax reform rates, the deferred income tax expense for 2017 would have been \$4.7 million higher.

Net Earnings

The Company recorded Net earnings of \$97.2 million or \$1.39 per share, compared to Net earnings of \$65.6 million or \$0.94 per share in 2016. Adjusted net earnings were \$116.5 million or \$1.66 per share in 2017 compared with Adjusted net earnings of \$58.7 million or \$0.84 per share in 2016.

Summary of Quarterly Results⁽¹⁾

	Unit	2017				2016			
		Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Performance⁽²⁾									
Total sales	\$MM	532.8	489.2	511.4	456.8	442.3	457.6	458.8	433.9
Lumber	\$MM	446.0	410.2	433.7	389.6	363.5	374.8	371.1	348.9
Logs, residual products and other	\$MM	86.8	79.0	77.7	67.2	78.8	82.8	87.7	85.0
Operating earnings	\$MM	47.9	28.3	42.7	30.4	22.3	20.1	30.0	3.5
Net earnings	\$MM	36.2	16.8	24.5	19.7	26.6	15.1	23.2	0.8
Net earnings per share, basic	\$/share	0.52	0.24	0.35	0.28	0.38	0.22	0.33	0.01
Adjusted net earnings ⁽³⁾	\$MM	45.1	20.0	28.7	22.7	17.7	20.7	17.5	2.7
Adjusted net earnings per share, basic ⁽³⁾	\$/share	0.64	0.29	0.41	0.32	0.25	0.30	0.25	0.04
Adjusted EBITDA ⁽³⁾	\$MM	89.5	60.5	77.4	60.3	51.3	58.1	56.9	33.4
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	655	645	655	640	607	628	637	618
Total lumber sales	million fbm	686	671	675	645	619	647	658	637
Lumber sales - Interfor produced	million fbm	666	650	654	624	598	627	634	609
Lumber sales - wholesale and commission	million fbm	20	21	21	21	21	20	24	28
Lumber - average selling price ⁽⁴⁾	\$/thousand fbm	650	611	642	604	588	580	564	548
Average USD/CAD exchange rate ⁽⁵⁾	1 USD in CAD	1.2713	1.2528	1.3449	1.3238	1.3341	1.3050	1.2886	1.3732
Closing USD/CAD exchange rate ⁽⁵⁾	1 USD in CAD	1.2545	1.2480	1.2977	1.3322	1.3427	1.3117	1.3009	1.2971

Notes:

- (1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
- (2) Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
- (3) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
- (4) Gross sales before duties.
- (5) 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.

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'16 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 stronger Canadian Dollar decreases the lumber sales realizations of Canadian operations, all else equal, and decreases net earnings of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout 2017, with strong cash flow generated from operations used to repay debt and fund capital projects. Net debt at December 31, 2017 was \$119.3 million, or 12.3% of invested capital, representing a decrease of \$170.3 million from the level of net debt at December 31, 2016.

A strengthening of the Canadian Dollar against the U.S. Dollar by 6.6%, contributed \$17.7 million to the net debt reduction in 2017 over 2016 as all debt held was denominated in U.S. Dollars.

Thousands of Dollars	For the three months ended			For the year ended	
	Dec. 31, 2017	Dec. 31, 2016	Sep. 30, 2017	Dec. 31, 2017	Dec. 31, 2016
Net debt					
Net debt, period opening, CAD	\$177,787	\$346,929	\$218,252	\$289,551	\$452,303
Net drawing (repayment) on credit facilities, CAD	(1)	(66,178)	2	(40,217)	(143,882)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	1,301	9,678	(9,942)	(17,704)	(16,056)
Increase in cash and cash equivalents, CAD	(59,787)	(878)	(30,525)	(112,330)	(2,814)
Net debt, period ending, CAD	<u>\$119,300</u>	<u>\$289,551</u>	<u>\$177,787</u>	<u>\$119,300</u>	<u>\$289,551</u>
Net debt components by currency					
U.S. Dollar debt, period opening, USD	\$200,000	\$274,709	\$200,000	\$230,000	\$338,699
Net repayment on credit facilities, USD	-	(44,709)	-	(30,000)	(108,699)
U.S. Dollar debt, period ending, USD	<u>\$200,000</u>	<u>\$230,000</u>	<u>\$200,000</u>	200,000	230,000
Spot rate, period end				1.2545	1.3427
U.S. Dollar debt expressed in CAD				250,900	308,821
Cash and cash equivalents, CAD				<u>(131,600)</u>	<u>(19,270)</u>
Net debt, period ending, CAD				<u>\$119,300</u>	<u>\$289,551</u>

As at December 31, 2017, the Company had net working capital of \$257.1 million and available liquidity of \$443.8 million, including cash and borrowing capacity on operating and term line facilities.

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. On September 15, 2017, the Company extended the maturity of its Operating Line and Revolving Term Line from May 19, 2019 to September 15, 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.

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

Cash Flow from Operating Activities

The Company generated \$273.9 million of cash flow from operations before changes in working capital in 2017, or a \$81.3 million increase over 2016, driven by significant improvements in lumber sales margins and volumes, and slightly offset by a strengthened Canadian Dollar and countervailing and anti-dumping duties. In 2016, incremental cash flow generated from increased sales margins coupled with the weaker Canadian Dollar and elimination of export taxes were slightly offset by a reduction in sales volumes.

There was a net cash inflow from operations after changes in working capital of \$258.2 million in 2017, with \$15.7 million of cash used in operating working capital. In 2016, \$199.3 million of cash was generated from operations with \$6.7 million of total cash generated from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled \$91.1 million in 2017, net of \$3.6 million in proceeds on the disposal of property, plant and equipment and investments. Spending included \$62.7 million for property, plant and equipment, timber licenses and other intangibles, and \$32.2 million for development of roads. Discretionary mill improvements totalled \$25.4 million in 2017, of which the majority was spent on U.S. South operations. Maintenance mill improvements of \$37.3 million in 2017 include a number of projects in the U.S. South, the most significant of which was \$5.0 million for completion of the kiln conversion project at the Company's Preston sawmill in Georgia.

In 2016, total investing activities of \$36.2 million were net of \$41.4 million in proceeds on the disposal of property, plant and equipment, resulting primarily from the monetization of the Tacoma sawmill property. Spending included \$52.1 million for property, plant and equipment, timber licenses and other intangibles, and \$24.6 million for development of roads. Discretionary improvements of \$17.8 million during 2016 included \$7.6 million for the finalization of the Castlegar sawmill rebuild. Maintenance mill improvements of \$34.3 million during 2016 included \$16.1 million for a kiln conversion project at the Company's Preston sawmill.

Cash Flow from Financing Activities

Net repayments under the Company's credit facilities were \$40.2 million, as the Company utilized surplus cash generated from operations to reduce debt. Cash used for financing activities totaled \$53.3 million in 2017.

In 2016, net repayments on the Company's credit facilities were \$143.9 million as the Company utilized surplus cash generated from operations and the proceeds from the Tacoma sawmill property sale to reduce debt. Cash used for financing activities totaled \$162.2 million in 2016.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2017, including major capital improvements are summarized as follows:

Thousands of Canadian Dollars	Total	Payments due by Period			
		Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and accrued liabilities	\$141,013	\$141,013	\$ -	\$ -	\$ -
Income taxes payable	224	224	-	-	-
Reforestation liability	42,550	12,873	13,112	7,580	8,985
Long term debt	307,317	10,469	20,937	101,078	174,833
Provisions and other liabilities	44,278	11,226	8,041	2,140	22,871
Operating leases and capital commitments	96,927	50,097	20,459	11,630	14,741
Total obligations	\$632,309	\$225,902	\$ 62,549	\$122,428	\$221,430

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 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	\$250,900	\$62,725	\$578,625
Maximum borrowing available	\$65,000	\$200,000	\$250,900	\$62,725	\$578,625
Less:					
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of facility	\$52,485	\$200,000	\$ -	\$60,091	312,576
Add: Unrestricted cash and cash equivalents					131,263
Available liquidity at December 31, 2017					\$443,839

As of December 31, 2017, the Company had commitments for capital expenditures totaling \$27.3 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 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 December 31, 2017, such instruments aggregated \$41.0 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 exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The 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 the instruments is mitigated.

Lumber futures are traded through a well established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time, the risk of credit loss on these instruments is considered low.

Interest Rate Swaps

As at December 31, 2017, Interfor had no floating rate debt on its credit facilities and US\$200,000,000 of fixed rate debt through the Senior Secured Notes.

The Company's facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at LIBOR for U.S. Dollar loans, in all cases dependent upon a financial ratio. The Company's Senior Secured Notes consist of Series A and Series B Senior Secured Notes (each US\$50,000,000 and bearing interest at 4.33% and 4.02%, respectively) and Series C Senior Secured Notes (US\$100,000,000, bearing interest at 4.17%).

In order to convert floating-rate interest expense to fixed-rate interest expense, the Company held two interest rate swaps, each with a notional value of US\$25,000,000, at December 31, 2016. Both interest rate swaps matured on February 27, 2017, and were not replaced.

Based on the Company's average debt level during 2017, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$0.3 million in Net earnings.

Foreign Currency

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

As at December 31, 2017, the Company had no outstanding foreign currency exchange contract obligations (2016 – nil).

Unrealized gains and losses arising upon translation of net foreign currency investment positions in U.S. Dollar functional currency foreign operations, together with any gain or

losses arising from hedges of those net investment positions, to the extent effective, are credited or charged to net change in unrealized foreign currency translation gains (losses) in the Consolidated Statement of Comprehensive Income. Upon sale, reduction or substantial liquidation of an investment position, the previously recorded net unrealized gains (losses) thereon in the Translation reserve are reclassified to the Consolidated Statement of Earnings.

As at December 31, 2017, the Company had designated the US\$200.0 million drawn under its Senior Secured Notes as hedges against the net investment in its U.S. operations.

The Company recorded a \$28.9 million unrealized foreign exchange loss on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2017 (2016 - \$7.9 million loss).

Lumber Futures

To manage price risk, the Company also traded lumber futures which were designated as held for trading with changes in fair value recorded to Sales in Net earnings. At December 31, 2017, the Company recognized a gain of \$254,000 (2016 - \$nil) in Sales in respect of lumber futures contracts and \$6,000 (2016 - \$nil) in Trade accounts payable and other in respect of the fair value of outstanding contracts measured based on Level 2 of the fair value hierarchy.

Outstanding Shares

As of December 31, 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

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2017.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2017.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2017, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

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

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

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

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

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

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

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

Interfor assesses the recoverability of Property, Plant and Equipment, Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. The Company assessed the recoverability of goodwill as at December 31, 2017 and concluded that there was no impairment.

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

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

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

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

Income Taxes. The Company's provision for income taxes, both current and deferred, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for income taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled.

Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable

jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

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 months and year ended December 31, 2017.

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2017, and have not been applied in preparing the Company's 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.

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.

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, which will be depreciated. Lease expense, which is currently recorded as a Production cost in the Statement of earnings, will be replaced by Depreciation and Finance costs. 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, 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 audited consolidated financial statements (unaudited for interim periods) prepared in accordance with IFRS:

Thousands of Canadian Dollars except number of shares and per share amounts	For the three months ended			For the year ended Dec. 31,		
	Dec. 31, 2017	Dec. 31, 2016	Sep. 30, 2017	2017	2016	2015
Adjusted Net Earnings (Loss)						
Net earnings (loss)	\$36,196	\$26,550	\$16,778	\$97,153	\$65,643	\$(30,386)
Add:						
Restructuring (recovery) costs and capital asset write-downs	7,422	2,281	(21)	9,203	7,280	12,829
Other foreign exchange loss (gain)	(412)	(1,072)	1,353	2,035	(1,468)	1,651
Long term incentive compensation expense (recovery)	3,110	199	3,004	12,977	4,551	(5,431)
Other (income) expense	995	(14,452)	347	1,987	(14,094)	(757)
Post closure wind-down costs and losses (recoveries)	5	115	(39)	(21)	909	11,374
Income tax effect of above adjustments	(2,260)	4,895	(1,456)	(6,848)	2,008	(9,311)
Recognition of previously unrecognized deferred tax assets	-	(769)	-	-	(6,171)	1,136
Adjusted net earnings (loss)	\$45,056	\$17,747	\$19,966	\$116,486	\$58,658	\$(18,895)
Weighted average number of shares - basic ('000)	70,030	70,030	70,030	70,030	70,030	69,488
Adjusted net earnings (loss) per share	\$0.64	\$0.25	\$0.29	\$1.66	\$0.84	\$(0.27)
Adjusted EBITDA						
Net earnings (loss)	\$36,196	\$26,550	\$16,778	\$97,153	\$65,643	\$(30,386)
Add:						
Depreciation of plant and equipment	19,217	18,534	18,836	77,623	76,092	71,492
Depletion and amortization of timber, roads and other	11,879	7,833	10,435	38,635	34,895	37,478
Restructuring (recovery) costs and capital asset write-downs	7,422	2,281	(21)	9,203	7,280	12,829
Finance costs	3,139	4,074	3,294	14,030	18,602	17,569
Other foreign exchange loss (gain)	(412)	(1,072)	1,353	2,035	(1,468)	1,651
Income tax expense (recovery)	7,968	7,236	6,559	34,136	7,207	(24,017)
EBITDA	85,409	65,436	57,234	272,815	208,251	86,616
Add:						
Long term incentive compensation expense (recovery)	3,110	199	3,004	12,977	4,551	(5,431)
Other (income) expense	995	(14,452)	347	1,987	(14,094)	(757)
Post closure wind-down costs and losses (recoveries)	5	115	(39)	(21)	909	11,291
Adjusted EBITDA	\$89,519	\$51,298	\$60,546	\$287,758	\$199,617	\$91,719
Net debt to invested capital						
Net debt						
Total debt	\$250,900	\$308,821	\$249,600	\$250,900	\$308,821	\$468,759
Cash and cash equivalents	(131,600)	(19,270)	(71,813)	(131,600)	(19,270)	(16,456)
Total net debt	\$119,300	\$289,551	\$177,787	\$119,300	\$289,551	\$452,303
Invested capital						
Net debt	\$119,300	\$289,551	\$177,787	\$119,300	\$289,551	\$452,303
Shareholders' equity	854,188	786,667	817,676	854,188	786,667	725,254
Total invested capital	\$973,488	\$1,076,218	\$995,463	\$973,488	\$1,076,218	\$1,177,557
Net debt to invested capital ⁽¹⁾	12.3%	26.9%	17.9%	12.3%	26.9%	38.4%
Operating cash flow per share (before working capital changes)						
Cash provided by operating activities	\$86,749	\$48,981	\$60,977	\$258,224	\$199,272	\$101,377
Cash used in (generated from) operating working capital	(3,332)	1,399	(3,474)	15,696	(6,695)	(34,531)
Operating cash flow (before working capital changes)	\$83,417	\$50,380	\$57,503	\$273,920	\$192,577	\$66,846
Weighted average number of shares - basic ('000)	70,030	70,030	70,030	70,030	70,030	69,488
Operating cash flow per share (before working capital changes)	\$1.19	\$0.72	\$0.82	\$3.91	\$2.75	\$0.96

Notes:

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

Risks and Uncertainties

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

Price Volatility

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

Competition

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

Factors which affect the Company's competitive position include:

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

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

Availability and Cost of Log Supply

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

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

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, the Company must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. The Company also relies on third-party independent contractors to construct roads in areas over which it holds timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase the Company's timber harvesting costs.

The Company expects to fund its ongoing road development with cash generated from operations and through utilization of its existing credit facilities.

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 80% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen. While the Canadian operations also incur some U.S. Dollar-denominated expenses, primarily for ocean freight and other transportation and for equipment operating leases, the majority of expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

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

Government Regulation

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

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

Allowable Annual Cut ("AAC")

The Company holds cutting rights in B.C. that represent an AAC of approximately of 3.46 million cubic metres. Of this amount, 3.41 million cubic metres is in the form of replaceable tenures (4 Tree Farm Licences and 27 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

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

In 2017, the B.C. Government formally set aside some additional area for conservation purposes in the Great Bear Rainforest Forest Management Area that affected some of the Company's Timber Licences, triggering a claim for compensation in accordance with the Forest Act. The Company and the Government have not agreed to a fair market value at this time. In late 2017, the Company initiated arbitration proceedings, but is currently still in active negotiations with the Government.

Regulatory changes made to meet new Ecosystem Based Management ("EBM") requirements in the Central Coast of B.C. have also impacted the Company's timber supply, and these are not compensable. The AAC impact represents approximately a 6% reduction of the company's timber supply in B.C.

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

Indigenous Peoples

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

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

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market for approximately 15% of the Company's total lumber production that is manufactured in Canada and exported to the U.S. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

In October, 2016, the U.S. industry made a request to the U.S. Government to take trade action involving in the imposition of U.S. protective measures such as countervailing ("CV") and anti-dumping ("AD") duties leveled against Canadian softwood lumber producers.

In Q2'17, the U.S. Department of Commerce ("DoC") made preliminary duty rate determinations of 19.88% and 6.87% for CV and AD duties, respectively, for a combined total 26.75% applicable to Interfor. In Q4'17, the DoC made a final determination on duties that lowered the combined rate to 20.83%, which it subsequently amended to 20.23%. The U.S. International Trade Commission ruling that the U.S. industry was materially injured by Canada's trade practices has set the stage for ongoing litigation. The Government of Canada has indicated it will appeal the U.S. findings and defend itself vigorously against all claims of unfair trade practices made by the U.S. As in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process, and remains open to a negotiated settlement at any time.

In 2017, Interfor paid \$22.8 million to the U.S. in duties, which includes \$4.2 million paid in excess of the amended final rates, which Interfor is seeking to recover following a successful appeal or through settlement. It is unclear at this time when any duty amounts paid will be recovered or if amounts in excess of the amended final rates will be refunded.

