



INTERFOR CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS
MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Management is responsible for the integrity and fair presentation of the accompanying consolidated financial statements. The financial statements were prepared in accordance with International Financial Reporting Standards and, where necessary, are based in part on management's best estimates and judgements. Financial information included elsewhere in the 2015 Annual Report is consistent with that disclosed in the consolidated financial statements.

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

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

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

"Duncan K. Davies"

President and Chief Executive Officer

"John A. Horning"

Executive Vice President and Chief Financial
Officer

February 11, 2016

CONSOLIDATED FINANCIAL STATEMENTS INDEPENDENT AUDITORS' REPORT

To the Shareholders

We have audited the accompanying consolidated financial statements of Interfor Corporation (the "Company") which comprise the consolidated statements of financial position as at December 31, 2015 and December 31, 2014, the consolidated statements of loss, comprehensive income, changes in equity and cash flows for the years ended December 31, 2015 and December 31, 2014, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Interfor Corporation as at December 31, 2015 and December 31, 2014, and its consolidated financial performance and its consolidated cash flows for the years ended December 31, 2015 and December 31, 2014 in accordance with International Financial Reporting Standards.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that starts under the 'K' and ends under the 'P'.

KPMG LLP, Chartered Accountants

February 11, 2016
Vancouver, Canada

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2015 and 2014

	<i>Note</i>	December 31 2015	December 31 2014
Assets			
Current assets:			
Cash and cash equivalents	10	\$ 16,456	\$ 17,866
Trade accounts receivable and other		95,218	80,283
Income tax receivable	19	459	-
Inventories	6	155,740	148,668
Prepayments and other		15,512	12,175
Assets held for sale	5	27,836	-
		311,221	258,992
Employee future benefits	22	1,570	2,520
Other investments and assets	7	3,191	2,972
Property, plant and equipment	4, 8	777,590	541,378
Logging roads and bridges	9	20,611	22,244
Timber licences	9	72,429	79,024
Other intangible assets	9	23,601	24,397
Goodwill	9	160,914	136,996
Deferred income taxes	19	18,669	-
		\$1,389,796	\$ 1,068,523
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	11	\$ 130,840	\$ 139,153
Reforestation liability	12	11,052	9,797
Income taxes payable	19	398	365
		142,290	149,315
Reforestation liability	12	25,074	23,099
Long term debt	10	468,759	220,419
Employee future benefits	22	8,391	7,361
Provisions and other liabilities	11	20,028	25,190
Deferred income taxes	19	-	6,659
Equity:			
Share capital	13	553,559	490,363
Contributed surplus		7,665	7,476
Translation reserve		77,425	20,950
Hedge reserve		62	133
Retained earnings		86,543	117,558
		725,254	636,480
		\$ 1,389,796	\$ 1,068,523

Commitments and contingencies (*note 20*); Subsequent events (*note 10*).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director

"D.W.G. Whitehead", Director

Interfor Corporation
Consolidated Statements of Earnings (Loss)
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Sales		\$1,687,375	\$1,447,157
Costs and expenses:			
Production		1,554,975	1,243,464
Selling and administration	4	46,756	35,489
Long term incentive compensation expense (recovery)	11	(5,431)	23,933
Export taxes		5,216	-
Depreciation of plant and equipment	8	71,492	55,167
Depletion and amortization of timber, roads and other	9	37,478	28,912
		<u>1,710,486</u>	<u>1,386,965</u>
Operating earnings (loss) before restructuring costs		(23,111)	60,192
Restructuring costs	18	(12,829)	(24,129)
Operating earnings (loss)		(35,940)	36,063
Finance costs	16	(17,569)	(8,915)
Other foreign exchange loss		(1,651)	(2,651)
Other income (expense)	17	757	(37)
		<u>(18,463)</u>	<u>(11,603)</u>
Earnings (loss) before income taxes		(54,403)	24,460
Income tax expense (recovery):	19		
Current		614	1,342
Deferred		(24,631)	(17,572)
		<u>(24,017)</u>	<u>(16,230)</u>
Net earnings (loss)		<u>\$ (30,386)</u>	<u>\$ 40,690</u>
Net earnings (loss) per share, basic and diluted	21	<u>\$ (0.44)</u>	<u>\$ 0.62</u>

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Net earnings (loss)		\$ (30,386)	\$ 40,690
Other comprehensive income:			
Items that will not be recycled to Net earnings (loss):			
Defined benefit plan actuarial losses	22	(1,005)	(1,342)
Items that are or may be recycled to Net earnings (loss):			
Foreign currency translation differences for foreign operations, net of tax		56,475	20,389
Loss in fair value of interest rate swaps	16, 26	(71)	(34)
Income tax on other comprehensive income	19	376	-
Total items that are or may be recycled to Net earnings (loss)		56,780	20,355
Total other comprehensive income, net of tax		55,775	19,013
Comprehensive income		\$ 25,389	\$ 59,703

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, 2015 and 2014

<i>Note</i>	Common Shares	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
Balance at December 31, 2013	\$ 428,723	\$ 7,476	\$ 561	\$ 167	\$ 78,210	\$ 515,137
Net earnings:	-	-	-	-	40,690	40,690
Other comprehensive income (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	20,389	-	-	20,389
Defined benefit plan actuarial losses, net of tax	<i>22</i>	-	-	-	(1,342)	(1,342)
Loss in fair value of interest rate swaps	<i>26</i>	-	-	(34)	-	(34)
Contributions:						
Shares issued in business combination	<i>4, 13(a)</i>	61,640	-	-	-	61,640
Balance at December 31, 2014	490,363	7,476	20,950	133	117,558	636,480
Net earnings (loss):	-	-	-	-	(30,386)	(30,386)
Other comprehensive income (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	56,475	-	-	56,475
Defined benefit plan actuarial losses, net of tax	<i>22</i>	-	-	-	(629)	(629)
Loss in fair value of interest rate swaps	<i>26</i>	-	-	(71)	-	(71)
Contributions:						
Share issuance, net of share issue expenses	<i>4, 13(a)</i>	63,196	-	-	-	63,196
Stock options	<i>13(b)</i>	-	189	-	-	189
Balance at December 31, 2015	\$ 553,559	\$ 7,665	\$ 77,425	\$ 62	\$ 86,543	\$ 725,254