Stumpage Fees

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

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

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) expires on June 30, 2018, while the USW agreement for the B.C. Coast (Acorn and Hammond) expires on June 14, 2019. The Company also has 22 employees in the B.C. Interior who are members of the Canadian Marine Service Guild ("CMSG"). The collective agreement with the CMSG expires September 30, 2019.

In 2015, the Company acquired sawmills in Meldrim, Georgia and Longview, Washington where employees were represented by the American USW and the International Association of Machinist and Aerospace Workers ("IAM"), respectively. The American USW at the Meldrim sawmill was decertified on April 28, 2016, while the IAM collective agreement expires on November 15, 2020.

Information Systems Security

The Company's operations and administration are dependent on both internal and third-party information technology ("IT") systems. The impact of a cyber-security breach or the non-availability of a key Company IT system could be significant, including but not limited to operational delays, financial loss, reputational damage or unauthorized access to confidential or sensitive information. The Company's Audit Committee, in conjunction with management, is responsible for reviewing cyber-security risks and ensuring that an effective risk management strategy is in place. The Company has implemented controls, processes and practices to reduce its risk of a cyber-security breach and the impact on business continuity. These include staying updated on the latest threats, threat agents and attack vectors, the use of firewall and monitoring software as well as regular system back-up protocols. However, the nature of cyber threats continues to evolve and the Company's exposure to this risk cannot be fully mitigated.

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 CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the integrity and fair presentation of the accompanying consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and, where necessary, are based in part on management's best estimates and judgements. Financial information included elsewhere in the 2017 Annual Report is consistent with that disclosed in the consolidated financial statements.

Management maintains a system of internal accounting controls which it believes provides reasonable assurance that financial records are reliable and form a proper basis for preparation of financial statements. The internal accounting control process includes communications to employees of Interfor's standards for ethical business conduct.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal controls. The Board exercises this responsibility primarily through its Audit Committee, the members of which are neither officers nor employees of Interfor. The Audit Committee meets periodically with management and the independent Auditors to satisfy itself that each group is properly discharging its responsibilities and to review the consolidated financial statements and the independent Auditors' report thereon. The Company's independent Auditors have full and free access to the Audit Committee. The Audit Committee reports its findings to the Board of Directors for consideration in approving the consolidated financial statements for issuance to the shareholders. The Committee also makes recommendations to the Board with respect to the appointment and remuneration of the independent Auditors.

The consolidated financial statements have been examined by the independent Auditors, KPMG LLP, whose report follows.

"Duncan K. Davies"

President and Chief Executive Officer

"John A. Horning"

Executive Vice President and Chief Financial
Officer

February 8, 2018



KPMG LLP
PO Box 10426, 777 Dunsmuir Street
Vancouver, BC V7Y 1K3
Canada
Telephone (604) 691-3000
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Interfor Corporation,

We have audited the accompanying consolidated financial statements of Interfor Corporation, which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, the consolidated statements of earnings, comprehensive income, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Interfor Corporation as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP (signed)

Chartered Professional Accountants

February 8, 2018
Vancouver, Canada

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2017 and 2016

	<i>Note</i>	December 31 2017	December 31 2016
Assets			
Current assets:			
Cash and cash equivalents	8	\$ 131,600	\$ 19,270
Trade accounts receivable and other		112,470	95,059
Income tax receivable	17	1,289	222
Inventories	4	165,156	154,535
Prepayments and other		12,562	14,016
Investments and other assets	5	-	2,911
		423,077	286,013
Employee future benefits	20(d)	502	2,471
Investments and other assets	5	6,404	2,341
Property, plant and equipment	6	670,830	730,981
Roads and bridges	7	24,092	20,739
Timber licences	7	66,589	69,273
Other intangible assets	7	14,170	19,017
Goodwill	7	147,081	156,502
Deferred income taxes	17	251	14,311
		\$1,352,996	\$ 1,301,648
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	9, 20(c), 20(d)	\$ 152,854	\$ 138,029
Reforestation liability	10	12,873	11,609
Income taxes payable	17	224	317
		165,951	149,955
Reforestation liability	10	27,535	25,931
Long term debt	8	250,900	308,821
Employee future benefits	20(c), 20(d)	8,249	8,136
Provisions and other liabilities	9	26,976	21,290
Deferred income taxes	17	19,197	848
Equity:			
Share capital	11	555,388	555,388
Contributed surplus		8,582	7,999
Translation reserve		40,720	69,574
Hedge reserve		-	11
Retained earnings		249,498	153,695
		854,188	786,667
		\$ 1,352,996	\$ 1,301,648

Commitments and contingencies (*note 18*).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director

"D.W.G. Whitehead", Director

Interfor Corporation
Consolidated Statements of Earnings
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2017 and 2016

	<i>Note</i>	2017	2016
Sales		\$1,990,106	\$1,792,712
Costs and expenses:			
Production		1,632,922	1,550,912
Selling and administration		50,775	43,092
Long term incentive compensation	9	12,977	4,551
U.S. countervailing and anti-dumping duty deposits	5, 18	18,630	-
Depreciation of plant and equipment	6, 12	77,623	76,092
Depletion and amortization of timber, roads and other	7, 12	38,635	34,895
		1,831,562	1,709,542
Operating earnings before restructuring costs		158,544	83,170
Restructuring costs	16	(9,203)	(7,280)
Operating earnings		149,341	75,890
Finance costs	14	(14,030)	(18,602)
Other foreign exchange gain (loss)		(2,035)	1,468
Other income (expense)	15	(1,987)	14,094
		(18,052)	(3,040)
Earnings before income taxes		131,289	72,850
Income tax expense:	17		
Current		1,064	853
Deferred		33,072	6,354
		34,136	7,207
Net earnings		\$ 97,153	\$ 65,643
Net earnings per share, basic and diluted	19	\$ 1.39	\$ 0.94

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2017 and 2016

	<i>Note</i>	2017	2016
Net earnings		\$ 97,153	\$ 65,643
Other comprehensive income (loss):			
Items that will not be recycled to Net earnings:			
Defined benefit plan actuarial gains (losses), net of tax	<i>17, 20</i>	(1,350)	1,509
Items that are or may be recycled to Net earnings:			
Foreign currency translation differences for foreign operations, net of tax		(28,854)	(7,851)
Loss in fair value of interest rate swaps	<i>14, 24</i>	(11)	(51)
Total items that are or may be recycled to Net earnings		(28,865)	(7,902)
Total other comprehensive loss, net of tax		(30,215)	(6,393)
Comprehensive income		\$ 66,938	\$ 59,250

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Changes in Equity
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2017 and 2016

	<i>Note</i>	Common Shares	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
Balance at December 31, 2015		\$ 553,559	\$ 7,665	\$ 77,425	\$ 62	\$ 86,543	\$ 725,254
Net earnings:		-	-	-	-	65,643	65,643
Other comprehensive income (loss):							
Foreign currency translation differences for foreign operations, net of tax		-	-	(7,851)	-	-	(7,851)
Defined benefit plan actuarial gains, net of tax	<i>20(d)</i>	-	-	-	-	1,509	1,509
Loss in fair value of interest rate swaps	<i>24(b)</i>	-	-	-	(51)	-	(51)
Contributions:							
Deferred income tax on share issues costs	<i>11(a)</i>	1,829	-	-	-	-	1,829
Stock options	<i>11(b)</i>	-	334	-	-	-	334
Balance at December 31, 2016		555,388	7,999	69,574	11	153,695	786,667
Net earnings:		-	-	-	-	97,153	97,153
Other comprehensive loss:							
Foreign currency translation differences for foreign operations, net of tax		-	-	(28,854)	-	-	(28,854)
Defined benefit plan actuarial losses, net of tax	<i>20(d)</i>	-	-	-	-	(1,350)	(1,350)
Loss in fair value of interest rate swaps	<i>24(b)</i>	-	-	-	(11)	-	(11)
Contributions:							
Stock options	<i>11(b)</i>	-	583	-	-	-	583
Balance at December 31, 2017		\$ 555,388	\$ 8,582	\$ 40,720	\$ -	\$ 249,498	\$ 854,188

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2017 and 2016

	<i>Note</i>	2017	2016
Cash provided by (used in):			
Operating activities:			
Net earnings		\$ 97,153	\$ 65,643
Items not involving cash:			
Depreciation of plant and equipment	6	77,623	76,092
Depletion and amortization of timber, roads and other	7	38,635	34,895
Income tax expense	17	34,136	7,207
Finance costs	14	14,030	18,602
Other assets		(4,203)	(217)
Reforestation liability	10	1,109	559
Other liabilities and provisions		5,629	789
Stock options	11(b)	583	334
Write-down of property, plant and equipment and intangibles	6, 16	7,091	2,172
Unrealized foreign exchange losses and other		147	596
Other expense (income)	15	1,987	(14,095)
		273,920	192,577
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		(19,845)	(2,666)
Inventories		(14,243)	(2,338)
Prepayments and other		919	704
Trade accounts payable and accrued liabilities		19,688	11,702
Income taxes paid		(2,215)	(707)
		258,224	199,272
Investing activities:			
Additions to property, plant and equipment	6	(60,370)	(50,393)
Additions to roads and bridges	7	(32,211)	(24,631)
Additions to timber and other intangible assets	7	(2,360)	(1,682)
Proceeds on disposal of property, plant and equipment	15	561	41,437
Proceeds on disposal of investments	15	3,077	10,342
Investments and other assets		202	(11,324)
		(91,101)	(36,251)
Financing activities:			
Interest payments		(12,240)	(17,174)
Debt refinancing costs		(807)	(1,112)
Change in operating line components of long term debt	8	(64)	(11,663)
Additions to long term debt	8	76,107	56,974
Repayments of long term debt	8	(116,260)	(189,193)
		(53,264)	(162,168)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		(1,529)	1,961
Increase in cash and cash equivalents		112,330	2,814
Cash and cash equivalents, beginning of year		19,270	16,456
Cash and cash equivalents, end of year		\$ 131,600	\$ 19,270

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

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

These consolidated financial statements of the Company as at and for the years ended December 31, 2017 and 2016 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:**(a) Statement of compliance:**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and were approved by the Board of Directors on February 8, 2018.

(b) Basis of measurement:

These consolidated financial statements have been prepared on the historical cost basis except for the following material items in the Statements of Financial Position:

- (i) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and
- (ii) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the defined benefit obligations on a plan by plan basis.

(c) Functional and presentation currency:

These consolidated financial statements are presented in Canadian Dollars, which is the parent company's functional currency. Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar and are translated to Canadian Dollars. All financial information presented in Canadian Dollars has been rounded to the nearest thousand except number of shares and per share amounts.

(d) Use of estimates and judgements:

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of certain assets, liabilities, revenues and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized, on a prospective basis, in the period in which the estimates are revised.

2. Basis of Preparation (continued):

(d) Use of estimates and judgements (continued):

Significant areas requiring the use of management estimates relate to the determination of restructuring, reforestation, road deactivation, environmental and tax obligations, share-based compensation, recoverability of assets, rates for depreciation, depletion and amortization, fair values of assets and liabilities acquired in business combinations and impairment analysis of non-financial assets including goodwill.

Information about the use of management estimates and judgements that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the following notes:

<i>Note 3(e)</i>	Inventories
<i>Note 3(i)</i>	Impairment of non-financial assets
<i>Note 3(j)</i>	Reforestation and other decommissioning provisions
<i>Note 3(m)</i>	Cash-settled share based compensation
<i>Note 3(n)</i>	Equity-settled share based compensation
<i>Note 7</i>	Roads and bridges, timber tenures, other intangible assets and goodwill
<i>Note 10</i>	Reforestation liability

3. Significant accounting policies:

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

(a) Basis of consolidation:

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries from their respective dates of acquisition or incorporation. All intercompany balances, including unrealized income and expenses arising from intercompany transactions have been eliminated upon consolidation.

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred including any non-controlling interest less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in Net earnings. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

(b) Foreign currency:

(i) Foreign currency transactions:

Transactions in foreign currencies are translated to the functional currency of the respective entity at transaction date exchange rates. Monetary assets and liabilities denominated in foreign currencies are revalued using the exchange rate at the reporting date.

3. Significant accounting policies (continued):

(b) Foreign currency (continued):

(i) Foreign currency transactions (continued):

Foreign exchange differences arising on revaluation are recognized in Net earnings. Where revaluations relate to trade accounts receivables those foreign exchange differences are adjusted to Sales in the Statement of Earnings; where revaluations relate to trade accounts payables those foreign exchange differences are adjusted to Production costs in the Statement of Earnings.

(ii) Foreign operations:

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. Revenues and expenses of such foreign operations are translated to Canadian Dollars at the transaction date exchange rate, or at average rates for the period which approximate the transaction date, as appropriate. Assets and liabilities are translated into Canadian Dollars at exchange rates in effect at the reporting date. Related foreign currency translation differences are recognized in Other comprehensive income, and recorded to the Translation reserve in Equity.

Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

Monetary receivables from a foreign operation, the settlement of which are neither planned nor likely in the foreseeable future are considered to form part of the net investment in the foreign operation. Related foreign exchange translation differences are recognized in Other comprehensive income and presented in the Translation reserve in Equity.

(iii) Hedge of net investment in a foreign operation:

Financial liabilities denominated in foreign currencies are from time to time designated as a hedge of the Company's net investments in foreign operations.

Foreign currency differences arising on the revaluation of a financial liability designated as a hedge of a net investment in a foreign operation are recognized in Foreign currency translation differences in Other comprehensive income to the extent that the hedge is effective, and presented in the Translation reserve in Equity. To the extent that the hedge is ineffective, such differences are recognized in Other foreign exchange gain (loss) in Net earnings.

When the Company terminates the designation of the hedging relationship and discontinues its use of hedge accounting, any accumulated unrealized foreign exchange differences remaining in the Translation reserve and subsequent unrealized foreign exchange differences are recorded in Other foreign exchange gain (loss) in Net earnings. When the hedged net investment is disposed of, the relevant amount in the Translation reserve is reclassified to Net earnings.

3. Significant accounting policies (continued):

(c) Financial instruments:

(i) Non-derivative financial instruments:

Non-derivative financial instruments comprise cash and cash equivalents, trade and other receivables, certain investments and advances, trade accounts payable and accrued liabilities, provisions, and loans and borrowings including long term debt.

Cash and cash equivalents and trade and other receivables are designated as loans and receivables and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses.

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

Trade payables and accrued liabilities, provisions, and loans and borrowings including long term debt are designated as other financial liabilities and are initially measured at fair value and thereafter at amortized cost using the effective interest rate method.

There are no financial instruments classified as held-to-maturity.

(ii) Derivative financial instruments:

The Company at times uses derivative financial instruments for economic hedging purposes in the management of foreign exchange and interest rate risks. The Company does not utilize derivative financial instruments for trading or speculative purposes.

The Company has chosen not to designate derivative foreign currency exchange contracts as hedges for accounting purposes. Consequently, these derivative financial instruments, designated as held-for-trading, are carried on the Statements of Financial Position at fair value, with changes in fair value being recorded in Other foreign exchange gain (loss) in Net earnings.

The Company at times holds derivative interest rate swaps to hedge its interest rate risk exposures and may designate these financial instruments as the hedging instrument in a cash flow hedge of fluctuations in market interest rates associated with specific drawings under its long term debt. The effective portion of changes in the fair value of the derivative are recognized in Other comprehensive income and presented in the Hedging reserve in Equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in Net earnings.

From time to time, the Company also trades lumber futures in managing price risk and which are designated as held for trading with changes in fair value being recorded in Other income (expense) in Net earnings. Trading activities are closely monitored and restricted including a maximum number of outstanding contracts at any point in time.

The risk management strategies and relationships are formally documented and assessed on a regular, on-going basis.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(iii) Share capital:

Shares are classified as equity. Incremental costs directly attributable to the issuance of shares and share options are recognized as a deduction from equity, net of any tax effects.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and short-term interest bearing securities with maturities at their purchase date of three months or less.

(e) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average of cost of production on a three month rolling average, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment. Net realizable value is the estimated selling price in the normal course of business, less estimated costs of completion and selling expenses.

Log inventories are valued at the lower of cost and net realizable value on a specific boom basis where logs are boomed, or in aggregate on a species and sort basis where the logs are not boomed.

Cost for internally produced log inventories is determined as the weighted average cost of logging on a twelve month rolling average, lagged by one month, for the B.C. Coast and on a three month rolling average for the B.C. Interior, and adjusted for abnormal costs, as in the case of a curtailment. Log inventories purchased from external sources are valued at acquisition cost.

Net realizable value of logs is based on either market replacement cost or, for logs designated for lumber processing, on estimated net realizable value less estimated costs of completion and selling expenses.

Other inventories consist primarily of supplies which are recorded at lower of cost and replacement cost, which approximates net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation on machinery and equipment is provided on the basis of hours operated relative to the asset's lifetime estimated operating hours. Depreciation on all other assets is provided on a straight-line basis (ranging from 2.5% to 33% per year) over the estimated useful lives of the assets.

Depreciation methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

Maintenance costs are recorded as expenses as incurred, with the exception of programs that extend the useful life of an asset or increase its value, for which costs are capitalized.

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, being those requiring a substantial period of time prior to availability for their intended use, are capitalized.

3. Significant accounting policies (continued):

(g) Logging roads and bridges:

Logging roads and bridges are recorded at cost less accumulated amortization and impairment losses. Road and bridge amortization is computed on the basis of timber cut relative to available timber.

Amortization methods, useful lives and residual values are reviewed annually and adjusted, if appropriate.

(h) Intangible assets:

(i) Timber licences:

Timber licences are recorded at cost less accumulated depletion and impairment losses. Timber licence depletion is computed on the basis of timber cut relative to available timber. Tree farm and forest licences are depleted on a straight-line basis over 40 years. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

(ii) Goodwill:

Goodwill is measured at cost less accumulated impairment losses. See note 3(a) for the policy on measurement of goodwill at initial recognition.

(iii) Other intangible assets:

Other intangible assets are recorded at cost less accumulated amortization and impairment losses. Amortization on other intangible assets is provided on a straight-line basis ranging from five to ten years, being the estimated useful lives of the assets. Amortization rates are reviewed annually to ensure they are aligned with estimates of remaining economic useful lives of the associated intangible assets.

(i) Impairment of non-financial assets:

The Company's non-financial assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable. Impairment tests are carried out annually for goodwill or when an indicator of impairment is identified.

External indicators of impairment include adverse changes in expected future prices, costs and other market and economic factors. Internal indicators include changes in the expected useful life of an asset or changes to the planned capacity of an asset.

An impairment loss is charged to Net earnings if an asset's carrying amount exceeds its recoverable amount. The recoverable amount is calculated based on the higher of its fair value less direct costs to sell and its value in use.

Fair value is determined as the amount that would be obtained from the sale, net of direct selling costs, of the asset in an arm's length transaction between knowledgeable and willing parties. Value in use is determined as the present value of the estimated future cash flows expected to arise from the continued use of the asset in its present form and its eventual disposal and does not consider future capital enhancements.

3. Significant accounting policies (continued):

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

For purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets or groups of assets (a cash generating unit or "CGU"). Goodwill is allocated to a CGU or group of CGU's expected to benefit from it.

Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

Non-financial assets, other than goodwill, for which an impairment was previously recognized, are reviewed for possible reversal of the impairment at each reporting date. When an impairment loss is reversed, the increased carrying amount of the asset cannot exceed the carrying amount that would have been determined, net of amortization, had the impairment never been recognized.

An impairment loss recorded against goodwill is not reversed.

(j) Reforestation and other decommissioning provisions:

Forestry legislation in British Columbia requires the Company to incur the cost of reforestation on its forest, timber and tree farm licences and to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of reforestation and road deactivation in the period in which the timber is cut, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimates and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities in terms of reforestation; and road structure and terrain for road deactivation.

Cash flows reflect the risks specific to the decommissioning provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates. Adjustments are made to decommissioning provisions each period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time are recognized as Finance costs and revisions to fair value calculations are recognized as Production costs in Net earnings as they occur.

3. Significant accounting policies (continued):**(k) Environmental costs:**

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures to prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when rehabilitation efforts are likely to be required and the costs can be reasonably estimated.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current risk-free rate. The unwinding of the discount is recognized as a Finance cost in Net earnings.

(l) Employee benefits:

Defined benefit pension and other post-retirement benefit obligation accruals are estimated using actuarial methods and assumptions, including management's best estimates of the discount rate, salary escalation, and health care costs and are calculated using the projected unit credit method.

Plan assets are valued at fair value.

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

Pension expenses for defined contribution plans are limited to the Company's contribution to the plans in respect of services rendered by employees, as the Company has no legal or constructive obligation to pay further amounts. Plans administered by the government and the industry-wide unionized employees' pension plan are treated as defined contribution plans.

(m) Cash-settled share based compensation:

The Company has a Share Appreciation Rights ("SAR") Plan, a Deferred Share Unit ("DSU") Plan and a Total Shareholder Return ("TSR") Plan for directors, officers and certain other eligible employees. The Company uses the fair value method of accounting for obligations under the SAR, DSU and TSR Plans.

Compensation expense is recorded for SARs over the vesting period based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest.

Compensation expense is recorded for DSUs either at the time of the grant, in the case of DSUs which vest immediately, or over the performance period, in the case of DSUs with deferred vesting, based on the fair value at the date of the grant.

Compensation expense is recorded for TSRs over the performance period based on the estimated fair value of the TSRs at the date of the grant. Fair value is measured using a combination of call options which are valued using a Black-Scholes pricing model.

3. Significant accounting policies (continued):**(m) Cash-settled share based compensation (continued):**

The fair value of the SARs, DSUs and TSRs are subsequently measured at each reporting date with any changes in fair value reflected as Long term incentive compensation in Net earnings. Liabilities are recorded in Trade accounts payable and provisions and Provisions and other liabilities on the Statements of Financial Position.

(n) Equity-settled share based compensation:

The Company has a Stock Option Plan for its key employees and directors. The Company uses the fair value method of accounting for obligations under this Plan.

The grant-date fair value of options is recognized as Long term incentive compensation, with a corresponding increase in contributed surplus, over the vesting period. The fair value of the options is determined using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price, the expected life of the options, the current price of the underlying stock and its expected volatility, expected dividends on the shares, and the risk-free interest rate over the expected life of the option. Cash consideration received when an option is exercised is credited to share capital, as is the previously calculated fair value included in contributed surplus.

(o) Sales revenue:

The Company recognizes sales when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs can be reliably estimated, there is no continuing management involvement, and the amounts of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company.

Sales are recorded on a gross basis and include amounts charged to customers for freight, wharfage and handling costs. Actual costs of freight, wharfage and handling and duties are recorded to Production cost and U.S. countervailing and anti-dumping duty deposits, respectively, in Net earnings.

(p) Finance income and costs:

Finance income comprises net interest income on funds invested.

Finance costs comprise net interest expense on borrowings, the unwinding of the discount on decommissioning provisions, net interest on defined benefit plans, the amortization of prepaid finance costs and other related transaction costs.

(q) Income tax:

Income tax expense comprises current and deferred income taxes. Current and deferred income taxes are recognized in Net earnings except to the extent that they relate to a business combination, or items recognized directly in Equity or in Other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to income tax payable in respect of previous years.

3. Significant accounting policies (continued):

(q) Income tax (continued):

Deferred income tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and the amounts used for taxation purposes. Deferred income tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred income tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill.

Deferred income tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different taxable entities, but the intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

A deferred income tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred income tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(r) Earnings per share:

Basic earnings per share is computed by dividing Net earnings by the weighted average number of common shares outstanding during the reporting period. Diluted earnings per share is determined by adjusting Net earnings and the weighted average number of common shares outstanding during the reporting period for the effects of all dilutive potential common shares, including outstanding stock options, if any.

(s) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

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

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.

3. Significant accounting policies (continued):

(s) New standards and interpretations not yet adopted (continued):

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, which will be depreciated. Lease expense, which is currently recorded as a Production cost in the Statement of earnings, will be replaced by Depreciation and Finance costs. 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.

(t) 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 year ended December 31, 2017 (see note 8).

4. Inventories:

	2017	2016
Lumber	\$ 82,850	\$ 80,726
Logs	67,815	58,739
Other	14,491	15,070
	\$ 165,156	\$ 154,535

Inventory expensed in the period includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at December 31, 2017, was \$9,292,000 (2016 - \$7,922,000).

Years ended December 31, 2017 and 2016

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

5. Investments and other assets:

	<i>Note</i>	2017	2016
Countervailing and anti-dumping duty receivable	<i>18(c)</i>	\$ 3,769	\$ -
Deferred financing fees, net of accumulated amortization		2,094	2,078
Timber deposits and other		541	263
Investments designated as fair value through profit and loss		-	2,911
		\$ 6,404	\$ 5,252
Current		\$ -	\$ 2,911
Long term		6,404	2,341
		\$ 6,404	\$ 5,252

Years ended December 31, 2017 and 2016

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

6. Property, plant, and equipment

Cost	Note	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
Balance at December 31, 2015		\$ 51,950	\$ 131,131	\$ 860,612	\$ 32,005	\$ 41,561	\$ 69,732	\$ 13,958	\$ 18,386	\$ 1,219,335
Additions		-	-	(2)	-	133	-	23	49,142	49,296
Disposals		(64)	(150)	(2,396)	(740)	(860)	-	(304)	(100)	(4,614)
Transfers		-	4,771	19,368	351	3,505	1,706	23	(29,724)	-
Transfers to other intangibles	7	-	-	-	-	-	-	-	(1,637)	(1,637)
Exchange rate movements		(578)	(2,102)	(16,039)	(414)	(626)	(1,000)	(139)	(436)	(21,334)
Balance at December 31, 2016		51,308	133,650	861,543	31,202	43,713	70,438	13,561	35,631	1,241,046
Additions		-	-	-	-	-	-	154	59,634	59,788
Disposals		(17)	(248)	(3,852)	(1,427)	(523)	(43)	(1,562)	-	(7,672)
Transfers		-	1,795	56,339	944	6,762	2,485	532	(68,857)	-
Transfers to other intangibles	7	-	-	-	-	-	-	-	(551)	(551)
Impairment	16	(234)	-	-	-	-	-	-	-	(234)
Exchange rate movements		(1,234)	(4,514)	(36,949)	(802)	(1,913)	(2,341)	(273)	(2,161)	(50,187)
Balance at December 31, 2017		\$ 49,823	\$ 130,683	\$ 877,081	\$ 29,917	\$ 48,039	\$ 70,539	\$ 12,412	\$ 23,696	\$ 1,242,190
Accumulated Depreciation			Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other		Total
Balance at December 31, 2015			\$ 43,689	\$ 318,152	\$ 18,111	\$ 23,639	\$ 33,647	\$ 4,507		\$ 441,745
Depreciation			6,796	53,527	3,276	6,072	5,003	1,418		76,092
Disposals			(86)	(1,564)	(596)	(677)	-	(284)		(3,207)
Transfers			-	(27)	-	27	-	-		-
Impairment	16		-	1,155	-	-	-	-		1,155
Exchange rate movements			(463)	(4,390)	(162)	(344)	(329)	(32)		(5,720)
Balance at December 31, 2016			49,936	366,853	20,629	28,717	38,321	5,609		510,065
Depreciation			7,003	56,254	2,856	6,136	4,061	1,313		77,623
Disposals			(135)	(1,598)	(1,298)	(523)	(43)	(1,111)		(4,708)
Transfers			-	-	-	-	-	-		-
Impairment	16		26	6,713	-	84	-	-		6,823
Exchange rate movements			(1,460)	(14,065)	(511)	(1,228)	(1,062)	(117)		(18,443)
Balance at December 31, 2017			\$ 55,370	\$ 414,157	\$ 21,676	\$ 33,186	\$ 41,277	\$ 5,694		\$ 571,360
Net book value at										
December 31, 2016		\$ 51,308	\$ 83,714	\$ 494,690	\$ 10,573	\$ 14,996	\$ 32,117	\$ 7,952	\$ 35,631	\$ 730,981
December 31, 2017		49,823	75,313	462,924	8,241	14,853	29,262	6,718	23,696	670,830

There were no borrowing costs capitalized in 2017 or 2016. Additions in 2017 include \$2,330,000 of accrued contract costs (2016 - \$2,912,000)

Years ended December 31, 2017 and 2016

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

7. Roads and bridges, timber tenures, other intangible assets and goodwill:

Cost	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2015	\$ 95,042	\$ 118,434	\$ 40,269	\$ 161,791
Additions	24,631	195	1,487	-
Transfers	-	-	1,637	-
Disposals	(824)	-	(18)	-
Exchange rate movements	(69)	-	(916)	(4,412)
Balance at December 31, 2016	118,780	118,629	42,459	157,379
Additions	32,211	267	2,093	-
Transfers	-	-	551	-
Disposals	(2,292)	-	(10)	-
Exchange rate movements	10	-	(1,954)	(9,421)
Balance at December 31, 2017	\$ 148,709	\$ 118,896	\$ 43,139	\$ 147,958
Accumulated amortization	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2015	\$ 74,431	\$ 46,005	\$ 16,668	\$ 877
Amortization	24,478	3,351	7,066	-
Disposals	(824)	-	(6)	-
Exchange rate movements	(44)	-	(286)	-
Balance at December 31, 2016	98,041	49,356	23,442	877
Amortization	28,846	2,951	6,838	-
Disposals	(2,292)	-	(5)	-
Impairment	-	-	34	-
Exchange rate movements	22	-	(1,340)	-
Balance at December 31, 2017	\$ 124,617	\$ 52,307	\$ 28,969	\$ 877
Net book value at				
December 31, 2016	\$ 20,739	\$ 69,273	\$ 19,017	\$ 156,502
December 31, 2017	24,092	66,589	14,170	147,081

For the purpose of impairment testing, goodwill components of \$13,078,000 and \$134,003,000 are attributable to the Coastal Whitewood cash-generating unit ("CWW CGU") and the U.S. South cash-generating unit ("S CGU"), respectively.

The recoverable amounts for the goodwill impairment assessments were based on the CGU's (or groups of CGU's) value in use and were determined by discounting the future cash flows generated from the continuing use of the units for a period of twenty years. The cash flows were projected based on past experience, actual operating results and the five year business plan in the assessment for both 2016 and 2017. Due to the cyclical nature of the forest industry, cash flows for a further 15 years were extrapolated based on an average trend year.

The recoverable amount of both the CWW CGU and the S CGU as at December 31, 2017, and December 31, 2016 were determined to be higher than the related carrying amount and no impairment has been recognized.

Years ended December 31, 2017 and 2016

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

7. Roads and bridges, timber tenures, other intangible assets and goodwill (continued):

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

A post-tax discount rate of 10.5 percent (2016 – 10.5 percent) was applied in determining the recoverable amount of each CGU assessed. The discount rate was estimated with the assistance of external experts, past experience, and the industry targeted capital structure. Inflation rates of 1.6 percent (2016 – 1.3 percent) and 2.2 percent (2016 – 1.3 percent) for Canadian and U.S. CGU's, respectively, were applied to the projected cash flows for years four through twenty.

The values assigned to key assumptions represent management's assessment of future trends in the forest industry and are based on both external sources and internal historical data.

8. Cash and borrowings:

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
2017					
Available line of credit	\$ 65,000	\$ 200,000	\$ 250,900	\$ 62,725	\$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of line	\$ 52,485	\$ 200,000	\$ -	\$ 60,091	\$ 312,576
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 follows:

2018	\$ -
2019	-
2020	-
2021	41,816
2022	41,816
Thereafter	167,268
	\$ 250,900

Years ended December 31, 2017 and 2016

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

8. Cash and borrowings (continued):

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

	2017	2016
Drawings at January 1	\$ 308,821	\$ 468,759
Operating line net repayments	(64)	(11,663)
Additions to long term debt	76,107	56,974
Repayments of long term debt	(116,260)	(189,193)
Effects of changes in foreign exchange rates	(17,704)	(16,056)
Drawings at December 31	\$ 250,900	\$ 308,821

(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' trailing EBITDA¹. The amount available under the Operating Line is subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Lines are secured by a general security agreement which includes a security interest in all Canadian accounts receivable and inventories, charges against timber tenures and mortgage security on certain assets. The Lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of debt to 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 15, 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 December 31, 2017, including letters of credit, the Lines were drawn by \$12,333,000 (2016 - \$10,026,000) and US\$145,000 (2016 - US\$30,000,000) revalued at the year-end exchange rate to \$182,000 (2016 - \$40,281,000) for total borrowings of \$12,515,000 (2016 - \$50,307,000).

All outstanding U.S. Dollar drawings under the Lines have been designated as a hedge against the Company's investment in its U.S. operations and foreign exchange gains of \$128,000 for the year ended December 31, 2017 (2016 - \$7,420,000 gain) arising on revaluation of the Lines were recognized in Foreign currency translation differences in Other comprehensive income.

As at December 31, 2017, unused available credit on the Lines was \$252,485,000 (2016 - \$214,693,000).

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

8. Cash and borrowings (continued):**(b) Senior Secured notes:**

The Company's Senior Secured Notes consist of Series A and Series B Senior Secured Notes (each US\$50,000,000 and bearing interest at 4.33% and 4.02%, respectively) and Series C Senior Secured Notes (US\$100,000,000, bearing interest at 4.17%). As at December 31, 2017, US\$200,000,000 of Senior Secured Notes were outstanding (2016 – US\$200,000,000) and revalued at the year-end exchange rate to \$250,900,000 (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 unrealized foreign exchange gains of \$17,640,000 (2016 - \$8,260,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2017.

(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 17, 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 December 31, 2017, the U.S. Operating Line was drawn by US\$2,100,000 including outstanding letters of credit, revalued at the year-end exchange rate to \$2,634,000 (2016 – US\$2,455,000 revalued at the year-end exchange rate to \$3,296,000).

As at December 31, 2017, \$60,091,000 (US\$47,900,000) of the available U.S. Operating Line was unused (2016 - \$62,331,000; US\$46,422,000).

(d) Cash and cash equivalents:

At December 31, 2017, \$337,000 of the Company's cash balance is restricted (2016 - \$515,000).

Years ended December 31, 2017 and 2016

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

9. Provisions and other liabilities:

2017	Note	Current	Non-current	Total
Restructuring	9(a), 16	\$ 298	\$ 1,026	\$ 1,324
Road deactivation	9(a)	776	3,840	4,616
Environmental	9(a)	56	747	803
Cash-settled share based compensation				
SAR Plan	9(b)	5,355	186	5,541
TSR Plan	9(c)	1,390	5,277	6,667
DSU Plan	9(d)	547	13,566	14,113
Retained compensation liabilities	9(e)	1,451	-	1,451
Lease incentives and other		766	2,334	3,100
		\$ 10,639	\$ 26,976	\$ 37,615
2016	Note	Current	Non-current	Total
Restructuring	9(a), 16	\$ 987	\$ 1,618	\$ 2,605
Road deactivation	9(a)	221	4,158	4,379
Environmental	9(a)	56	753	809
Cash-settled share based compensation				
SAR Plan	9(b)	5,904	385	6,289
TSR Plan	9(c)	1,188	1,625	2,813
DSU Plan	9(d)	1,515	9,468	10,983
Contingent future payment	9(f)	13,427	-	13,427
Retained compensation liabilities	9(e)	-	1,076	1,076
Lease incentives and other		1,295	2,207	3,502
		\$ 24,593	\$ 21,290	\$ 45,883

The current portion of provisions and other liabilities is included in Trade accounts payable and provisions in the Statements of Financial Position.