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2015 and 2014

	<i>Note</i>	2015	2014
Cash provided by (used in):			
Operating activities:			
Net earnings (loss)		\$ (30,386)	\$ 40,690
Items not involving cash:			
Depreciation of plant and equipment	8	71,492	55,167
Depletion and amortization of timber, roads and other	9	37,478	28,912
Income tax recovery	19	(24,017)	(16,230)
Finance costs	16	17,569	8,915
Other assets		639	986
Reforestation liability	12	1,612	1,910
Other liabilities and provisions		(8,252)	(63)
Stock options	13(b)	189	-
Reversal of write-down of plant and equipment	18	(1,195)	-
Write-down of plant and equipment	8, 18	2,812	20,468
Unrealized foreign exchange losses (gains)		(337)	2,191
Other income (expense)	17	(758)	46
		66,846	142,992
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		8,748	(8,628)
Inventories		48,717	15,083
Prepayments and other		3,017	1,236
Trade accounts payable and accrued liabilities		(24,986)	14,185
Income taxes paid		(965)	(3,077)
		101,377	161,791
Investing activities:			
Additions to property, plant and equipment	8	(93,832)	(48,922)
Additions to logging roads	9	(26,133)	(26,656)
Additions to timber and other intangible assets	9	(1,500)	(2,818)
Acquisitions	4	(223,263)	(124,421)
Proceeds on disposal of property, plant and equipment		12,509	1,926
Investments and other assets		(1,033)	(13)
		(333,252)	(200,904)
Financing activities:			
Issuance of share capital, net of share issue expenses	4, 13(a)	63,196	-
Interest payments		(16,186)	(7,122)
Debt refinancing costs		(292)	(757)
Change in operating line components of long term debt	10	10,057	(1,789)
Additions to long term debt	10	362,582	223,221
Repayments of long term debt	10	(189,691)	(162,004)
		229,666	51,549
Foreign exchange gain on cash and cash equivalents held in a foreign currency		799	713
Increase (decrease) in cash and cash equivalents		(1,410)	13,149
Cash and cash equivalents, beginning of year		17,866	4,717
Cash and cash equivalents, end of year		\$ 16,456	\$ 17,866

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 is incorporated 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, 2015 and 2014 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 11, 2016.

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgements:

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

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

2. Basis of Preparation (continued):

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

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

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

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

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 available-for-sale or 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, interest rates, and commodity price 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 forward contracts and collar contracts as hedges for accounting purposes. Consequently, these derivative financial instruments, designated as held-for-trading, are carried on the Statements of Financial Position at fair value, with changes in fair value being recorded in Other foreign exchange gain (loss) in Net earnings.

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

(iii) Share capital:

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

3. Significant accounting policies (continued):**(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) Assets held for sale:

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if available for immediate sale and if it is highly probable that their carrying amount will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that losses are not allocated to inventories, financial assets, deferred tax assets or employee benefit assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held for sale and subsequent gains and losses on remeasurement are recognized in Net earnings.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortized or depreciated.

3. Significant accounting policies (continued):**(g) Property, plant and equipment:**

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

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

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, which are capitalized.

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

(h) Logging roads and bridges:

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

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

(i) Intangible assets:**(i) Timber licences:**

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

(ii) Goodwill:

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

(iii) Other intangible assets:

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

3. Significant accounting policies (continued):**(j) Impairment of non-financial assets:**

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

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

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

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

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

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

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

An impairment loss recorded against goodwill is not reversed.

(k) Reforestation and other decommissioning provisions:

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

3. Significant accounting policies (continued):**(k) Reforestation and other decommissioning provisions (continued):**

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

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

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

(l) Environmental costs:

Environmental expenditures are expensed or capitalized depending upon their future economic benefit. Expenditures to prevent future environmental contamination are capitalized as plant and equipment. Expenditures that relate to an existing condition caused by past operations are expensed. Liabilities are recorded when rehabilitation efforts are likely to occur 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 pre-tax rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings.

(m) Employee benefits:

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

Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets.

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

3. Significant accounting policies (continued):**(m) Employee benefits (continued):**

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

(n) Cash-settled share based compensation:

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

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

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

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

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

(o) Equity-settled share based compensation:

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

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

3. Significant accounting policies (continued):**(p) Sales revenue:**

The Company recognizes sales to external customers when the product is shipped and title passes. Sales are recorded on a gross basis, including amounts charged to customers for freight, wharfage and handling costs. Actual costs of export taxes, freight, wharfage and handling are recorded to Export taxes and Production, respectively, in Net earnings.

(q) Finance income and costs:

Finance income comprises net interest income on funds invested.

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

(r) Income tax:

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

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

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

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 tax 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.

3. Significant accounting policies (continued):

(s) Earnings per share:

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

(t) New standards and interpretations not yet adopted:

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

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

In May 2014, the International Accounting Standards Board issued IFRS 15, *Revenue from Contracts with Customers*, which will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2017. The Company is in process of assessing the impact, if any, on the financial statements of this new standard.

On January 13, 2016 the International Accounting Standards Board published a new standard, IFRS 16, *Leases*, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company has not yet completed an assessment of the impact of this standard on its financial statements.

4. Acquisitions:

On March 1, 2015, Interfor concluded the acquisition of sawmill operations in Meldrim, Georgia; Georgetown, South Carolina; Longview, Washington; and Tacoma, Washington from Simpson Lumber Company, LLC ("Simpson"), pursuant to an Asset Purchase Agreement ("APA") for total consideration of US\$146,088,000 (\$182,654,000).

Consideration per the APA included a series of future payments tied to the financial performance of the Tacoma sawmill. The contingent future payments are calculated and payable over three years as follows:

- (a) An annual payment equal to half of the Tacoma sawmill's EBITDA for each of the three years post-closing; and
- (b) A final payment at the end of the third year equal to 2.5 times the Tacoma sawmill's average annual EBITDA over the three year period.