(a) Provisions:

Forestry legislation in British Columbia requires the Company to deactivate logging roads once harvesting is complete and access is no longer required. Accordingly, the Company records the fair value of the costs of road deactivation in the period in which the timber is harvested, with the fair value of the liability determined with reference to the present value of estimated future cash flows.

Environmental provisions are made when rehabilitation efforts are likely required and the costs can be reasonably estimated.

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows using a current risk-free discount rate. The unwinding of the discount is recognized as a Finance cost in Net earnings.

Years ended December 31, 2017 and 2016

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

9. Provisions and other liabilities (continued):

(a) Provisions (continued):

	<i>Note</i>	Restructuring	Road deactivation	Environmental
Balance at December 31, 2015		\$ 2,175	\$ 4,168	\$ 826
Provisions made during year	16	1,370	446	-
Expenditures made during year		(895)	(143)	-
Unwind of discount		-	46	8
Changes in estimated future expenditures		-	(138)	(25)
Exchange rate movements		(45)	-	-
Balance at December 31, 2016		2,605	4,379	809
Provisions made during year	16	2,091	446	-
Expenditures made during year		(3,242)	(206)	-
Unwind of discount		-	71	11
Changes in estimated future expenditures		-	(74)	(17)
Exchange rate movements		(130)	-	-
Balance at December 31, 2017		\$ 1,324	\$ 4,616	\$ 803

(b) Share Appreciation Rights Plan:

Awards under the SAR Plan have been granted to directors, officers and certain employees of the Company. The vesting of SARs occurs at a rate of 40% two years after granting and 20% per annum thereafter. SARs expire ten years after the date of grant. The SAR Plan uses notional units that are valued based on the Company's Common Share price on the Toronto Stock Exchange. The units are exercisable for cash and recorded as liabilities. Under the SAR Plan, awards will be expensed over the vesting periods based on the estimated fair value of the SARs at the date of grant. Fair value is measured using a Black-Scholes option pricing model and is adjusted to reflect the number of SARs expected to vest. Fair value of the SARs is subsequently measured at each reporting date with any change in fair value resulting in a change in the measure of the compensation for the award, which is amortized over the remaining vesting periods.

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

	2017		2016	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	738,199	\$ 8.02	929,808	\$ 7.52
Granted	6,405	14.99	6,053	15.01
Exercised	(312,582)	6.38	(173,800)	4.96
Expired or cancelled	(10,763)	12.58	(23,862)	12.63
Outstanding, end of year	421,259	\$ 9.23	738,199	\$ 8.02
Units exercisable, end of year	323,263	\$ 7.80	533,389	\$ 6.73

Years ended December 31, 2017 and 2016

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

9. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

Weighted average fair value assumptions for grants made in 2017 and 2016 are as follows:

	2017	2016
Risk-free interest rate	1.24%	0.87%
Expected life	6.7 years	6.7 years
Annualized volatility	41%	41%
Dividend rate	0%	0%
Termination rate	6%	6%
Grant date fair value per unit	\$6.43	\$6.33

Details of units outstanding under the SAR Plan at December 31, 2017 are as follows:

Strike price	Number outstanding, December 31, 2017	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs.)	Weighted average strike price	Number exercisable, December 31, 2017	Weighted average strike price
\$1.38-\$4.64	95,600	3.2	\$ 3.61	95,600	\$ 3.61
\$4.77-\$5.40	47,500	2.4	4.84	47,500	4.84
\$6.01-\$9.18	164,600	4.6	8.27	126,600	8.00
\$14.99-\$17.43	113,559	6.5	17.16	53,563	17.43
	421,259		\$ 9.23	323,263	\$ 7.80

For the year ended December 31, 2017, the Company recorded Long term incentive compensation in respect of the SAR Plan of \$3,120,000 (2016 – \$1,010,000).

(c) Total Shareholder Return Plan:

Under terms of the TSR Plan, a participant will receive a target number of performance share units ("PSUs") based on a target award divided by the value of the Company's Common Shares at the effective date of the grant. The number of PSUs which will ultimately vest will be in a range from 50% to 150% of the original grant based on total shareholder return over a three year performance period.

The number of PSU's outstanding at December 31 are as follows:

	2017	2016
Outstanding, beginning of year	546,049	518,199
Granted	226,636	237,497
Matured	(163,577)	(209,647)
Outstanding, end of year	609,108	546,049

Compensation expense is recorded for the TSR Plan over the performance period based on the estimated fair value of the TSR Plan payable at the date of the grant. The fair value of obligations under the TSR Plan is subsequently measured at each reporting date with any changes in fair value reflected in Long term incentive compensation in Net earnings.

Years ended December 31, 2017 and 2016

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

9. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan (continued):

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

	2017	2016
Risk-free interest rate	1.17%	0.8%
Expected life	3 years	3 years
Annualized volatility	35% to 39%	46% to 56%
Dividend rate	0.00%	0.00%
Termination rate	0.00%	0.00%
Grant date fair value per unit	\$10.86	\$6.45

For the year ended December 31, 2017, the Company recorded Long term incentive compensation under the TSR Plan of \$5,042,000 (2016 – \$1,289,000).

(d) Deferred Share Unit Plan:

The Company's directors and certain officers participate in the DSU Plan. The DSU Plan, which allows for immediate or deferred vesting, is intended to provide a better link between share performance and compensation for the participants, in that DSUs either increase or decrease in value in a direct relationship with the market price of the Company's Common Shares.

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

For performance periods ending prior to 2017, participants in the TSR Plan had the option to elect, subject to the approval of the Company's Board of Directors, to receive their award in DSUs at the end of the performance period.

The number of DSUs outstanding at December 31 are as follows:

	2017		2016	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	724,918	\$15.15	622,951	\$14.06
Granted ¹	45,817	18.90	116,124	13.62
Exercised	(99,987)	15.08	(14,157)	11.67
Outstanding, end of year	670,748	\$21.04	724,918	\$15.15

¹Fair value at the date of the grants.

Changes to the market value of the Company's Common Shares subsequent to issuance of awards results in adjustments to the compensation accrual and Long term incentive compensation in Net earnings. For the year ended December 31, 2017, the Company recorded an expense of \$4,637,000 (2016 –\$1,775,000) in respect of the DSU Plan, of which \$3,771,000 (2016 – \$916,000) was recorded in Long term compensation and \$866,000 (2016 - \$860,000), related to payment for directors' fees, was recorded in Selling and administration.

Years ended December 31, 2017 and 2016

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

9. Provisions and other liabilities (continued):

(e) Retained compensation liabilities:

Upon acquisition of the Tolleson sawmills on March 17, 2014, the Company assumed incentive payments payable to certain senior management over a four year period. The incentive is earned and recognized as a liability over the incentive period. For the year ended December 31, 2017, the Company recorded Long term incentive compensation of \$461,000 (2016 - \$1,029,000) in respect of the retained compensation liabilities. The liability of US\$1,157,000 (2016 - US\$801,000) was revalued at the year-end exchange rate to \$1,451,000 (2016 - \$1,076,000) and will be paid in April, 2018.

(f) Contingent future payment:

In conjunction with the acquisition of sawmill operations in the U.S. in 2015, the Company recorded a provision of US\$10,000,000 for additional compensation payable under the Asset Purchase Agreement. This amount was fully paid in early 2017.

10. Reforestation liability:

The Company has an obligation to reforest areas harvested under various timber rights. The obligation is incurred as logging occurs and the fair value of the liability for reforestation is determined with reference to the present value of estimated future cash flows required to settle the obligation.

Changes in the reforestation liability for the years ended December 31 are as follows:

	2017	2016
Reforestation liability, beginning of year	\$ 37,540	\$ 36,126
Reforestation expense on current logging and market logging agreements	13,780	12,605
Reforestation expenditures	(10,774)	(10,924)
Unwind of discount	500	302
Changes in estimated future reforestation expenditures	(638)	(569)
	<u>\$ 40,408</u>	<u>\$ 37,540</u>
Consisting of:		
Current reforestation liability	\$ 12,873	\$ 11,609
Long term reforestation liability	27,535	25,931
	<u>\$ 40,408</u>	<u>\$ 37,540</u>

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2017 is \$42,549,000 (2016 - \$39,419,000). The reforestation expenditures are expected to occur over the next one to fifteen years and have been discounted at a long term risk-free interest rate of 2% (2016 - 2%). Reforestation expense resulting from obligations arising from current logging and changes in estimated future expenditures are included in Production costs for the year and expense related to the unwinding of the discount is included in Finance costs.

Years ended December 31, 2017 and 2016

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

11. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2017 consists of:

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

Common Share transactions were as follows:

Issued and Fully Paid	Note	Number	Amount
Balance, December 31, 2015		70,030,455	\$ 553,559
Deferred income tax on share issue costs	17	-	1,829
Balance, December 31, 2016 and 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 3,500,000 Shares, representing approximately 5% of its Shares issued and outstanding as at March 2, 2017. This NCIB began on March 7, 2017 and expires on March 6, 2018. During 2017, Interfor did not purchase any of its Shares.

At December 31, 2017, 1,631,740 Shares are reserved for possible future issuance pursuant to the stock option plan.

(b) Equity-settled share based compensation:

The Company has a stock option plan for its key employees and directors under which options may be granted to purchase up to 1,631,740 Shares, of which 1,299,093 remain available for issuance. The vesting of the options occurs at a rate of 40% two years after granting and 20% per annum thereafter. Options expire ten years after the date of the grant. The exercise price of a stock option is at a price not less than the closing price of a Common Share on the trading day immediately preceding the grant date.

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

	2017		2016	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	181,525	\$ 14.10	64,175	\$ 21.77
Granted	154,469	15.44	130,879	10.61
Exercised	-	-	-	-
Expired or cancelled	(3,347)	22.22	(13,529)	16.76
Outstanding, end of year	332,647	\$ 14.64	181,525	\$ 14.10
Options exercisable, end of year	21,297	\$ 21.67	-	\$ -

Years ended December 31, 2017 and 2016

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

11. Share capital:

(b) Equity-settled share based compensation (continued):

Weighted average fair value assumptions for grants made in 2017 and 2016 are as follows:

	2017	2016
Risk-free interest rate	1.24%	0.8%
Expected life	6.7 years	6.7 years
Annualized volatility	41%	43%
Dividend rate	0%	0%
Termination rate	6%	6%
Grant date fair value per unit	\$6.62	\$4.63

Details of options outstanding under the option plan at December 31, 2017 are as follows:

Strike price	Number outstanding, December 31, 2017	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs.)	Weighted average exercise price	Number exercisable, December 31, 2017	Weighted average strike price
\$9.77-\$13.72	118,564	8.2	\$ 10.42	-	\$ -
\$15.01-\$15.44	160,841	9.1	15.42	-	-
\$17.26-\$22.22	53,242	7.2	21.70	21,297	21.67
	332,647		\$ 14.64	21,297	\$ 21.67

The Company recognized an expense of \$583,000 for the year ended December 31, 2017 (2016 – \$334,000) in Long term incentive compensation.

12. Depreciation, depletion, and amortization:

Depreciation, depletion and amortization expense allocated by function is as follows:

	2017	2016
Production	\$ 108,718	\$ 102,539
Selling and administration	7,540	8,448
	\$ 116,258	\$ 110,987

Years ended December 31, 2017 and 2016

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

13. Personnel expenses:

	<i>Note</i>	2017	2016
Wages and salaries		\$ 263,318	\$ 232,342
Government administered pensions and unemployment insurance		15,875	13,071
Workers' compensation insurance		7,975	6,182
Contributions to defined contribution plans	20	10,804	9,866
Expenses related to defined benefit plans	20	1,195	1,648
Cash-settled share based payment transactions and other long term compensation expense	9	12,977	4,551
Medical, dental, group insurance and other		28,117	35,416
		\$ 340,261	\$ 303,076

14. Finance costs:

Recognized in Net earnings:

	<i>Note</i>	2017	2016
Interest on borrowings		\$ (12,203)	\$ (16,659)
Net interest on defined benefit plans		(505)	(428)
Unwind of discount on provisions	9(a), (10)	(582)	(832)
Amortization of deferred finance costs		(740)	(683)
		\$ (14,030)	\$ (18,602)

Recognized in Other comprehensive income:

	2017	2016
Effective portion of changes in fair value of interest rate swap	\$ (11)	\$ (51)

15. Other income (expense):

	2017	2016
Gain (loss) on disposal of surplus property, plant and equipment	\$ (2,408)	\$ 14,072
Gain on disposal of investments and other	421	22
	\$ (1,987)	\$ 14,094

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

During 2017, Interfor sold fixed income investments for proceeds of \$3,077,000 (2016 - \$10,324,000) and recognized a gain of \$421,000 (2016 - \$23,000 gain).

Years ended December 31, 2017 and 2016

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

16. Restructuring costs:

	<i>Note</i>	2017	2016
Write-down of property, plant, equipment and intangibles	6	\$ 7,091	\$ 2,173
Severance and legal	9(a)	2,427	955
Write-down of inventories		-	1,533
Onerous contracts (recovery)	9(a)	(336)	415
Site closure costs		21	1,738
Other		-	466
		\$ 9,203	\$ 7,280

In 2016, the Company recorded restructuring charges related to its Tacoma sawmill which was sold in November, 2016 (see note 15). Inventory write-downs reflect extraordinary declines in fair value of inventory subsequent to the decision to exit the Tacoma sawmill. The Company also recorded an impairment against surplus operating equipment.

In December, 2017, the Company recorded an impairment against operating equipment to be replaced in conjunction with planned capital projects in 2018.

17. Income taxes:

Income tax expense is as follows:

	2017	2016
Current tax expense:		
Current year	\$ 1,007	\$ 802
Adjustments for prior periods	57	51
	1,064	853
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	33,072	12,525
Change in unrecognized deferred income tax assets	-	(6,171)
	33,072	6,354
	\$ 34,136	\$ 7,207

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

	2017	2016
Defined benefit plan actuarial losses	\$ (504)	\$ -
Foreign currency translation differences for foreign operations	(168)	691
	\$ (672)	\$ 691

Income tax recovery recognized in Equity is as follows:

	2017	2016
Amortized and unamortized share issuance costs	\$ -	\$ (1,829)

Years ended December 31, 2017 and 2016

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

17. Income taxes (continued):

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

	2017	2016
Income tax expense at the statutory rate of 26.00% (2016 – 26.00%)	\$ 34,135	\$ 18,941
Change in unrecognized deferred income tax assets	-	(6,171)
Entities with different tax rates and foreign rate adjustments	3,632	(4,884)
Change of U.S. statutory rate	(4,740)	-
Change of Canadian statutory rate	445	-
Income Tax Credit	488	(715)
Other	176	36
	\$ 34,136	\$ 7,207

The Company recorded a deferred income tax expense of \$445,000 in 2017 to reflect the increase in the Canadian statutory tax rate from 26% in 2017 to 27% in 2018.

As a result of tax legislation enacted in the U.S. at the end of 2017, the federal U.S. corporate tax rate applicable to years after 2017 was substantially reduced. As a result, Interfor recorded a deferred income tax expense in respect of its U.S. operations in 2017 at a combined federal and state income tax rate of 24% (2016 - 37.37%).

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

- (a) Canadian non-capital loss carry-forwards which total approximately \$66,657,000 (2016 - \$101,215,000), and expire between 2032 and 2036; and
- (b) U.S. net operating loss carry-forwards which total approximately US\$132,408,000 (2016 - US\$175,176,000), and expire between 2024 and 2035.

Unrecognized deferred income taxes:

As at December 31, 2017, the Company has unrecognized deferred income tax assets in relation to accrued foreign exchange losses on U.S. Dollar denominated debt. These losses, if realized, will result in allowable capital losses which can be applied against the taxable portion of capital gains, if any, arising in future years.

Deferred income tax assets related to the Company's Canadian operations are not recognized in respect of deductible temporary differences of \$7,940,000 (2016 - \$8,009,000).

Years ended December 31, 2017 and 2016

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

17. Income taxes (continued):

Recognized deferred income taxes:

	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
December 31, 2017					
Deferred income tax assets					
Losses	\$ 114,778	\$ (56,492)	\$ -	\$ -	\$ 58,286
Reserves	21,364	1,539	-	-	22,903
Tax credits	870	(536)	-	-	334
Share issue costs	692	(353)	-	-	339
Defined benefit plan	-	-	504	-	504
Other	4,672	(524)	-	-	4,148
Deferred income tax liabilities					
Capital assets	(128,377)	23,294	-	-	(105,083)
Foreign currency translation differences for foreign operations	(536)	-	159	-	(377)
Total	\$ 13,463	\$ (33,072)	\$ 663	\$ -	\$ (18,946)
	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
December 31, 2016					
Deferred income tax assets					
Losses	\$ 117,627	\$ (3,986)	\$ -	\$ 1,137	\$ 114,778
Reserves	20,494	870	-	-	21,364
Tax credits	111	759	-	-	870
Share issue costs	-	-	-	692	692
Other	2,520	2,152	-	-	4,672
Deferred income tax liabilities					
Capital assets	(122,228)	(6,149)	-	-	(128,377)
Foreign currency translation differences for foreign operations	145	-	(681)	-	(536)
Total	\$ 18,669	\$ (6,354)	\$ (681)	\$ 1,829	\$ 13,463

Represented by the following:

	2017	2016
Deferred income tax assets	\$ 251	\$ 14,311
Deferred income tax liabilities	(19,197)	(848)
	\$ (18,946)	\$ 13,463

18. Commitments and contingencies:

(a) Operating leases and contractual obligations:

The Company is obligated under various operating leases and contracts requiring minimum annual payments in each of the next five years as follows:

2018	\$ 50,100
2019	13,270
2020	7,190
2021	6,460
2022	5,170

(b) Surety bonds:

The Company has posted \$41,041,000 in surety performance and payment bonds, with various expiry dates extending through January, 2025.