The minimum total contingent future payments as outlined in (a) and (b) combined are US\$10,000,000 and the Company recorded a discounted provision of US\$9,464,000 (\$11,833,000) in Provisions and other liabilities in the Consolidated Statements of Financial Position as part of the acquisition. On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington. On December 22, 2015, the Company signed an agreement to sell the related real estate, subject to customary closing conditions (note 5). The completion of the sale will accelerate the payment due date of the contingent liability to within 45 days of the real estate closing, with the payout expected to equal the US\$10,000,000 minimum.

As at December 31, 2015, the provision of US\$9,643,000 was revalued at the year-end exchange rate to \$13,345,000 and recorded in Trade accounts payable and provisions in the Consolidated Statement of Financial Position. The Company recorded accretion expense of \$238,000 in 2015.

On June 19, 2015, Interfor concluded the acquisition of sawmill operations in Monticello, Arkansas from The Price Lumber Company, Inc. ("Monticello"), for total consideration of US\$35,627,000 (\$43,699,000).

In 2013, the Company acquired the Thomaston sawmill operations from Keadle Lumber Enterprises, Inc. ("Keadle"). Upon acquisition, the Company agreed to pay additional consideration of US\$7,000,000, contingent upon receipt of an upgrade to the air permit which allows the Company to operate a second shift. Approval was received on February 28, 2014, and a payment of \$8,743,000 was made on February 27, 2015.

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Years ended December 31, 2015 and 2014

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

4. Acquisitions (continued):

These acquisitions have been accounted for as business combinations and the value of the consideration transferred was allocated as follows:

	<i>Note</i>	Simpson	Monticello	Keadle	Total
Net assets acquired:					
Current assets		\$ 57,661	\$ 2,900	\$ -	\$ 60,561
Property, plant and equipment	<i>9</i>	129,227	40,846	-	170,073
		186,888	43,746	-	230,634
Current liabilities assumed		(4,234)	(47)	-	(4,281)
		\$ 182,654	\$ 43,699	\$ -	\$ 226,353
Consideration funded by:					
Cash		\$ -	\$ -	\$ 8,743	\$ 8,743
Revolving Term Loan	<i>10(b)</i>	107,625	43,675	-	151,300
Current liabilities		-	24	-	24
Cash consideration from Common Share issuance	<i>13(a)</i>	63,196	-	-	63,196
Cash consideration		170,821	43,699	8,743	223,263
Contingent future payments	<i>11</i>	11,833	-	-	11,833
Provisions and other liabilities	<i>11</i>	-	-	(8,743)	(8,743)
		\$ 182,654	\$ 43,699	\$ -	\$ 226,353

Transaction costs of \$2,105,000 related to the acquisitions were expensed in Selling and administration expenses in Net earnings in 2015.

Since acquisition, Simpson and Monticello contributed sales of \$183,502,000 and a net loss of \$31,564,000 to the Company's results, including a \$13,238,000 net loss at the Tacoma sawmill. If the acquisitions had occurred on January 1, 2015, management estimates that Sales and Net loss would have been \$1,745,323,000 and \$37,753,000, respectively. In determining these amounts, management has assumed that the fair value adjustments that arose on the acquisition dates would have been the same if the acquisitions had occurred on January 1, 2015.

On March 14, 2014, a wholly-owned subsidiary of Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A. ("Ilim"), pursuant to a Share Purchase Agreement for total consideration of \$188,545,000. Tolleson, through its wholly-owned subsidiary, owned and operated two sawmills in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. Subsequent to the acquisition, both Tolleson and its wholly-owned subsidiary were merged into the Company's wholly-owned subsidiary which had acquired the common shares of Tolleson.

4. Acquisitions (continued):

The Tolleson acquisition was accounted for as a business combination and the value of consideration transferred was allocated as follows:

	<i>Note</i>	
Assets acquired:		
Cash and cash equivalents		\$ 2,484
Other current assets		16,790
Property, plant and equipment	8	86,561
Other intangible assets	9	22,190
Goodwill	9	107,419
		235,444
Liabilities assumed:		
Current liabilities		(15,929)
Long term provisions and other liabilities		(6,697)
Deferred income taxes	19	(24,273)
		\$ 188,545
Consideration funded by:		
Current liabilities		\$ 2,086
Operating Line		24,964
Revolving Term Line		99,855
Cash consideration		126,905
Share capital (3,680,000 Common Shares)		61,640
		\$ 188,545

As part of the acquisition, the Company entered into a non-competition agreement with Ilim under which Ilim and its associates are prohibited from carrying on various activities within Canada and the U.S. that would be in competition with the Company's operating activities for a period of five years from the acquisition date. An intangible asset of \$22,190,000 was recognized in respect of this non-competition agreement, which is being amortized to expense over its five year term.

In conjunction with recognizing a \$24,273,000 deferred tax liability in accounting for the acquisition of Tolleson, the Company recognized \$19,253,000 of previously unrecognized deferred tax assets related to its U.S. operations.

Transaction costs of \$1,368,000 related to the acquisition were expensed in Selling and administration expenses in Net earnings in 2014.

5. Assets held for sale:

On July 30, 2015, the Company announced a plan to exit its sawmilling operation located in Tacoma, Washington and classified US\$20,113,000 of the Tacoma sawmill property and buildings as assets held for sale (note 8). As at December 31, 2015, these assets have been revalued at the year-end exchange rate to \$27,836,000. In accordance with IFRS, these assets are no longer amortized.

There is a cumulative foreign currency translation gain of \$2,689,000 included in Other comprehensive income relating to the translation of the assets held for sale.

5. Assets held for sale (continued):

The Company does not expect to recognize any impairment losses on the remeasurement of the Tacoma sawmill net assets to the lower of their carrying amount and the fair value less costs to sell. See note 18 for a discussion of provisions and inventory write-downs associated with the closure.

A sale of substantially all assets of the Tacoma sawmill will accelerate the due date of contingent future payments, as described in note 4. On December 22, 2015, the Company entered into a purchase and sales agreement to sell the remaining real estate assets, subject to customary closing conditions. The sale is expected to complete in mid-2016.

6. Inventories:

	2015	2014
Logs	\$ 69,980	\$ 71,841
Lumber	69,046	66,798
Other	16,714	10,029
	\$ 155,740	\$ 148,668

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, 2015, was \$11,961,000 (2014 - \$9,025,000).

7. Other investments and assets:

	2015	2014
Timber deposits and other investments and deposits	\$ 1,528	\$ 809
Deferred financing fees, net of accumulated amortization	1,663	2,163
	\$ 3,191	\$ 2,972

Interfor Corporation

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

8. Property, plant and equipment:

Cost	<i>Note</i>	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
Balance at December 31, 2013	\$	38,711	\$ 86,011	\$ 519,313	\$ 19,048	\$ 23,912	\$ 46,009	\$ 6,887	\$ 10,307	\$ 750,198
Additions		212	382	-	787	1,319	2,604	1,302	40,618	47,224
Acquisitions		1,930	4,972	73,368	2,927	1,535	1,824	5	-	86,561
Disposals		(106)	(123)	(1,270)	(719)	(21)	(208)	(15)	-	(2,462)
Transfers		-	1,141	25,626	5,163	370	4,445	2,303	(39,207)	(159)
Exchange rate movements		654	3,489	27,251	685	1,209	1,796	92	697	35,873
Balance at December 31, 2014		41,401	95,872	644,288	27,891	28,324	56,470	10,574	12,415	917,235
Additions		1,772	424	6	16	2,124	320	4,777	86,671	96,110
Acquisitions		30,485	16,199	99,549	1,844	6,152	2,723	186	12,935	170,073
Disposals		(643)	(5,873)	(30,868)	(1,936)	(4,317)	(1,803)	(957)	-	(46,397)
Transfers		334	15,194	65,936	2,157	5,471	6,974	(1,228)	(95,992)	(1,154)
Reclassification to assets held for sale	5	(25,066)	(1,044)	-	(1)	-	(23)	(135)	-	(26,269)
Exchange rate movements		3,667	10,359	81,701	2,034	3,807	5,071	741	2,357	109,737
Balance at December 31, 2015	\$	51,950	\$ 131,131	\$ 860,612	\$ 32,005	\$ 41,561	\$ 69,732	\$ 13,958	\$ 18,386	\$ 1,219,335
Accumulated Depreciation										
			Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other		Total
Balance at December 31, 2013			\$ 31,029	\$ 202,063	\$ 12,960	\$ 16,409	\$ 22,177	\$ 4,630		\$ 289,268
Depreciation			4,684	41,145	2,125	2,934	3,687	592		55,167
Disposals			(102)	(959)	(374)	(14)	(208)	(15)		(1,672)
Transfers			-	11	-	(6)	11	(16)		-
Impairment			2,996	16,672	-	7	793	-		20,468
Exchange rate movements			1,147	9,513	293	831	765	77		12,626
Balance at December 31, 2014			39,754	268,445	15,004	20,161	27,225	5,268		375,857
Depreciation			5,926	50,076	3,793	5,351	4,748	1,598		71,492
Disposals			(4,991)	(25,048)	(1,487)	(4,294)	(1,816)	(957)		(38,593)
Transfers			138	(592)	(3)	349	1,694	(1,586)		-
Impairment			37	2,775	-	-	-	-		2,812
Reversal of impairment			-	(1,195)	-	-	-	-		(1,195)
Reclassification to assets held for sale	5		(23)	-	(1)	-	-	(6)		(30)
Exchange rate movements			2,848	23,691	805	2,072	1,796	190		31,402
Balance at December 31, 2015			\$ 43,689	\$ 318,152	\$ 18,111	\$ 23,639	\$ 33,647	\$ 4,507		\$ 441,745
Net book value at										
December 31, 2014	\$	41,401	\$ 56,118	\$ 375,843	\$ 12,887	\$ 8,163	\$ 29,245	\$ 5,306	\$ 12,415	\$ 541,378
December 31, 2015		51,950	87,442	542,460	13,894	17,922	36,085	9,451	18,386	777,590

There were \$477,000 of borrowing costs capitalized in 2015 (2014 - \$nil). Additions in 2015 include \$2,278,000 of accrued contract costs (2014 - \$1,698,000).

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

Cost	Note	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2013		\$ 49,926	\$ 129,353	\$ 7,073	\$ 24,592
Additions		26,656	-	2,818	-
Transfers		-	-	159	-
Acquisition	4	-	-	22,190	107,419
Disposals		(7,461)	-	-	-
Exchange rate movements		279	-	1,179	5,862
Balance at December 31, 2014		69,400	129,353	33,419	137,873
Additions		26,133	589	911	-
Transfers		-	-	1,154	-
Disposals		(832)	(11,508)	(137)	-
Exchange rate movements		341	-	4,922	23,918
Balance at December 31, 2015		\$ 95,042	\$ 118,434	\$ 40,269	\$ 161,791
Accumulated amortization		Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2013		\$ 33,702	\$ 45,009	\$ 4,653	\$ 877
Amortization		19,539	5,320	4,053	-
Disposals		(6,280)	-	-	-
Exchange rate movements		195	-	316	-
Balance at December 31, 2014		47,156	50,329	9,022	877
Amortization		27,285	3,891	6,302	-
Disposals		(178)	(8,215)	(137)	-
Exchange rate movements		168	-	1,481	-
Balance at December 31, 2015		\$ 74,431	\$ 46,005	\$ 16,668	\$ 877
Net book value at					
December 31, 2014		\$ 22,244	\$ 79,024	\$ 24,397	\$ 136,996
December 31, 2015		20,611	72,429	23,601	160,914

For the purpose of impairment testing, goodwill components of \$13,078,000 and \$147,835,000 are attributable to the Coastal Whitewood cash-generating unit ("CWW CGU") and the U.S. Southeast cash-generating units ("SE CGU's"), respectively.