(c) U.S. countervailing and anti-dumping duty deposits:

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing ("CV") and anti-dumping ("AD") 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 was reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada.

In the first half of 2017, the U.S. Department of Commerce ("DoC") made preliminary duty rate determinations of 19.88% and 6.87% for CV and AD duties, respectively, for a combined total of 26.75% applicable to Interfor's shipments of softwood lumber from Canada into the U.S. On November 2, 2017, the DoC made a final determination on duties that lowered the combined rate applicable to Interfor to 20.83%, which it subsequently amended to 20.23%, comprised of 14.19% and 6.04% for CV and AD duties, respectively. In addition, the DoC concluded that critical circumstances did not exist for CV duties, but did exist for AD duties.

On December 7, 2017, the ITC ruled that the U.S. lumber industry was injured by Canadian lumber imports and finalized the CV and AD duties. The ITC made a negative finding with regard to critical circumstances in the AD investigation. As a result, Interfor will not be subject to retroactive AD duty deposits for the 90-day period from April 1 to June 29, 2017. As Interfor expected that the ITC would rule against the retroactive application, no associated liability had been recognized in the financial statements.

CV duties were applicable from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were applicable from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards.

The Company recorded an adjustment to its U.S. CV and AD duty deposits in the Statement of earnings to correct the duties expense to the amended final rates. Interfor recorded US\$3,004,000 (\$3,920,000) in Investments and other assets on the Statement of financial position (see note 5) in respect of this adjustment. This amount is subject to dispute resolution.

18. Commitments and contingencies (continued):

(c) U.S. countervailing and anti-dumping duty deposits (continued):

Interfor recorded US\$187,000 (\$239,000) in Trade accounts receivable and other for amounts overpaid from November 8 through December 26, 2017 as a result of DoC arithmetic errors in the duty rates. This amount is fully refundable and not subject to any dispute resolution.

The current and long term U.S. duty deposit receivables were revalued at the year-end exchange rate to \$235,000 and \$3,769,000, respectively.

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor will continue to work with the B.C. and Canadian Governments to vigorously defend the Company's and industry's positions through various appeal processes. 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 decisions yet to be made by any reviewing courts, NAFTA or WTO panels to which the DoC and ITC determinations may be appealed.

All duties paid remain held in trust by the U.S. pending the First Administrative Review and conclusion of all appeals of U.S. decisions.

(d) Timber licence:

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. In late 2017, the Company initiated arbitration proceedings, but is currently still in active negotiations with the Government. Although it is not practicable 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 December 31, 2017.

(e) Other contingencies:

The Company is subject to a number of claims arising in the normal course of business in respect of which either an adequate provision has been made or for which no material liability is expected.

Years ended December 31, 2017 and 2016

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

19. Net earnings per share:

Net earnings per share is based on the earnings attributable to shareholders and a weighted average number of shares, as defined in note 11, outstanding for the year.

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

	2017			2016		
	Net earnings	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Basic earnings per share	\$ 97,153	70,030	\$ 1.39	\$ 65,643	70,030	\$ 0.94
Effect of dilutive securities:						
Stock Options	-	44		-	3	
Diluted earnings per share	\$ 97,153	70,074	\$ 1.39	\$ 65,643	70,033	\$ 0.94

20. Employee future benefits and other post-retirement plans:

The Company maintains a number of savings and retirement plans that are available to employees that meet certain eligibility requirements.

(a) Defined contribution plans:

In Canada, salaried employees of the Company are provided with the opportunity to make voluntary contributions to a Registered Retirement Savings Plan ("RRSP") based on a percentage of an employee's earnings. The Company matches employees' RRSP contributions with contributions to a Deferred Profit Sharing Plan ("DPSP") with the employee's future retirement benefits based on these contributions along with investment earnings on the contributions.

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2017, the pension expense for this plan is equal to the Company's contribution of \$1,891,000 (2016 - \$1,639,000).

For certain eligible employees of the Canadian Merchant Services Guild ("CMSG"), the Company makes required contributions based on a percentage of earnings into a defined contribution plan. For 2017, the pension expense is equal to the Company's contribution of \$39,000 (2016 - \$49,000).

Employees of the Company's U.S. operating subsidiaries of the Company, contribute a percentage of their earnings to a 401(k) plan which the Company matches and which vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2017, the pension expense for this plan is equal to the Company's contribution of \$4,652,000 (2016 - \$4,267,000).

Years ended December 31, 2017 and 2016

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

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

(b) Unionized employees' pension plan:

The Company contributes to an industry-wide benefit plan for unionized employees based on a predetermined amount per hour worked by an employee. For 2017, the pension expense for this plan is equal to the Company's contribution of \$3,295,000 (2016 - \$3,352,000). As there is insufficient information available to enable the Company to account for this plan as a defined benefit plan, the plan has been accounted for as a defined contribution plan. The Company's liability is limited to its contributions.

(c) Supplementary pension plans:

The Company provides supplementary pension benefits to certain members of its senior management in the form of a notional extension to the DPSP in Canada and the 401(k) plan in the U.S. These commitments are not funded but are fully accrued by the Company, with a portion of the commitments being secured by irrevocable letters of credit.

During 2017 the Company recorded an expense of \$927,000 (2016 - \$559,000) in respect of these plans.

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

	2017	2016
Trade accounts payable and provisions	\$ 799	\$ 721
Employee future benefits obligation	5,493	5,499
	\$ 6,292	\$ 6,220

(d) Defined benefit plans:

The Company and the non-union hourly employees at the Adams Lake operations make contributions to a defined benefit pension plan that provides pension benefits upon retirement. The plan entitles a retired employee to receive monthly payments based on a schedule of defined benefit accruals for different periods of service.

The Company makes contributions to a defined benefit pension plan that provides pension benefits to certain eligible employees of the CMSG upon retirement. The plan provides a retired employee a monthly payment based on a percentage of their average earnings at retirement, and their years of service. In addition, the Company provides post-retirement medical and life insurance benefits to certain eligible CMSG retirees.

The Company maintains a non-contributory defined benefit pension plan for a former senior executive.

The Company provides post retirement life insurance benefits to eligible retirees of a wholly-owned subsidiary, Seaboard Shipping Company Limited ("SSCL"). In addition, specified individuals at SSCL received a supplemental pension based on a percentage of final average earnings at retirement, and years of service. Effective December 12, 2016, the supplemental pension was settled and all liabilities were paid out through the purchase of an annuity.

Years ended December 31, 2017 and 2016

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

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

(d) Defined benefit pension plans (continued):

The Company measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

The most recent and the next scheduled actuarial valuations for funding purposes for the significant pension plans are:

	Most Recent Valuation	Next Scheduled Valuation
Adams Lake Pension Plan	December 31, 2016	December 31, 2019
CMSG Pension Plan	December 31, 2016	December 31, 2019

The significant pension plans are subject to the statutory requirements (including minimum funding requirements) of their respective jurisdictions and the Income Tax Act. Each plan's pace of funding is determined by the Company, subject to the statutory minimums and maximums.

In 2017, the Company paid contributions of \$961,000 (2016 - \$1,150,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credit totaling \$3,699,000 (2016 - \$2,555,000). In 2018, the Company expects to pay contributions of \$900,000 to its defined benefit plans, and post a total of \$4,419,000 in letters of credit.

The Company has determined that, in accordance with statutory requirements of the plans (such as minimum funding requirements), the present value of refunds or reductions in future contributions for all plans is not lower than the balance of the total fair value of the plan assets less the total present value of obligations.

Years ended December 31, 2017 and 2016

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

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

(d) Defined benefit plans (continued):

The following summarizes the pension and other post-retirement obligations:

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Defined benefit obligation:				
Beginning of year	\$ 51,209	\$ 51,505	\$ 1,889	\$ 1,813
Service cost	935	944	53	51
Employee contributions	385	377	-	-
Interest cost	1,921	1,875	71	91
Benefit payments	(2,721)	(1,986)	(66)	(66)
Actuarial loss (gain) due to:				
Demographic assumptions	253	-	9	-
Financial assumptions	3,688	48	(288)	-
Experience adjustment	1,326	126	-	-
Settlements	-	(1,680)	-	-
End of year	\$ 56,996	\$ 51,209	\$ 1,668	\$ 1,889
Plan assets:				
Beginning of year	\$ 52,811	\$ 52,020	\$ -	\$ -
Interest on plan assets	1,950	1,925	-	-
Employer contributions	895	1,084	66	66
Employee contributions	385	377	-	-
Benefit payments	(2,721)	(1,986)	(66)	(66)
Administration costs	(165)	(146)	-	-
Actuarial gain	3,134	1,683	-	-
Settlements	-	(2,146)	-	-
End of year	\$ 56,289	\$ 52,811	\$ -	\$ -
Net employee future benefits asset (liability)	\$ (707)	\$ 1,602	\$ (1,668)	\$ (1,889)

Years ended December 31, 2017 and 2016

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

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

(d) Defined benefit plans (continued):

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

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Fair value of plan assets	\$ 56,289	\$ 52,811	\$ -	\$ -
Present value of unfunded obligations	(331)	(345)	(1,668)	(1,889)
Present value of funded obligation	(56,665)	(50,864)	-	-
Net employee future benefits asset (liability)	\$ (707)	\$ 1,602	\$ (1,668)	\$ (1,889)
Employee future benefits asset	\$ 502	\$ 2,471	\$ -	\$ -
Trade accounts payable and provisions	(71)	(71)	(50)	(50)
Employee future benefits obligation	(1,138)	(798)	(1,618)	(1,839)
Net employee future benefits asset (liability)	\$ (707)	\$ 1,602	\$ (1,668)	\$ (1,889)

The following table shows the Company's net expense recognized in the Statement of Earnings and the actuarial (gains) losses recognized in Other comprehensive income:

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Statement of Earnings				
Production expense	\$ 1,100	\$ 1,090	\$ 53	\$ 51
Finance (income) costs	(29)	(50)	71	91
Restructuring costs	-	466	-	-
	\$ 1,071	\$ 1,506	\$ 124	\$ 142
Other comprehensive income (loss)				
Actuarial gains (losses)	\$ (2,133)	\$ 1,509	\$ 279	\$ -

Plan assets consist of:

Asset category	2017	2016
Investment Funds		
Canadian Equity	\$ 17,704	\$ 15,787
Global	18,351	16,766
Money Market	977	985
Fixed Income	18,718	18,715
Balanced	433	457
Cash	106	101
Total	\$ 56,289	\$ 52,811

Years ended December 31, 2017 and 2016

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

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

(d) Defined benefit plans (continued):

The plan assets held in investment funds are managed by third party investment managers and the fair values of these investments have been determined based on the unit price of the underlying funds. As such, all investment funds are categorized as Level 2 in the fair value hierarchy.

Actuarial assumptions used in accounting for the Company maintained benefit plans (expressed as weighted averages) are:

	Pension Benefits		Other Post-retirement Benefits	
	2017	2016	2017	2016
Defined benefit obligation as of December 31				
Discount rate	3.25%	3.75%	3.25%	3.75%
Compensation increases ¹	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.75%	3.75%	3.75%	3.75%
Compensation increases ¹	3.50%	3.50%	-	-

¹Compensation increases only relate to the CMSG plan.

For measurement purposes at December 31, 2017, the Company has assumed a 5.11% health care cost trend in 2018 grading down to 4.38% in 2021 (2016 – 5.36% health care cost trend in 2017 grading down to 4.38% in 2021).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	\$ 8,750	\$ 212

The sensitivity to the discount rate has been determined assuming all other assumptions remain unchanged. An increase in the discount rate would have an opposite effect of similar magnitude.

The weighted average durations of the defined benefit pension plans and other post-retirement benefit plans is fifteen years.

Through its defined benefit pension plans and other post-retirement benefits, the Company is exposed to a number of risks, the most significant of which are detailed below:

Asset liability mismatch – The defined benefit plan obligations are calculated using a discount rate set with reference to corporate bond yields. While the Adams Lake and CMSG pension plans hold some fixed income investments, both plans hold a significant proportion of equities, which are expected to outperform corporate bonds in the long term. However, in the short term, there will be volatility in the funded status of the plans.

Life expectancy – The majority of obligations are to provide benefits for the life of the member, so increases in life expectancy would result in increased obligations.

Years ended December 31, 2017 and 2016

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

21. Related party transactions:

Key management personnel are comprised of the Company's directors and executive officers.

The remuneration of key management personnel was as follows:

	2017	2016
Salary and short-term employee benefits	\$ 6,898	\$ 6,013
Post-employment benefits	661	512
Share-based compensation expense	8,833	3,112
	\$ 16,392	\$ 9,637

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

	2017	2016
Trade accounts payable and provisions	\$ 4,921	\$ 5,552
Employee future benefits obligation	3,986	3,998
Provisions and other liabilities	18,264	10,840
	\$ 27,171	\$ 20,390

22. 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.

The Company sells to both foreign and domestic markets as follows:

	2017	2016
United States	\$ 1,364,294	\$ 1,248,684
Canada	254,941	234,308
Japan	145,324	137,795
China/Taiwan	121,238	91,606
Other export	104,309	80,319
	\$ 1,990,106	\$ 1,792,712

Years ended December 31, 2017 and 2016

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

22.Segmented Information (continued):

Sales by product line are as follows:

	2017	2016
Lumber	\$ 1,679,428	\$ 1,458,296
Logs	157,641	179,275
Wood chips and other by products	146,452	145,608
Ocean freight and other	6,585	9,533
	\$ 1,990,106	\$ 1,792,712

Non-current assets by geographic location are as follows:

	2017	2016
United States	\$ 679,951	\$ 666,839
Canada	249,968	348,796
	\$ 929,919	\$ 1,015,635

23.Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Company seeks to maintain a balance between the higher returns that might be possible with the leverage afforded by higher borrowing levels and the security afforded by a sound capital position. The Company's target is to create value for its shareholders over the long term through increases in share value.

There were no changes in the Company's approach to capital management during 2017. Under its debt financing agreements, the Company cannot exceed a total debt to total capitalization ratio, with total debt defined as the total of indebtedness, including letters of credit, and long term debt, net of cash and cash equivalents up to a limit; and total capitalization defined as total debt plus shareholders' equity and subordinated debt, excluding non-controlling interests, deferred income taxes, and a maximum of \$20 million cumulative (from January 1, 2012) non-cash asset revaluations. The financial covenants under the debt financing agreements also carry a minimum working capital, a minimum net worth requirement and a minimum EBITDA coverage ratio contingent on the total debt to total capitalization ratio.

The Company is in compliance with all of its debt covenants and expects to remain in compliance.

24.Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2017, the fair value of the Company's long term debt exceeded its carrying value by \$6,937,000 (2016 – \$7,378,000), measured based on the level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

24. Financial instruments (continued):

(b) Derivative financial instruments:

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

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

Two of the Company's interest rate swaps matured on April 14, 2016 and its remaining two interest rate swaps matured on February 27, 2017.

The Company did not trade any foreign exchange contracts in 2017 or 2016.

To manage price risk, the Company also traded lumber futures which were designated as held for trading with changes in fair value recorded in Sales in Net earnings. As at December 31, 2017 the Company recognized \$6,000 (2016 - \$nil) in Trade accounts payable and other in respect of the fair value of the outstanding contracts measured based on Level 2 of the fair value hierarchy.

Lumber futures are traded through a well-established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time the risk of credit loss on these instruments is low.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2017 and 2016.

	2017	2016
Interest rate swaps ¹	\$ (11)	\$ (51)
Lumber futures ²	254	(1)
Total gain, net	\$ 243	\$ (52)

¹ Recognized in Other comprehensive income.

² Recognized in Sales in Net earnings.

(c) Hedge of investment in foreign operations:

U.S. Dollar drawings under the Revolving Term Line and Senior Secured Notes were designated as hedges against the Company's investment in its U.S. operations and repayments were de-designated as a hedge. Interfor recorded unrealized foreign exchange gains of \$17,768,000 (2016 - \$15,680,000) arising on revaluation of hedged U.S. Dollar debt in Other comprehensive income for the year ended December 31, 2017.

24. Financial instruments (continued):

(d) Financial risk management:

The use of financial instruments exposes the Company to credit, liquidity and market risk.

Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. Through its standards and procedures, management has developed a control environment in which employees are clear on roles and obligations and management regularly monitors compliance with its risk management policies and procedures.

(i) Credit risk:

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises primarily from the Company's receivables from customers and from cash and cash equivalents.

Accounts receivable

The Company's exposure to credit risk is dependent upon individual characteristics of each customer. Each new customer is assessed for creditworthiness before payment and delivery terms and conditions are offered, with such review encompassing any external ratings, and bank and other references. Purchase limits are established for each customer, and are regularly reviewed. In some cases, where customers fail to meet the Company's benchmark creditworthiness, the Company may choose to transact with the customer based on terms which are secured by guarantee or cash deposits.

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. Historically, the Company has managed its credit tightly and has experienced minimal bad debts. Based on this past experience and its detailed review of trade accounts receivable past due which were considered uncollectible, no reserve in respect of doubtful accounts was recorded as at December 31, 2017 (2016 - \$nil).

The carrying amount of financial assets represents the maximum credit exposure for receivables in North America. As all log and lumber sales outside of the North American markets are typically insured by the Export Development Corporation to 90% or secured by irrevocable letters of credit, credit exposure for these sales is limited.

Accounts receivable carrying values at the reporting date by geographic region were as follows:

	2017	2016
United States	\$ 50,555	\$ 61,755
Canada	33,132	14,243
Japan	4,823	5,312
China/Taiwan	15,130	7,397
Other	8,830	6,352
	\$ 112,470	\$ 95,059

24. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Deposits

The Company limits its exposure to credit risk by only investing in liquid securities and only with counterparties that have a high credit rating. As such, management does not expect any counterparty to fail to meet its obligations.

Guarantees

The Company did not provide any guarantees in 2017.

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company ensures, as far as possible, that it will always have sufficient liquidity to meet obligations when due and monitors cash flow requirements daily and projections weekly. Weekly debt graphs are reviewed by senior management to monitor cash balances and debt line utilizations.

The Company also maintains an Operating Line, a Revolving Term Line and a U.S. Operating Line that can be drawn on to meet obligations.

The following table summarizes Interfor's credit facilities and available liquidity as of December 31, 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	\$ 250,900	\$ 62,725	\$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Less:					
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of facility	\$ 52,485	\$ 200,000	\$ -	\$ 60,091	\$ 312,576
Add: Unrestricted cash and cash equivalents					131,263
Available liquidity at December 31, 2017					\$ 443,839

Years ended December 31, 2017 and 2016

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

24. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

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

	Total	Payments due by period			
		Up to 1 year	2-3 years	4-5 years	After 5 years
Trade accounts payable and accrued liabilities	\$ 141,013	\$ 141,013	\$ -	\$ -	\$ -
Income taxes payable	224	224	-	-	-
Reforestation liability	42,550	12,873	13,112	7,580	8,985
Long term debt	307,317	10,469	20,937	101,078	174,833
Provisions and other liabilities	44,278	11,226	8,041	2,140	22,871
Operating leases and capital commitments	96,927	50,097	20,459	11,630	14,741
Total obligations	\$ 632,309	\$ 225,902	\$ 62,549	\$ 122,428	\$ 221,430

(iii) Market risk:

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return relative to risk.

Currency risk

The Company is exposed to currency risk on cash and cash equivalents, accounts receivable, accounts payable and provisions, long term debt and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

The Company may use foreign currency exchange forward, collar and option contracts to manage its currency risk from time to time. The Company routinely assesses its foreign exchange exposure by reviewing outstanding contracts, pending order files and working capital denominated in foreign currencies.

At December 31, 2017, the Company has U.S. Dollar drawings under its Senior Secured Notes of US\$200,000,000 (2016 - Senior Secured Notes – US\$200,000,000; Revolving Term Line – US\$30,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

24. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk:

Currency risk (continued)

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

2017	CAD	USD	Japanese ¥
Accounts receivable	36,320	28,452	13,559
Accounts receivable held by foreign subsidiaries with USD functional currency	-	32,129	-
	36,320	60,581	13,559
2016	CAD	USD	Japanese ¥
Accounts receivable	18,072	20,614	19,230
Accounts receivable held by foreign subsidiaries with USD functional currency	-	36,559	-
	18,072	57,173	19,230

As at December 31, 2017, the domestic operations of the Company held cash and cash equivalents of US\$2,397,000 (2016 – US\$7,503,000). Cash and cash equivalents held by foreign subsidiaries totaled US\$48,965,000 (2016 - US\$5,195,000).

Based on the Company's net exposure to foreign currencies as at December 31, 2017, including U.S. Dollar denominated cash and cash equivalents, long term debt and other financial instruments, the sensitivity of the U.S. Dollar balances to the Company's net annual earnings is as follows:

U.S. Dollar \$0.01 increase vs CAD \$380,000 increase in Net earnings

Based on the Company's net exposure to foreign currencies as at December 31, 2017, in respect of its net investment in U.S. subsidiaries, the sensitivity of the U.S. Dollar balances to the Company's Other comprehensive income is as follows:

U.S. Dollar \$0.01 increase vs CAD \$2,959,000 increase in OCI

Interest rate risk

Until they matured on February 27, 2017, the use of interest rate swaps, which convert floating rate interest expense to fix rate interest expense, reduced the Company's exposure to changes in interest rates on borrowings. Exposure to floating rate interest was further reduced in 2017, with the repayment of all drawings under its Revolving Term Line.

The remaining US\$200,000,000 borrowings under the Senior Secured Notes were outstanding for the entire year (note 8(b)) and bear interest at fixed rates ranging from 4.02% to 4.33%.

Based on the Company's average debt level during 2017, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$287,000 in Net earnings.

24. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Other market price risk

The Company does not enter into commodity contracts other than to meet the Company's expected usage and sale requirements.

ANNUAL INFORMATION FORM

Prepared as of February 8, 2018

In this Annual Information Form, the term “Company”, “Interfor”, “we” or “our” means Interfor Corporation together with its subsidiaries. The results reported herein have been prepared in accordance with International Financial Reporting Standards (IFRS). All information in this Annual Information Form is presented as at December 31, 2017, and all amounts are in Canadian Dollars, unless otherwise specified herein.

Forward-Looking Information

This Annual Information Form contains forward-looking information about the Company’s business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings “Recent Developments”; “Manufacturing and Timber Supply”, “Sales, Marketing and Competitive Position”, “Distribution”, “Human Resources”, “Environment and Social”, “Research and Development”, and “Risk Factors”. Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described in Interfor’s annual Management’s Discussion & Analysis under the heading “Risks and Uncertainties”, which is available on www.interfor.com and under Interfor’s profile on www.sedar.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company’s ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company’s allowable annual cut (“AAC”); claims by and treaty settlements with Indigenous peoples; the Company’s ability to export its products; the softwood lumber dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia (“B.C.”); environmental impacts of the Company’s operations; labour disruptions; and cyber-security measures.

Unless otherwise indicated, the forward-looking information in this report is based on the Company’s expectations at the date of this report. Interfor undertakes no obligation to update such forward-looking information, except as required by law.

Description of Business

Interfor is a leading global supplier of lumber products. The Company has annual production capacity of approximately 3.1 billion board feet and offers one of the most diverse lines of lumber products to customers in North America, the Asia-Pacific region and Europe.

The Company has sawmilling operations in British Columbia, Washington, Oregon, Georgia, South Carolina and Arkansas. Interfor also owns value-added remanufacturing facilities in Washington and Georgia.

Company History and Description

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometres east of Vancouver, B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources.

The Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963 and, on December 1, 1979, was amalgamated with subsidiary Whonnock Forest Products Limited. On January 1, 1988, a change in name from Whonnock Industries Limited to International Forest Products Limited occurred. On February 10, 2006, we transitioned under the *Business Corporations Act* (British Columbia). Effective on May 6, 2014, the Company's name was changed to Interfor Corporation. Our head office and our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

Our significant indirectly wholly-owned subsidiary, Interfor U.S. Inc., is incorporated in the State of Washington and owns and operates our U.S. sawmills. Interfor Cedarprime Inc. (incorporated in the State of Washington) is also an indirectly wholly owned subsidiary of Interfor. Directly wholly-owned subsidiaries include Interfor U.S. Holdings Inc. (incorporated in Washington), Interfor Sales & Marketing Ltd. (incorporated in British Columbia), Interfor Japan Ltd. (incorporated in British Columbia), Interfor Insurance Corporation (incorporated in Barbados), and Seaboard Shipping Company Limited (incorporated in British Columbia).

Recent Developments

2015

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

On March 1, 2015, Interfor completed its acquisition of four sawmills and associated working capital from Simpson. The sawmills are located in Tacoma, Washington; Longview, Washington; Meldrim, Georgia and Georgetown, South Carolina.

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

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

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

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

2016

The capital project to upgrade the Company's sawmill in Castlegar, B.C. was substantially complete by the end of 2015 and it was operating at its designed productivity level to start 2016.

On February 9, 2016, Interfor renewed and extended its Canadian Operating Line of credit and Revolving Term Line to a new maturity date of May 19, 2019. The commitment amount, security and pricing grid remained unchanged, but the renewal included a number of improved provisions to provide enhanced financial flexibility and liquidity.

On June 15, 2016, the Company extended the maturity of its U.S. Operating Line from May 1, 2017 to May 1, 2018, without significant change to other terms.

On November 30, 2016, Interfor closed the sale of the Tacoma sawmill property for gross proceeds of US\$32.4 million. Net cash proceeds from the sale of the property were US\$20.4 million after taking into account transaction costs and US\$10 million of contingent consideration owed to Simpson.

2017

In 2017, the U.S. Department of Commerce and the U.S. International Trade Commission determined that the U.S. industry is materially injured by imports of softwood lumber products from Canada and imposed amended final countervailing ("CV") and anti-dumping ("AD") duties of 14.19% and 6.04%, respectively, on Interfor's shipments of softwood lumber from Canada into the U.S. These duties only impact approximately 15% of Interfor's total lumber sales, on average. CV duties were applicable from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were applicable from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards. The U.S. International Trade Commission ruling that the U.S. industry was materially injured by Canada's trade practices has set the stage for ongoing litigation. The Government of Canada has indicated it will appeal the U.S. findings and defend itself vigorously against all claims of unfair trade practices made by the U.S. As in previous trade cases, the softwood lumber dispute may take years to resolve itself through the legal process, and remains open to a negotiated settlement at any time.

On March 7, 2017, the Company launched a normal course issuer bid ("NCIB") to purchase for cancellation up to 3,500,000 of its common shares, representing approximately 5% of the common shares issued and outstanding as of March 2, 2017. As of the date of this report, no shares have been purchased by the Company under the NCIB. The NCIB will expire on March 6, 2018.

On May 17, 2017, the Company extended the maturity of its U.S. Operating Line from May 1, 2018 to May 1, 2019, without significant change to other terms.

On September 15, 2017, the Company extended its Canadian Operating Line of credit and Revolving Term Line from May 19, 2019 to September 15, 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.

On November 2, 2017, Interfor announced large scale projects at its Meldrim and Monticello sawmills, which represent a total investment of approximately US\$65 million, and are expected to be completed in Q1'19. These two projects are designed to add annual lumber production capacity of approximately 150 million board feet and enhance operating margins at these operations.

The U.S. tax reform enacted in December 2017 reduced the effective tax rate on Interfor's U.S. operations from approximately 37% to 24%.

Manufacturing and Timber Supply

We operate five sawmills in B.C. and have U.S. operations comprising two sawmills and one remanufacturing plant in Washington, two sawmills in Oregon, one sawmill in South Carolina, one sawmill in Arkansas, and seven sawmills and one remanufacturing plant in Georgia. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with customers' lumber requirements.

Rated capacity and production of lumber for each region is set out in the following table:

Sawmills	Present Rated Capacity (1)	Production for years ended December 31,		
		2017	2016	2015
		(millions of board feet)		
B.C. Coast⁽²⁾	320	148	159	164
B.C. Interior	750	727	717	620
U.S. Northwest⁽³⁾	640	564	570	655
U.S. Southeast⁽⁴⁾	1,400	1,156	1,042	1,058
Total	3,110	2,595	2,488	2,497

(1) Based on two shifts per day and adjusted for regional operating parameters.

(2) Volumes include lumber custom-cut at third party facilities under the direction of Interfor management amounting to 13, 14 and 13 million board feet in 2015, 2016 and 2017, respectively.

(3) The Longview and Tacoma sawmills were acquired on March 1, 2015. The Tacoma mill was permanently curtailed in August, 2015 and is not included in present rated capacity. Volumes reported reflect Interfor production only.

(4) The Meldrim and Georgetown sawmills were acquired on March 1, 2015. The Monticello sawmill was acquired on June 19, 2015. Volumes reported reflect Interfor production only.

CANADIAN OPERATIONS

B.C. Coast

We own and operate two sawmill operations within the B.C. Coast region. Our Hammond operation is located on the Fraser River in Maple Ridge, B.C. and consists of a three-line sawmill, a planer mill and dry kilns. This facility is focused on western red cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. Our Acorn operation is located on leased land in Delta, B.C. and consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. This sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

B.C. Interior

We own and operate three sawmill operations within the B.C. Interior region with timber tenures having a total AAC of 1.66 million cubic metres. Our Adams Lake operation is located near Kamloops, B.C., while our Castlegar and Grand Forks operations are located in the southern interior of B.C. These mills manufacture kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets, and have the capability to cut Douglas-fir, spruce-pine-fir ("SPF"), fir-larch, western red cedar and hemlock dimension lumber. The Castlegar operation includes a transportation system for transporting logs on Arrow Lake.

B.C. Timber Supply

In the Province of British Columbia, the government or "Crown" owns 95% of the timberlands from which the majority of our timber is harvested. Forest and timber harvesting operations on Crown land in B.C. are regulated under the *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*. The Government of B.C. is responsible for setting the harvest levels, approving forest stewardship plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for annual rent and stumpage fees payable to the Crown.

Interfor is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence tenures that currently provide for an AAC of approximately of 3.46 million cubic meters. The majority of Interfor's tenures are long-term (15 and 25 year) renewable agreements that are generally replaced every five to ten years.

Our timber supply needs are met by a combination of logs harvested from our own timber tenures, long-term trade and supply agreements, and log purchases on the open market. When operating at normal capacity, our mills in B.C. currently acquire approximately one-third of their log supply from external sources.

On the B.C. Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the B.C. Interior, the species mix consists of spruce, pine, fir, Douglas-fir, larch and cedar. The harvest is derived from both

old growth and second growth stands. Whereas one-half of the harvest currently comes from second growth stands on the B.C. Coast, this amount is expected to increase over the next several decades. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FLs and TFLs and other cutting rights for the periods specified. It also presents the volume of log purchases and sales during the period.

B.C. Timber Supply	Years ended December 31,			
	2018	2017	2016	2015
	(thousands of cubic metres)			
Allowable Annual Cut ⁽¹⁾				
— Forest Licences	2,566	2,775	2,775	2,775
— Tree Farm Licences	840	875	875	875
— Non Replaceable Forest Licences	-	-	-	220
— Discretionary Annual Harvest Levels ⁽²⁾	50	50	50	80
Total AAC	<u>3,456</u>	<u>3,700</u>	<u>3,700</u>	<u>3,950</u>
Log Production				
— Coast ⁽³⁾		1,296	1,308	1,331
— Interior		1,725	1,657	1,708
Total Log Production		<u>3,021</u>	<u>2,965</u>	<u>3,039</u>
Log Purchases		<u>1,271</u>	<u>1,199</u>	<u>1,112</u>
Log Sales		<u>1,203</u>	<u>1,296</u>	<u>1,453</u>

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).

(2) Includes Timber Licence tenures.

(3) 2017 volumes include production volume of 25,000 cubic metres of third party timber sales managed by Interfor (2016 – 16,000 cubic metres, 2015 – 30,000 cubic metres).

Forest Health

The Mountain Pine Beetle (“MPB”) infestation has resulted in the mortality of a significant portion of the mature pine trees in the B.C. Interior. The greatest impact has been in the central interior region where there is a high percentage (over 60%) of pine in the forest. Interfor operations are in the southern interior which have a much lower percentage of pine (less than 30%) and are less affected by the MPB. The longer term timber supply impacts of the MPB are not expected to have a significant impact on the Company’s operating areas.

Indigenous Peoples

Indigenous peoples have claimed title and rights over substantial portions of B.C. The Governments (Federal and Provincial) have been seeking to negotiate settlements with Indigenous peoples to address these claims. In addition, the Government has a duty to consult and, where appropriate, accommodate Indigenous peoples interests as this process continues.

Interfor tenures overlap with the traditional territories of over 60 different First Nations, and the Company has numerous agreements and initiatives in place to develop economic opportunities of mutual benefit. The Company is committed to working with Indigenous peoples and each Indigenous group is notified prior to development activities as part of the Forest Stewardship Planning process.

U.S. OPERATIONS

U.S. Northwest

We own and operate four sawmill operations in the U.S. Northwest ("NW"). Three of these operations, located in Port Angeles, Washington, Longview, Washington and Molalla, Oregon, produce stud lumber for the U.S. construction market. Both the Port Angeles and Molalla sawmills produce kiln-dried stud lumber from Hemlock and Douglas-fir logs while the Longview sawmill produces green Douglas-fir stud lumber with a focus on servicing home centers. Port Angeles also produces lumber in 12 foot lengths for the U.S. market and is capable of producing metric sizes for export.

Our Gilchrist sawmill located in Gilchrist, Oregon, processes Lodgepole and Ponderosa pine logs to produce a wide range of specialty and industrial lumber products. This sawmill has an onsite cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber.

We also own and operate a value-added cedar remanufacturing facility in Sumas, Washington.

U.S. South

We own and operate nine sawmill operations in the U.S. South. Seven of these sawmills are located in Georgia (Baxley, Eatonton, Swainsboro, Thomaston, Preston, Perry and Meldrim), one is located in Georgetown, South Carolina and another in Monticello, Arkansas. These nine sawmills produce southern yellow pine lumber in a range of dimensions from 2x4 through 2x12 products, with 4x4 products also produced at certain mills.

We also own and operate a value-added southern yellow pine remanufacturing facility in Perry, Georgia.

U.S. Timber Supply

U.S. Northwest

Timber supply in the NW is sourced from a broad distribution of forest land ownership (forest industrial lands, small private landowners, and State and Federal lands). These sources represent a long-term supply base from which mills purchase their timber supply. In 2017, approximately 58% of the log supply in the NW came from land that is owned by industrial and small private landowners, while the remainder was sourced from State, Federal and tribal lands.

Our timber supply requirements at the Port Angeles sawmill are weighted to western hemlock with lesser volumes of Douglas-fir. At our Longview location, we only purchase Douglas-fir. Douglas-fir is the prominent species, with smaller volumes of western hemlock and white fir at the Molalla sawmill. All three of our western Oregon and Washington sawmills depend on private industrial landowners and small private landowners for the majority of their supply. The remainder of their supply is comprised of timber from State, Federal, and tribal lands.