The recoverable amounts for the goodwill impairment assessments were based on the CGU's (or groups of CGU's) value in use and were determined by discounting the future cash flows generated from the continuing use of the units for a period of twenty years. The cash flows were projected based on past experience, actual operating results and the five year business plan in the assessment for both 2014 and 2015. Due to the cyclical nature of the forest industry, cash flows for a further 15 years were extrapolated based on an average trend year.

The recoverable amount of both the CWW CGU and the SE CGU as at December 31, 2015, and December 31, 2014 were determined to be higher than the related carrying amount and no impairment has been recognized.

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

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

A pre-tax discount rate of 16 percent (2014 – 16 percent) was applied in determining the recoverable amount of each CGU assessed. The discount rate was estimated with the assistance of external experts, past experience, and the industry average weighted average cost of capital. An inflation rate of 1.0 percent (2014 – 2.0 percent) is applied to the projected cash flows for years four through twenty.

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

10. Cash and borrowings:

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
2015					
Available line of credit	\$ 65,000	\$200,000	\$276,800	\$ 69,200	\$ 611,000
Maximum borrowing available	62,820	183,723	276,800	69,200	592,543
Drawings	-	179,920	276,800	12,039	468,759
Outstanding letters of credit included in line utilization	9,396	-	-	2,290	11,686
Unused portion of line	\$ 53,424	\$ 3,803	\$ -	\$ 54,871	\$ 112,098
2014					
Available line of credit	\$ 65,000	\$250,000	\$116,010	\$ 34,803	\$ 465,813
Maximum borrowing available	65,000	250,000	116,010	34,803	465,813
Drawings	-	104,409	116,010	-	220,419
Outstanding letters of credit included in line utilization	8,637	-	-	1,183	9,820
Unused portion of line	\$ 56,363	\$ 145,591	\$ -	\$ 33,620	\$ 235,574

Minimum principal amounts due on long term debt are follows:

2016	\$ -
2017	191,959 ¹
2018	-
2019	-
2020	-
Thereafter	276,800
	\$ 468,759

¹ On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

10. Cash and borrowings (continued):

(a) Operating Line:

The Canadian operating line of credit ("Operating Line") may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹. Borrowing levels under the Operating Line are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Operating Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on certain sawmills. The Operating Line is 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.

The Operating Line matures on February 27, 2017.

On February 9, 2016, the Company extended the maturity of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019. Certain other terms were also changed, resulting in an increase in the maximum borrowing available under the financing agreement.

As at December 31, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Operating Line and Revolving Term Line limits. Based on the changes to the agreement terms effective on February 9, 2016, this restriction was removed and total available liquidity would have been \$147,011,000 as at December 31, 2015.

As at December 31, 2015, the Operating Line was drawn by \$9,396,000 (2014 - \$8,637,000), including outstanding letters of credit. The Company did not recognize any unrealized foreign exchange gains or losses (2014 - \$72,000 gain) in Other comprehensive income in relation to the Operating Line borrowing in 2015.

As at December 31, 2015, \$53,424,000 of available credit on the Operating Line was unused (2014 - \$56,363,000).

(b) Revolving Term Line:

The Revolving Term Line may be drawn in either CAD\$ or US\$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by twelve months' trailing EBITDA¹.

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

10. Cash and borrowings (continued):**(b) Revolving Term Line (continued):**

The Revolving Term Line is secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on certain sawmills. The Revolving Term Line is subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation.

On March 16, 2015, the Company decreased the credit available under its Revolving Term Line from \$250,000,000 to \$200,000,000. All other terms and conditions remained unchanged.

The Revolving Term Line matures on February 27, 2017. Refer to note 10(a) for a subsequent event impacting the maturity date of the Revolving Term Line.

As at December 31, 2015, maximum borrowings available under the Company's Operating Line and Revolving Term Line were restricted by a financial covenant in the underlying credit agreement. In the table above, this limitation has been applied to the Operating Line and Revolving Term Line limits. As indicated in note 10(a), this restriction was removed by changes to the agreement terms effective February 9, 2016.

As at December 31, 2015, the Revolving Term Line was drawn by US\$130,000,000 (2014 – US\$90,000,000) revalued at the year-end exchange rate to \$179,920,000 (2014 - \$104,409,000). As at December 31, 2015, \$3,803,000 of available credit on the Revolving Term Line was unused (2014 - \$145,591,000).

All outstanding U.S. Dollar drawings under the Revolving Term Line have been designated as a hedge against the Company's investment in its U.S. operations and foreign exchange losses of \$30,649,000 for the year ended December 31, 2015 (2014 - \$10,770,000 loss) arising on revaluation of the Revolving Term Line were recognized in Foreign currency translation differences in Other comprehensive income.

(c) Senior Secured Notes:

On March 16, 2015, the Company issued US\$100,000,000 of Series C Senior Secured Notes, bearing interest at 4.17%. Together with the Series A Senior Secured Notes (US\$50,000,000, bearing interest at 4.33%) and Series B Senior Secured Notes (US\$50,000,000, bearing interest at 4.02%), US\$200,000,000 of Senior Secured Notes were outstanding as at December 31, 2015 (2014 – US\$100,000,000) and revalued at the year-end exchange rate to \$276,800,000 (2014 - \$116,010,000).

10. Cash and borrowings (continued):

(c) Senior Secured Notes (continued):

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Total payments of US\$33,333,000 (US\$16,667,000 for each of the Series A and Series B Senior Secured Notes) are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US\$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes. In conjunction with the modifications to the Operating Line and Revolving Term Line effective February 9, 2016, as per note 10(a), certain financial covenants of the Senior Secured Notes were also modified. All other terms and conditions remained unchanged.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of \$32,760,000 (2014 - \$4,705,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2015.

(d) 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 April 27, 2015, the Company extended the maturity of its U.S. Operating Line from April 28, 2015 to May 1, 2017 and increased the credit available from US\$30,000,000 to US\$50,000,000.

As at December 31, 2015, the U.S. Operating Line was drawn by US\$10,354,000, including outstanding letters of credit, revalued at the year-end exchange rate to \$14,330,000 (2014 - US\$1,020,000 revalued at the year-end exchange rate to \$1,183,000), with cumulative foreign exchange losses of \$2,053,000 (2014 - \$115,000 loss) recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2015.

As at December 31, 2015, \$54,871,000 (US\$39,647,000) of the U.S. Operating Line was unused (2014 - \$33,620,000, US\$28,980,000).

(d) Cash and cash equivalents:

At December 31, 2015, the Company's cash balances are restricted by contractor holdback payments of \$784,000 (2014 - \$15,000).

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Years ended December 31, 2015 and 2014

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

11. Provisions and other liabilities:

2015	Note	Current	Non-current	Total
Restructuring	11(a), 18	\$ 494	\$ 1,681	\$ 2,175
Road deactivation	11(a)	392	3,776	4,168
Environmental	11(a)	56	770	826
Cash-settled share based compensation				
SAR Plan	11(b)	6,089	879	6,968
TSR Plan	11(c)	4,189	1,525	5,714
DSU Plan	11(d)	-	8,651	8,651
Storm damage remediation funds	11(e)	224	291	515
Contingent future payment	4, 5	13,345	-	13,345
Retained compensation liabilities	11(f)	2,665	40	2,705
Lease incentives and other		179	2,415	2,594
		\$ 27,633	\$ 20,028	\$ 47,661
<hr/>				
2014	Note	Current	Non-current	Total
Restructuring	11(a), 18	\$ 627	\$ 1,498	\$ 2,125
Road deactivation	11(a)	406	3,645	4,051
Environmental	11(a)	56	772	828
Cash-settled share based compensation				
SAR Plan	11(b)	12,450	2,494	14,944
TSR Plan	11(c)	10,614	5,059	15,673
DSU Plan	11(d)	763	10,614	11,377
Storm damage remediation funds	11(e)	224	310	534
Retained compensation liabilities	11(f)	7,193	382	7,575
Air permit contingent payment	11(g)	8,121	-	8,121
Lease incentives and other		1,175	416	1,591
		\$ 41,629	\$ 25,190	\$ 66,819

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 to occur and the costs can be reasonably estimated. The environmental provision relates primarily to obligations of the Castlegar sawmill.

11. Provisions and other liabilities (continued):

(a) Provisions (continued):

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 pre-tax discount rate that reflects the risks specific to the liability. The unwinding of the discount is recognized as a Finance cost in Net earnings.

	<i>Note</i>	Restructuring	Road deactivation	Environmental
Balance at December 31, 2013		\$ 530	\$ 3,916	\$ 792
Provisions made during year	18	3,248	628	-
Expenditures made during year		(1,810)	(103)	(2)
Unwind of discount		-	83	15
Changes in estimated future expenditures		-	(473)	23
Exchange rate movements		157	-	-
Balance at December 31, 2014		2,125	4,051	828
Provisions made during year	18	4,131	346	-
Expenditures made during year		(4,556)	(218)	-
Unwind of discount		-	58	10
Changes in estimated future expenditures		-	(69)	(12)
Exchange rate movements		475	-	-
Balance at December 31, 2015		\$ 2,175	\$ 4,168	\$ 826

(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.

11. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

Details of the Company's SAR Plan for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	1,113,953	\$ 7.35	1,410,850	\$ 5.62
Granted	-	-	147,403	17.43
Exercised	(149,100)	5.77	(416,300)	5.19
Expired or cancelled	(35,045)	9.52	(28,000)	5.12
Outstanding, end of year	929,808	\$ 7.52	1,113,953	\$ 7.35
Units exercisable, end of year	509,250	\$ 5.03	427,350	\$ 4.37

Weighted average fair value assumptions for grants made in 2015 and 2014 are as follows:

	2015	2014
Risk-free interest rate	-	2.0%
Expected life	-	8.2 years
Annualized volatility	-	45%
Dividend rate	-	0%
Termination rate	-	12%
Grant date fair value	-	\$9.06

Details of units outstanding under the SAR Plan at December 31, 2015 are as follows:

Strike price	Units outstanding			Units exercisable	
	Number outstanding, December 31, 2015	Weighted average remaining unit life (yrs)	Weighted average strike price	Number exercisable, December 31, 2015	Weighted average strike price
\$1.38-\$4.64	282,950	5.0	\$ 3.45	187,250	\$ 2.90
\$4.77-\$5.40	147,400	3.7	4.89	145,400	4.88
\$6.01-\$7.09	156,800	4.6	6.25	109,600	6.35
\$8.02-\$17.43	342,658	7.3	12.57	67,000	9.18
	929,808		\$ 7.52	509,250	\$ 5.03

For the year ended December 31, 2015, the Company recorded a Long term incentive compensation recovery in respect of the SAR Plan of \$4,730,000 (2014 – expense of \$9,210,000).

11. Provisions and other liabilities (continued):

(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, 2015 and 2014 are as follows:

	2015	2014
Outstanding, beginning of year	709,214	872,699
Granted	144,975	171,730
Matured	(335,990)	(326,961)
Cancelled	-	(8,254)
Outstanding, end of year	518,199	709,214

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

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

	2015	2014
Risk-free interest rate	0.9%	1.4%
Expected life	3 years	3 years
Annualized volatility	47% to 56%	47% to 56%
Dividend rate	0.00%	0.00%
Termination rate	0.00%	0.00%
Grant date fair value	\$2,340	\$2,175

For the year ended December 31, 2015, the Company recorded Long term incentive compensation expense under the TSR Plan of \$655,000 (2014 – \$10,429,000).

(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.

Participants in the TSR Plan may elect, subject to the approval of the Company's Board of Directors, to receive their award in DSUs at the end of any performance period. DSUs may also 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 minimum 60% of their annual retainer.

11. Provisions and other liabilities (continued):

(d) Deferred Share Unit Plan (continued):

The number of DSUs outstanding at December 31, 2015 and 2014 are as follows:

	2015		2014	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	551,249	\$21.27	498,593	\$13.48
Granted ¹	157,973	18.73	70,656	15.29
Exercised	(86,271)	21.91	(18,000)	21.51
Outstanding, end of year	622,951	\$14.06	551,249	\$21.27

¹Fair value at the date of the grants.