At the Gilchrist sawmill, log purchases consist primarily of Lodgepole pine and Ponderosa pine that are harvested from second growth forests and the thinning of young stands from surrounding National Forests. This volume is supplemented with purchases from industrial and non-industrial private lands.

U.S. South

Timber in the U.S. South is sourced primarily from privately held timberlands with only minor volumes coming from publicly owned timberlands. Private timberland ownership includes non-industrial private owners, timber real estate investment trusts (“timber REITs”) and various institutional investors such as pension funds, who are typically represented by a timberland investment management organization (“TIMO”). Both timber REITs and TIMOs are considered industrial timberland owners. Interfor’s sawmills in the U.S. South purchase timber comprised exclusively of southern yellow pine, originating from each of these sources.

The total 2018 log supply requirement for the mills in the U.S. is estimated to be supplied from the following sources:

Expected Sources of Timber 2018	U.S. Northwest	U.S. South
State, Federal and tribal lands	42%	1%
Industrial lands	45%	29%
Private lands	<u>13%</u>	<u>70%</u>
	<u>100%</u>	<u>100%</u>

Sales, Marketing and Competitive Position

The global markets for the Company's products are highly competitive and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold into markets where competitors have the same or larger capacity and may be lower cost producers.

The following table shows our lumber sales by geographic area and total sales by product line for the past three years:

	Years ended December 31,		
	2017	2016	2015
	(thousands of dollars)		
Lumber			
— U.S.A.	\$1,231,279	\$ 1,098,106	\$ 996,683
— Japan	130,817	123,878	124,252
— Canada	128,437	92,248	94,483
— China	81,146	59,102	66,581
— Other export	77,593	60,179	47,104
Offshore transportation and handling	30,157	24,783	32,089
	<u>1,679,428</u>	<u>1,458,296</u>	<u>1,361,192</u>
Logs	157,641	179,275	174,090
Wood chips and other residuals	146,452	145,608	141,717
Ocean freight, contract services and other	6,585	9,533	10,376
Total sales	<u><u>\$1,990,106</u></u>	<u><u>\$1,792,712</u></u>	<u><u>\$1,687,375</u></u>

Lumber Sales

Like other commodities, the demand for lumber is cyclical. It is affected by factors such as interest rates, foreign currency exchange rates, freight rates, government tariffs and import policies, and overall demand.

In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and offer a diverse range of products. Interfor also has a specific customer and product base in various countries, providing a diversified sales profile. Many of our operations are strategically located close to ports which allow us to fully realize on the opportunities that are available to us in our overseas markets.

Product and market diversification is particularly important as the variability inherent in the log resource produces a much wider spectrum of product sizes and quality. A continuing priority for our Company is to develop products and markets that more fully realize the potential for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into two sales groups to leverage global expertise: Export and North America. Interfor Japan Ltd., with an office in Tokyo, has developed niche markets and has increased sales directly to end-users in the Japan market. We also have an office in France to serve Continental Europe and Middle Eastern markets, and an office in China to support that country's growing demand for wood.

The primary market for our cedar product line continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales.

Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, China, Japan and Australia.

In North America, we currently service our customer base from two sales locations. Our products produced by our sawmills in Canada and the U.S. Northwest are sold out of our office in Burnaby, B.C. Our products produced by our sawmills in the U.S. South are sold out of our office in Peachtree City, Georgia.

Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade and species of log to suit market conditions and each mill's cutting profile. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chips and Other Residuals Sales

As a by-product of lumber production, our sawmills produce wood chips and other residuals. Essentially all of our wood chips produced in B.C. are sold under short-term and long-term contracts to pulp producers. In general, wood chips produced on the B.C. Coast are sold at prices related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the wood chips produced in the B.C. Interior are sold at current market prices for chips. Chips from our U.S. Northwest and U.S. South operations are sold to pulp and paper producers or fibre board manufacturers under short-term arrangements, with the exception of the Baxley, Georgetown, Meldrim, Gilchrist and Longview sawmills which each have a long-term contract with a pulp and paper producer.

Distribution

We use various modes of surface transportation to deliver our lumber products. Shipments to export markets are done by container and break-bulk vessels while shipments of lumber within North America are done by truck and rail. In 2017, break-bulk shipments were transported under contract with an independent ocean carrier and this same arrangement is in place for 2018. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C. we own short line railroads that connect to Class 1 railroads for shipping lumber and chips.

Human Resources

In B.C., we directly employ approximately 1,187 people in our logging and manufacturing operations and corporate offices. The Canadian United Steel Workers ("USW") is the certified bargaining agent for approximately 556 of these people. The agreement with the USW for the B.C. Coast has an expiry date of June 14, 2019, while the Southern Interior USW agreement expires on June 30, 2018. The Canadian Marine Service Guild ("CMSG") represents 22 employees, and their collective agreement expires September 30, 2019.

In the U.S., we employ approximately 1,875 employees in our sawmill and remanufacturing operations in Washington, Oregon, Georgia, Arkansas, South Carolina and in our offices located in Bellingham, Washington and Peachtree City, Georgia. The International Association of Machinists ("IAM") is the certified bargaining agent for approximately 92 of these people employed in the Longview, Washington sawmill. The IAM collective agreement expires on November 15, 2020.

Environment

Interfor is committed to responsible stewardship of the environment. We maintain an Environmental Management System (“EMS”) for all of our woodlands and manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

Regulatory Compliance

Extensive provincial, state, federal or other laws and regulations apply to most aspects of our business activities. Interfor has incurred and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations, including U.S. Maximum Achievable Control Technology (“MACT”) and continuous monitoring requirements applicable to certain of our boilers. These costs have not and are not expected to have a material financial or operational effect on the Company or its competitive position.

Forest Management Certification

Interfor has achieved the internationally recognized Sustainable Forestry Initiative forest management certification for all of our B.C. woodlands operations. Independent third party certification audits are conducted by KPMG Performance Registrar Inc.

Chain of Custody and Responsible Purchasing

Interfor maintains Chain-of-Custody certifications at certain mills and fibre sourcing procedures that track logs coming from sustainably managed forests through the manufacturing process.

Coast Forest Conservation Initiative

Interfor is a member of the Coast Forest Conservation Initiative (“CFCI”) – a collaborative effort of five B.C. forest product businesses committed to finding new approaches to forest conservation and management in B.C.’s Central and North Coast. CFCI collaborates with the Rainforest Solution Project (a group of environmental organizations) in a forum known as the Joint Solutions Project (“JSP”). The joint work done by JSP was a major part of the landmark Great Bear Rainforest agreement announced by the province in 2016.

Reforestation and Other Forestry-related Liabilities.

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

The Company also has a legal obligation to deactivate certain roads constructed for access to timber, once that access is no longer required. Accordingly, Interfor accrues the cost of road deactivation as related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by professional foresters and engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liabilities are

reviewed annually or more frequently if required, and can be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Continual Improvement

Each year a formal management review of the Company's sustainable forest management program and performance is completed as part of the process of continual improvement.

Additional information about our environmental work and third party certification is available on our website at www.interfor.com and in our sustainability report, which will be made available on our website in due course.

Research and Development

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques and anti-sap stain applications. We are committed to applied research and development in the areas of environment, health and safety, forest management, and product and market development. We also conduct product and market research on our own in Canada and the U.S.

Risk Factors

Discussion of risk factors relating to the Company and its operations is included under the heading Risks and Uncertainties within Interfor's 2017 annual Management's Discussion and Analysis prepared as of February 8, 2018, which is incorporated by reference herein and available on SEDAR at www.sedar.com.

Capital Structure

The authorized share structure of the Company consists of:

- 150,000,000 Common Shares without Par Value with Special Rights and Restrictions ("Common Shares"); and
- 5,000,000 Preference Shares without Par Value with Special Rights and Restrictions ("Preference Shares").

As at February 8, 2018 there were 70,030,455 Common Shares outstanding. There were no Preference Shares outstanding.

Common Shares

Each holder of a Common Share is entitled to receive notice of and to attend and vote in person or by proxy at all meetings of the shareholders of the Company and is entitled to one vote for each such share held.

Each holder of a Common Share is entitled to receive such dividends as the directors may in their sole discretion declare from time to time. No holder of a Common Share will be entitled to any dividend other than or in excess of the dividends declared by the directors. Subject to any special rights or restrictions as to dividends attached to any Preference Shares issued and outstanding from time to time, the directors have the discretion to declare dividends on the Common Shares.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets for the purpose of winding up its affairs, holders of the Common Shares will not receive any amount, property or asset, until the holders of the Preference Shares and any other class or series of shares entitled to receive assets of the Company in priority to the holders of the Common Shares, have first received the amount to which they are entitled. Thereafter, the holders of the Common Shares will be entitled to all remaining property and assets of the Company on a share for share basis.

Preference Shares

The Preference Shares may be issued in one or more series. The directors may by resolution fix the number of Preference Shares in each series, determine the designation of the Preference Shares of each series, and attach special rights and restrictions to the Preference Shares of each series.

The Preference Shares rank in priority over the Common Shares and any other shares ranking junior to the Preference Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

The registered holders of the Preference Shares shall not be entitled as a class to receive notice of or to attend or to vote at any meeting of shareholders of the Company, except in the event of matters affecting the priority rights or any other rights or restrictions attaching to the Preference Shares.

Market for Securities of the Company

The Common Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol IFP. The following table sets out the market price range and trading volumes of the Common Shares on the TSX for the periods indicated:

Toronto Stock Exchange (TSX)			
2017 Trading Volumes			
Ticker: IFP			
Month	\$ Low	\$ High	Volume
January	13.52	15.21	2,733,084
February	13.49	18.75	7,654,157
March	16.21	18.74	5,143,021
April	16.77	20.34	4,775,609
May	17.43	20.33	5,135,148
June	17.47	19.08	2,884,223
July	17.10	19.83	3,053,848
August	17.01	20.40	3,961,723
September	17.29	20.09	5,371,349
October	19.65	22.14	5,259,343
November	20.60	22.43	4,918,468
December	19.70	21.80	3,136,685

Securities Subject to Contractual Restriction on Transfer

Designation of class	Number of securities that are subject to a contractual restriction on transfer	Percentage of class
Common Shares	3.68 million ¹	5.25%

Note 1: Until one year after the date that the Interfor director designated by Ilim Timber Continental, S.A. ("Ilim") ceased to be a director of Interfor (i.e. December 5, 2018), Ilim may not sell or otherwise transfer its Common Shares (other than a pledge to an acceptable third party lender) without the prior written consent of Interfor.

Transfer Agent

The transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

Material Contracts

The following material contracts were entered into by the Company during or after 2017, or before 2017 but are still in effect:

1. Interfor September 2016 Amended and Restated Credit Agreement, dated for reference September 22, 2016, between the Company, each of the lenders named therein and Royal Bank of Canada in its capacity as the arranger and agent, as amended on September 15, 2017 to extend the maturity of the Company's Canadian Operating Line of credit and Revolving Term Line from May 19, 2019 to September 15, 2021.
2. Amended and Restated Note Purchase and Private Shelf Agreement dated as of March 16, 2015, between the Company, PGIM, Inc. and the purchasers named therein, as amended on April 20, 2015, February 9, 2016, September 22, 2016 and September 15, 2017. The Series A senior secured notes issued under this agreement are for a principal amount of US\$50 million, carry an annual interest rate of 4.33% and have a final maturity date of June 26, 2023. The Series B senior secured notes issued under this agreement are for a principal amount of US\$50 million, carry an annual interest rate of 4.02% and have a final maturity date of June 26, 2023. The Series C senior secured notes issued under this agreement are for a principal amount of US\$100 million, carry an annual interest rate of 4.17% and have a final maturity date of March 26, 2026.

All of these contracts are available on www.sedar.com.

Directors and Officers**Directors of the Company**

The following table sets out the Company's directors as of February 8, 2018, their respective municipalities of residence, positions and offices held with the Company, principal occupations within the past five years and the period during which each director has served as a director:

Name and Municipality of Residence	Director Since	Positions Held and Principal Occupations	From	To
DUNCAN K. DAVIES Vancouver, BC, Canada	November 1998	President and Chief Executive Officer Interfor Corporation	2000	Present
JEANE HULL Sheridan, WY, USA	May 2014	Director Epiroc AB	2017	Present
		Director Cloud Peak Energy Inc. (NYSE: CLD)	2016	Present
		Executive Vice President and Chief Technical Officer Peabody Energy Corporation, a private-sector coal company	2011	2015
PETER M. LYNCH Toronto, ON, Canada	October 2006	Chair Dieffenbacher USA, Inc., a manufacturer and designer of press and forming systems	2017	Present
		President & CEO Dieffenbacher USA, Inc.	2013	2016
		Independent Business Consultant	2010	2013
GORDON. H. MacDOUGALL West Vancouver, BC, Canada	February 2007	Director Connor, Clark & Lunn Financial Group, an asset management company.	2014	Present
		Vice Chair Connor, Clark & Lunn Investment Management Ltd.	2006	2014
		Partner Connor, Clark & Lunn Investment Management Partnership	1986	2014
J. EDDIE McMILLAN Pensacola, FL, USA	October 2006	Independent Business Consultant	2002	Present

THOMAS V. MILROY Toronto, ON, Canada	February 2016	Director Restaurant Brands International Inc. (TSX/NYSE: QSR, TSX: QSP)	2014	Present
		Director Tim Hortons Inc.	2013	2014
		Managing Director Generation Capital Limited, a private investment company	2015	Present
		Chief Executive Officer BMO Capital Markets	2008	2014
		Director J2 Acquisition Limited (LSE: JTWO)	2017	Present
GILLIAN PLATT Kelowna, BC, Canada	October 2016	Director CRH plc (LSE: CRH, ISE: CRG, NYSE: CRH), an Irish based building materials group	2017	Present
		Executive Vice President and Chief Human Resources Officer Finning International Inc., a distributor of Caterpillar products and support services	2014	2016
		Principal Gillian Platt & Associates, executive advisory and coaching practice	2013	2014
		Executive Vice President, Human Resources Aviva North America, a multi-national insurance company	2011	2012
E. LAWRENCE SAUDER Vancouver, BC, Canada	April 1984	Chair Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of interior finishings	2010	Present
		Chief Executive Officer, Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of building products	2010	2014
		Chair Hardwoods Distribution Inc. (TSX: HWD), a distributor of wood products	2008	Present
DOUGLAS W.G. WHITEHEAD West Vancouver, BC, Canada	April 2007	Chair and Director Finning International Inc. (TSX: FTT), a distributor of Caterpillar products and support services	2008	Present
		Director Belcorp Industries Inc.	2000	Present
		Director Kal Tire	2012	Present

To our knowledge, two of the Company's directors have in the last 10 years been an officer or director of a company that was subject to bankruptcy or similar proceedings or securities regulatory sanctions described in National Instrument 51-102 *Continuous Disclosure Obligations* while that person was acting in that capacity, or that resulted from an event that occurred while that person was acting in that capacity. From 1993 to 2010, Mr. Lynch was an executive officer and director of Grant Forest Products Inc. ("Grant Forest"). On June 25, 2009, Grant Forest and certain affiliated entities filed and obtained protection under the Companies' Creditors Arrangement Act in order to restructure their business affairs and on November 27, 2015, Grant Forest filed for bankruptcy. From April 2011 to July 31, 2015, Ms. Hull was the Executive Vice President and Chief Technical Officer of Peabody Energy Corporation ("Peabody"). Peabody filed for Chapter 11 bankruptcy protection on April 13, 2016 and emerged from Chapter 11 protection on April 3, 2017.

The term of office for all current directors will end at the conclusion of the next Annual General Meeting of the Company's shareholders. The next Annual General Meeting is scheduled for Thursday, May 3, 2018.

Committees of the Board

The table below lists the committees of Interfor's board of directors and their members as of February 8, 2018:

Committees	Members
Audit	Doug Whitehead (Chair) Jeane Hull Eddie McMillan Tom Milroy
Corporate Governance & Nominating Committee	Eddie McMillan (Chair) Gord MacDougall Peter Lynch
Management Resources & Compensation Committee	Gord MacDougall (Chair) Lawrence Sauder Peter Lynch Gillian Platt Doug Whitehead
Environment & Safety Committee	Jeane Hull (Chair) Tom Milroy Gillian Platt Lawrence Sauder

Officers of the Company

The following table sets out the Company's officers as of February 8, 2018, their respective municipalities of residence and their principal occupations for at least the last five years:

Name and Municipality of Residence	Positions Held and Principal Occupations	From	To
DUNCAN K. DAVIES Vancouver, BC, Canada	President & Chief Executive Officer Interfor Corporation	2000	Present
JOHN A. HORNING West Vancouver, BC, Canada	Executive Vice President & Chief Financial Officer Interfor Corporation	2014	Present
	Senior Vice President & Chief Financial Officer Interfor Corporation	2002	2014

MARTIN L. JURAVSKY Toronto, ON, Canada	Senior Vice President, Corporate Development and Strategy Interfor Corporation	2014	Present
	Vice President, Corporate Development and Strategy Interfor Corporation	2013	2014
	Business Consultant	2012	2013
IAN M. FILLINGER Kamloops, BC, Canada	Senior Vice President, Head of Operations Interfor Corporation	2015	Present
	Senior Vice President, Canadian Operations Interfor Corporation	2014	2015
	Vice President, Canadian Operations Interfor Corporation	2013	2014
	Senior General Manager Interfor Corporation	2013	2013
	General Manager, Adams Lake & Coastal Manufacturing Interfor Corporation	2012	2013
	General Manager, Adams Lake Division Interfor Corporation	2005	2012
MARK W. STOCK North Vancouver, BC, Canada	Senior Vice President, Human Resources Interfor Corporation	2014	Present
	Vice President, Human Resources Interfor Corporation	2012	2014
	Vice President, Global Human Resources Tree Island Industries Ltd.	2007	2012
BART BENDER West Vancouver, BC, Canada	Senior Vice President, Sales & Marketing Interfor Corporation	2015	Present
	Senior Vice President, Operations Ainsworth Lumber Co.	2014	2015
	Vice President, Sales Ainsworth Lumber Co.	2012	2014
	General Manager, Sales Ainsworth Lumber Co.	2002	2012
XENIA KRITSOS Vancouver, BC, Canada	General Counsel & Corporate Secretary Interfor Corporation	2015	Present
	General Counsel & Corporate Secretary Coalspur Mines Limited	2013	2015
	Senior Legal Counsel Hunter Dickinson Services Inc.	2009	2013

As at December 31, 2017, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 786,452 Common Shares representing approximately 1.12% of the outstanding Common Shares^[1].