Changes to the market value of the Company's Common Shares subsequent to issuance of awards will result in adjustments to the compensation accrual and Long term incentive compensation expense in Net earnings. In the year ended December 31, 2015, the Company recorded a recovery of \$2,835,000 (2014 – expense of \$4,890,000) in respect to the DSU Plan, of which a \$3,795,000 recovery (2014 – expense of \$4,294,000) was recorded in Long term compensation and a \$960,000 expense (2014 - \$596,000), related to payment for director's fees, was recorded in Selling and administration.

(e) Storm damage remediation funds:

In 2011, the Company settled with its insurers for recovery of certain losses relating to storm damage suffered in 2010. An amount of \$1,576,000 was set up as a provision for future remediation on roads and bridges. Under the terms of the insurance settlement, the insurance proceeds must be used for remediation. As at December 31, 2015, \$515,000 (2014 - \$534,000) of this provision remains unspent.

(f) Retained compensation liabilities:

Upon acquisition of the Tolleson sawmills on March 17, 2014, the Company assumed certain 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. The liability of US\$1,954,000 (2014 – US\$6,530,000) was revalued at the year-end exchange rate to \$2,705,000 (2014 - \$7,575,000).

(g) Air permit contingent payment:

Upon acquisition of the Thomaston sawmill operations from Keadle Lumber Enterprises Inc. in 2013, the Company agreed to pay additional consideration of US\$7,000,000, contingent upon receipt of an upgrade to the air permit which will allow the Company to operate a second shift (note 4). Approval was received on February 28, 2014 and a payment of \$8,743,000 was made on February 27, 2015.

12. Reforestation liability:

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

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

	2015	2014
Reforestation liability, beginning of year	\$ 32,896	\$ 32,416
Reforestation expense on current logging and market logging agreements	12,888	11,264
Reforestation expenditures	(9,691)	(11,770)
Unwind of discount	360	529
Changes in estimated future reforestation expenditures	(327)	457
	\$ 36,126	\$ 32,896
Consisting of:		
Current reforestation liability	\$ 11,052	\$ 9,797
Long term reforestation liability	25,074	23,099
	\$ 36,126	\$ 32,896

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2015 is \$37,848,000 (2014 - \$34,628,000). 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% (2014 – 2%). Reforestation expense resulting from obligations arising from current logging and changes in estimated future expenditures are included in Production costs for the year and expense related to the unwinding of the discount is included in Finance costs.

13. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2015 consists of:

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

On May 6, 2014, the Company eliminated its 1,700,000 authorized Class B Common Shares (“Class B”), known as Multiple Voting Shares, re-designated its Class A Subordinate Voting Shares (“Class A”) as Common Shares, and increased its authorized Common Shares by 50,000,000 shares to 150,000,000 shares.

13. Share capital (continued):

(a) Share transactions (continued):

Share transactions during 2015 and 2014 were as follows:

Issued and Fully Paid	Number	Amount
Balance, December 31, 2013	63,050,455	\$ 428,723
Shares issued in business combination (note 4)	3,680,000	61,640
Balance, December 31, 2014	66,730,455	490,363
Shares issued for cash, net of Share issue costs (note 4)	3,300,000	63,196
Balance, December 31, 2015	70,030,455	\$ 553,559

On January 27, 2015, the Company closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 Subscription Receipts (including 300,000 Subscription Receipts issued pursuant to the exercise of the over-allotment option) at a price of \$20.10 per Subscription Receipt, for cash proceeds, net of share issue costs, of \$63,196,000. In connection with the completion of the Simpson acquisition (note 4), each Subscription Receipt was exchanged, for no additional consideration, for one Common Share of the Company. The shares were issued on March 2, 2015 (note 4).

On March 14, 2014, the Company issued 3,680,000 Shares at a share price of \$16.75 per share to partially fund the acquisition of Tolleson (note 4).

At December 31, 2015, 1,631,740 Shares are reserved for possible future issuance pursuant to the share option plan.

(b) Equity-settled share based compensation:

The Company has an employee 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 1,567,565 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.

13. Share capital (continued):

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

Details of the Company's equity-settled share based compensation plan for the years ended December 31, 2015 and 2014 are as follows:

	2015		2014	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	-	\$ -	-	\$ -
Granted	78,926	21.85	-	-
Exercised	-	-	-	-
Expired or cancelled	(14,751)	22.22	-	-
Outstanding, end of year	64,175	\$ 21.77	-	\$ -
Options exercisable, end of year	-	\$ -	-	\$ -

Weighted average fair value assumptions for grants made in 2015 and 2014 are as follows:

	2015	2014
Risk-free interest rate	1.3%	-
Expected life	8.2 years	-
Annualized volatility	45%	-
Dividend rate	0%	-
Termination rate	12%	-
Grant date fair value	\$10.48	-

Details of options outstanding under the option plan at December 31, 2015 are as follows:

Strike price	Number outstanding, December 31, 2015	Units outstanding		Units exercisable	
		Weighted average remaining unit life (yrs)	Weighted average exercise price	Number exercisable, December 31, 2015	Weighted average strike price
\$17.26-\$22.22	64,175	9.2	\$ 21.77	-	\$ -

The Company recognized an expense of \$189,000 for the year ended December 31, 2015 (2014 - \$nil) in Contributed surplus.