^[1] Based on Insider Reports filed on SEDI.

Interest of Management and Others in Material Transactions

Since the commencement of our current financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

Legal Proceedings

We are not a party to, and our property is not the subject of, any material legal proceedings that took place in 2017, are currently underway, or which we know to be contemplated. In November 2016, U.S. softwood lumber producers filed antidumping and countervailing duty petitions with the U.S. Department of Commerce, alleging that dumped and subsidized Canadian imports are causing material injury to the U.S. domestic industry. Although Interfor has not been selected as a mandatory respondent in either of the antidumping or countervailing duty investigations, the outcome of these investigations will likely affect Interfor.

Interests of Experts

KPMG LLP are the external auditors of the Company and have confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Professional Accountants of British Columbia and the applicable rules and regulations thereunder.

Audit Committee Information

The Company's Audit Committee (the "Committee") is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board's objectives. The Committee's functions include:

- reviewing and, if appropriate, recommending approval by the Board of the Company's annual and quarterly financial statements, management's discussion and analysis and earnings press releases;
- reviewing and approving disclosures required to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees;
- reviewing the process for certification, and the certification, of the interim and annual financial statements by the Chief Executive Officer and Chief Financial Officer;
- reviewing all public disclosure containing financial results or financial information;
- reviewing matters related to internal controls over financial reporting of the Company and ensuring the Company has adequate internal controls procedures in place;
- reviewing the principal risks of the Company, other than the risks associated with the Company's compensation policies and practices, and ensuring that an effective risk management strategy is in place;
- reviewing the Company's derivatives policies and activities, including details of exposures to banks and other counterparties;

- overseeing the activities of and directly communicating with the Company's external auditor;
- satisfying itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing the adequacy of those procedures;
- establishing and periodically reviewing the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters;
- reviewing and approving the Company's hiring policies regarding partners, employees and former partners and employees of the former and present external auditor; and
- reviewing the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and making recommendations for their renewal or replacement.

The Committee's Terms of Reference, attached as Appendix "A" to this Annual Information Form, sets out its duties and responsibilities.

The Committee met four times in 2017, in conjunction with regularly scheduled Board meetings.

Members' Financial Literacy, Expertise and Simultaneous Service

The board of directors has determined that the members of the Audit Committee during 2017 were, and all current members of the Audit Committee are, financially literate and independent as defined in *National Instrument 52-110 – Audit Committees*. The table below indicates the relevant education and experience of each member of the Audit Committee:

Relevant Education and Experience

Director	Past Occupation
<p>Douglas W.G. Whitehead</p> <p>Chair of the Audit Committee since May 2012</p>	<p>Mr. Whitehead is currently the Chair and a director of Finning International Inc. (TSX: FTT) ("Finning"). He is also currently a director of Belcorp Industries Inc. and Kal Tire. From 2008 to 2016 Mr. Whitehead was Board Chair, and from 2000 to 2008 he was the President and Chief Executive Officer, of Finning. Prior to joining Finning, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. Previously, he served as director of Inmet Mining Corporation, Ballard Power Systems Inc., Terasen Inc., Fletcher Challenge Canada, Finlay Forest Industries and Timberwest Forest Limited. Mr. Whitehead holds a Bachelor of Applied Science (Engineering) from the University of British Columbia and a Master of Business Administration from the University of Western Ontario.</p>
<p>Jeane Hull</p> <p>Member since April 2016</p>	<p>Ms. Hull is currently a director of Cloud Peak Energy Inc. (NYSE: CLD) and Epiroc AB. From 2011 to 2015, she was Executive Vice President and Chief Technical Officer at Peabody Energy Corporation, a private-sector coal company. Prior to joining Peabody in 2007, she held numerous management, engineering and operations positions with Rio Tinto and its affiliates, lastly as COO of the Kennecott Utah Copper business. Prior thereto, she spent 12 years with Mobil Mining and Minerals, and Mobil Chemical Company. She is Chair of the University of Wyoming School of Energy Resources Council. She also serves on the Advisory Board for South Dakota School of Mines and Technology. She holds a Bachelor of Science (Civil Eng.) from South Dakota School of Mines & Technology and a Master of Business Administration from Nova Southeastern University.</p>

<p>Eddie McMillan Member since April 2016</p>	<p>Mr. McMillan is an independent business consultant. From 1998 until his retirement in 2002, he was Executive Vice President – Wood Products Group of Willamette Industries Inc., a forest products company. Prior to 1998, Mr. McMillan held various management positions with Willamette Industries Inc. Over the years, he has served as a director of Forest Express, Inc. and has been associated with numerous industry association boards, including the American Plywood Association, National Particleboard Association, Particleboard and MDF Institute, Southern Forest Products Association, Western Wood Products Association, National Association of Lumber Wholesalers and the American Forest and Paper Association. He holds a Bachelor of Science (Accounting/Business Administration) from Louisiana Tech University.</p>
<p>Thomas V. Milroy Member since April 2016</p>	<p>Mr. Milroy is a director of Restaurant Brands International Inc. (TSX/NYSE: QSR, TSX: QSP) and has served on that board, as well as one of its predecessor companies since 2013. He also serves as a director of J2 Acquisition Limited (LSE: JTWO) since 2017. He is currently Managing Director of Generation Capital Limited, a private investment company. Prior to that, Mr. Milroy worked for BMO Financial Group from 1993 to 2015, most recently serving as Chief Executive Officer of BMO Capital Markets from 2008 to 2014, where he was responsible for all of BMO's business involving corporate, institutional and government clients globally. Mr. Milroy holds a Bachelor of Law and Master of Law from Cambridge University, an LLB from Dalhousie University, and a Bachelor of Arts from McGill University. He has also completed the Advanced Management Program at the Harvard Business School. Mr. Milroy is a member of the Law Society of Upper Canada.</p>

Audit Fees

The Committee annually recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation are approved by the Committee before the services commence.

KPMG LLP, Chartered Professional Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2016 and 2017, were as follows:

	2017	2016
Audit fees		
Fees billed for professional services rendered.	\$555,900	\$538,200
Audit-related fees		
Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan and subsidiary companies.	47,700	46,826
Tax fees		
Tax fees consist of fees for tax compliance services, planning and related services, personal tax (foreign and domestic) compliance and planning advice, indirect tax recovery audit contingency fees which are based on percentage of recoveries.	98,059	43,177
All Other fees		
Forestry certification.	68,850	66,300
TOTAL	\$770,509	\$694,503

Code of Ethics

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct & Ethics", can be found on our website at www.interfor.com.

Additional Information

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information about the Company is provided in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2017.

Copies of the documents referred to above and additional information relating to the Company are available on SEDAR at www.sedar.com, on the Company's website www.interfor.com and may also be obtained upon request from:

Interfor Corporation
General Counsel & Corporate Secretary
3500-1055 Dunsmuir Street
Vancouver, British Columbia
Canada, V7X 1H7
Telephone: 604 689 6800
Facsimile: 604 689 6825
E-mail: corporatesecretary@interfor.com

Appendix "A"

AUDIT COMMITTEE Terms of Reference

PURPOSE

The Audit Committee has been established by the Board and under powers delegated to it by the Board is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board Objective.

COMPOSITION AND TERM OF OFFICE

1. The Audit Committee shall consist of four or more Directors.
2. All members of the Audit Committee shall be independent within the meaning of *National Instrument 52-110 ("NI 52-110")*.
3. All members must be financially literate within the meaning of NI 52-110 or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.
4. The Chair of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless any member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.
5. A quorum shall consist of a simple majority.

DUTIES AND RESPONSIBILITIES

The Audit Committee shall perform the following functions, as well as any other functions specifically authorized by the Board:

Financial Disclosure, Risk Management and Internal Controls

1. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company's:
 - a. annual and quarterly financial statements;
 - b. Management's Discussion and Analysis; and
 - c. annual and interim earnings press releases.

The review will involve direct discussions with Management and the Company's external auditor (the "**Auditor**"), including an opportunity for an in-camera meeting with the Auditor independent of Management.

2. Review and approve the disclosures required by applicable securities laws to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.

3. Review the process for certification of the interim and annual financial statements by the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”) and the certifications made by the CEO and CFO.
4. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.
5. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.
6. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor’s reports.
7. Review the principal risks of the Company, other than the risks associated with the Company’s compensation policies and practices, and ensure that an effective risk management strategy is in place.
8. Review the Company’s derivatives policies and activities, including details of exposures to banks and other counterparties.

External Auditor

9. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor’s report and performing other audit, review or attest services for the Company.
 10. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.
 11. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.
 12. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.
 13. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor’s firm and peer reviews.
 14. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.
 15. Resolve disagreements between Management and the Auditor regarding financial reporting.
 16. Review material written communications between the Auditor and Management.
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Non-Audit Services

17. Pre-approve non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval.

Company Policies

18. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.
19. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.
20. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

Insurance

21. Review the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and make recommendations for their renewal or replacement.

MEETINGS AND PROCEDURES

1. The Audit Committee shall meet a minimum of four (4) times per year and, subject to these Terms of Reference and applicable law, otherwise establish its procedures and govern itself as the members of the Audit Committee may see fit in order to carry out and fulfill its duties and responsibilities hereunder. Extraordinary meetings of the Audit Committee may be called at the request of a member on the Audit Committee or the Chair of the Board to be held at such times and places as the person calling such meeting may determine.
2. A majority of members of the Audit Committee will constitute a quorum (provided that a quorum shall not be less than two (2) members). Decisions of the Audit Committee will be by an affirmative vote of the majority of those members of the Audit Committee voting at a meeting. In the event of an equality of votes, the Chair will not have a casting or deciding vote. The Audit Committee may also act by resolution in writing signed by all the members of the Audit Committee.
3. The Audit Committee shall appoint a Secretary who shall keep minutes or other records of its meetings and proceedings.
4. The Chair of the Audit Committee shall report to the Board at its next regular meeting the Audit Committee's deliberations and recommendations, if any, requiring the Board's approval.

OTHER MATTERS

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.
 2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.
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GLOSSARY

Unless otherwise noted, all financial references in this Annual Report are in Canadian Dollars.

“Adjusted EBITDA” EBITDA excluding long term incentive compensation, other income (expense), and post-closure wind-down costs and losses (recoveries).

“Adjusted EBITDA margin” Adjusted EBITDA divided by total sales.

“Adjusted net earnings” Net earnings (loss) before restructuring costs, capital asset write-downs and other costs, other foreign exchange gains (losses), long term incentive compensation, other income (expense), post-closure wind-down costs and losses (recoveries), the income tax effect of the aforementioned adjustments, and recognition of previously unrecognized deferred tax assets.

“Allowable Annual Cut (AAC)” The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

“Cash flow from operations” Cash flow provided by operating activities before considering changes in operating working capital.

“Custom cutting” An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

“Crown” Administrative agency of the provincial government of British Columbia.

“EBITDA” Earnings before finance costs, income taxes, depreciation, depletion, amortization, restructuring costs, asset write-downs and other costs, and other foreign exchange gains (losses).

“Forest Licence” Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

“Invested capital” The total of net debt and shareholders’ equity.

“m³” A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the *Forest Act*, equal to 35.3 cubic feet of solid wood.

“mfbm” or **“Mbf”** One thousand foot board measure equal to one thousand square feet of lumber, one inch thick.

“Net debt” The total of long-term debt and bank indebtedness, less cash and cash equivalents.

“Return on invested capital” Adjusted EBITDA divided by average invested capital.

“Silviculture” The art and science of controlling the establishment, growth, composition, health and quality of forests.

“Stumpage” A charge assessed by the provincial government on all Crown timber harvested.

“Sustained yield (sustainable log supply)” The yield that a forest area can produce on an ongoing basis without impairment of the long-term productivity of the land.

“Timber Licence” Non-replaceable, area based, Crown timber cutting rights.

“Tree Farm Licence” A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

“Value-added product” A commodity or other product that has been further processed to increase financial value.

“Whitewood” Includes coastal species Hemlock, Balsam Fir, Douglas-Fir and Spruce; the term whitewood is used on the British Columbia Coast to differentiate the above species from Western Red Cedar and Yellow Cedar.

DIRECTORS**As of March 27, 2018****Duncan K. Davies**

Vancouver, BC, Canada

Jeane Hull

Sheridan, WY, US

Peter M. Lynch

Toronto, ON, Canada

Gordon H. MacDougall

West Vancouver, BC, Canada

J. Eddie McMillan

Pensacola, FL, US

Thomas V. Milroy

Toronto, ON, Canada

Gillian Platt

Kelowna, BC, Canada

E. Lawrence Sauder

Vancouver, BC, Canada

Douglas W.G. Whitehead

West Vancouver, BC, Canada

OFFICERS**As of March 27, 2018****E. Lawrence Sauder**

Chair

John A. Horning

Executive Vice President

Ian M. Fillinger

Senior Vice President & Chief Operating Officer

Bart Bender

Senior Vice President, Sales & Marketing

Duncan K. Davies

President & Chief Executive Officer

Martin L. Juravsky

Senior Vice President & Chief Financial Officer

Mark W. Stock

Senior Vice President, Human Resources & IT

Xenia Kritsos

General Counsel & Corporate Secretary

CORPORATE INFORMATION

Stock Exchange Common Shares listed on The Toronto Stock Exchange Symbol: IFP	Auditors KPMG LLP, Vancouver, BC	Transfer Agent Computershare Investor Services Inc. Vancouver, BC and Toronto, ON
Investor Contact Martin Juravsky Senior Vice President & Chief Financial Officer Tel: (604) 689-6873 martin.juravsky@interfor.com	Corporate Office Tel: (604) 689-6800 Fax: (604) 688-0313 P.O. Box 49114 3500-1055 Dunsmuir Street Vancouver, BC V7X 1H7	

SALES AND MARKETING

North America – Specialty Tel: (604) 422-3400 Fax: (604) 422-3244 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	North America – Southern Yellow Pine Tel: (770) 282-3250 Fax: (770) 486-6837 700 Westpark Drive, Suite 100 Peachtree City, GA, US 30269	North America – Western Commodity Lumber Tel: 1-844-702-2860 Fax: (604) 422-3232 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2
Export – All Species/Inquiries Tel: (604) 422-3468 Fax: (604) 422-3250 1600-4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	China Tel: +86-21-6333-6268 Fax: +86-21-6333-6290 Unit 1007, Tower No. 1 No. 268 Zhongshan South Road Shanghai, 200010, China	Japan Tel: +03-5641-2351 Fax: +03-5641-2383 Kasahara Bldg. 6F, 1-7-7 Nihonbashi, Ningyocho, Chuo-ku Tokyo, Japan 103 - 0013
Europe Tel: +33-2-40-32-05-25 Fax: +33-2-40-32-02-25 ZI Cheviré 7 rue de l'Houmaille 44340 BOUGUENAIS, France		

OPERATIONS AND LOCATIONS

<p>Acorn Division (Sawmill) Tel: (604) 581-0494 Fax: (604) 581-5757 9355 Alaska Way Delta, BC V4C 4R7</p>	<p>Adams Lake Division (Sawmill and Woodlands) Tel: (250) 679-3234 Fax: (250) 679-3545 9200 Holding Road Chase, BC V0E 1M2</p>	<p>Baxley Division (Sawmill) Tel: (912) 367-3671 Fax: (912) 367-1500 1830 Golden Isles East Baxley, GA 31513</p>
<p>Castlegar Division (Sawmill and Woodlands) Tel: (250) 365-4400 Fax: (604) 422-3252 P.O. Box 3728 2705 Arrow Lakes Drive Castlegar, BC V1N 3W4</p>	<p>Cedarprime (Remanufacturing) Interfor Cedarprime Inc. Tel: (360) 988-2120 Fax: (360) 988-2126 601C West Front Street Sumas, WA 98295</p>	<p>Coastal Woodlands Division (Woodlands) Tel: (250) 286-1881 Fax: (250) 286-3412 1250A Ironwood Street Campbell River, BC V9W 6H5</p>
<p>Eatonton Division (Sawmill) Tel: (706) 485-4271 Fax: (706) 485-3879 370 Dennis Station Road SW Eatonton, GA 31024</p>	<p>Georgetown Division (Sawmill) Tel: (843) 546-6138 Fax: (843) 527-4033 2701 Indian Hut Road Georgetown, SC 29440-9146</p>	<p>Gilchrist Division (Sawmill) Tel: (541) 433-2222 Fax: (541) 433-9581 P.O. Box 638 #1 Sawmill Road Gilchrist, OR 97737</p>
<p>Grand Forks Division (Sawmill and Woodlands) Tel: (250) 443-2400 Fax: (604) 422-3253 P.O. Box 39 570 68th Ave. Grand Forks, BC V0H 1H0</p>	<p>Hammond Division (Sawmill) Tel: (604) 465-5401 Fax: (604) 422-3221 20580 Maple Crescent Maple Ridge, BC V2X 1B1</p>	<p>Longview Division (Sawmill) Tel: (360) 575-3600 Fax: (360) 575-3628 540 3rd Ave. Longview, WA 98632</p>
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