14. Depreciation, depletion and amortization:

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

	2015	2014
Production	\$ 100,988	\$ 79,359
Selling and administration	7,982	4,720
	\$ 108,970	\$ 84,079

15. Personnel expenses:

	Note	2015	2014
Wages and salaries		\$ 219,362	\$ 178,902
Government administered pensions and unemployment insurance		12,817	10,054
Workers' compensation insurance		7,505	5,046
Contributions to defined contribution plans	22	10,948	9,543
Expenses related to defined benefit plans	22	1,304	1,270
Cash-settled share based payment transactions and other long term compensation expense	11	5,431	23,933
Medical, dental, group insurance and other		34,027	16,446
		\$ 291,394	\$ 245,194

16. Finance costs:

Recognized in Net earnings (loss):

	2015	2014
Interest on borrowing	\$ (16,034)	\$ (7,568)
Net interest on defined benefit plans	(11)	79
Unwind of discount on provisions	(667)	(627)
Amortization of deferred finance costs	(857)	(799)
	\$ (17,569)	\$ (8,915)

Recognized in Other comprehensive income:

	2015	2014
Effective portion of changes in fair value of interest rate swap	\$ (71)	\$ (34)

17. Other income (expense):

	2015	2014
Gain (loss) on disposal of surplus equipment, licences and roads	\$ 758	\$ (46)
Gain (loss) on lumber futures trading	(1)	9
	\$ 757	\$ (37)

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18. Restructuring costs:

	<i>Note</i>	2015	2014
Tacoma sawmill:			
Write-down of inventories	6	\$ 6,475	\$ -
Severance	9	3,016	-
Site closure costs	9	574	-
Onerous contract	9	64	-
Beaver-Forks operation:			
Write-down (reversal of write-down) of plant and equipment	9	(1,195)	20,468
Severance	9	5	689
Onerous contract	9	175	1,673
Write-down of inventories	9	32	-
Other			
Write-down of equipment	9	2,812	-
Severance	9	871	886
Other		-	413
		\$ 12,829	\$ 24,129

On July 31, 2014, the Company permanently closed its Beaver-Forks operation, located on the Olympic Peninsula in Washington, USA and sold substantially all of the related assets on February 26, 2015.

On July 30, 2015, the Company announced a plan to exit the Tacoma sawmill (note 4), classified the assets as Assets held for sale (note 5) and recorded related restructuring charges. Inventory write-downs reflect extraordinary declines in fair value of inventory subsequent to decision date.

In December, 2015, the Company recorded an impairment against boilers at its Preston sawmill located in Georgia, U.S., which are to be replaced in 2016 for regulatory compliance.

19. Income taxes:

Income tax expense is as follows:

	2015	2014
Current tax expense:		
Current year	\$ 895	\$ 1,281
Adjustments for prior periods	(281)	61
	614	1,342
Deferred income tax expense (recovery):		
Origination and reversal of temporary differences	(25,767)	3,330
Change in unrecognized deferred income tax assets	1,136	(20,902)
	(24,631)	(17,572)
	\$ (24,017)	\$ (16,230)

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19. Income taxes (continued):

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

	2015	2014
Defined benefit plan actuarial losses	\$ (376)	\$ -
Foreign currency translation differences for foreign operations	(321)	176
	\$ (697)	\$ 176

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

	2015	2014
Income tax expense (recovery) at the statutory rate of 26.00% (2014 - 26.00%)	\$ (14,145)	\$ 6,360
Change in unrecognized deferred income tax assets	1,136	(20,902)
Entities with different tax rates and foreign rate adjustments	(12,702)	(639)
Other	1,694	(1,049)
	\$ (24,017)	\$ (16,230)

The statutory tax rate did not change from 2014.

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

- Canadian non-capital loss carry-forwards which total approximately \$125,000,000 (2014 - \$123,000,000), and expire between 2029 and 2033.
- U.S. net operating loss carry-forwards which total approximately US\$179,000,000 (2014 - US\$109,000,000), and expire between 2023 and 2035.

Unrecognized deferred income taxes:

The Company has unrecognized deferred income tax assets in relation to certain deductible temporary differences and unused tax losses that are available to carry forward against future taxable income.

Although the Company expects to realize the full benefit of the loss carry-forwards and other deferred income tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the past several years, the Company has not recognized the benefit of its deferred income tax assets in excess of its deferred income tax liabilities in respect of Canadian operations, except in limited circumstances.

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

	2015	2014
Non-capital losses carried forward	\$ 27,313	\$ 22,769
Deductible temporary differences	11,398	6,273
	\$ 38,711	\$ 29,042

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19. Income taxes (continued):

Recognized deferred income taxes assets (liabilities):

December 31, 2015	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Ending Balance
Deferred income tax assets					
Losses	\$ 72,304	\$ 45,323	\$ -	\$ -	\$ 117,627
Reserves	24,579	(5,847)	-	-	18,732
Tax credits	955	(844)	-	-	111
Defined benefit plan					
actuarial losses	692	-	376	-	1,068
Share issuance costs	694	-	-	-	694
Other	2,538	(18)	-	-	2,520
Deferred income tax liabilities					
Capital assets	(108,245)	(13,983)	-	-	(122,228)
Foreign currency translation differences for foreign operations	(176)	-	321	-	145
	\$ (6,659)	\$ 24,631	\$ 697	\$ -	\$ 18,669

December 31, 2014	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Acquired in Business Combination	Ending Balance
Deferred income tax assets					
Losses	\$ 59,904	\$ 12,400	\$ -	\$ -	\$ 72,304
Reserves	15,242	3,093	-	6,244	24,579
Tax credits	955	-	-	-	955
Defined benefit plan					
actuarial losses	692	-	-	-	692
Share issuance costs	694	-	-	-	694
Other	1,252	1,474	-	(188)	2,538
Deferred income tax liabilities					
Capital assets	(78,521)	605	-	(30,329)	(108,245)
Foreign currency translation differences for foreign operations	-	-	(176)	-	(176)
	\$ 218	\$ 17,572	\$ (176)	\$ (24,273)	\$ (6,659)

20. Commitments and contingencies:

(a) Operating leases and contractual obligations:

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

2016	\$ 19,310
2017	7,840
2018	5,070
2019	4,560
2020	2,700

(b) Surety Performance Bonds:

The Company has posted \$35,746,000 in surety performance bonds, with various expiry dates extending through December, 2020.

(c) Softwood Lumber Agreement:

The Canada-U.S. Softwood Lumber Agreement ("SLA") expired on October 12, 2015, eliminating export taxes on Canadian softwood lumber shipments to the United States.

A standstill provision within the SLA precludes the U.S. from bringing trade action against Canadian softwood lumber producers for twelve months from expiry of the agreement. It is uncertain whether a new agreement between the Governments of Canada and the U.S. will be reached.

It is not yet possible to reasonably assess the future impact of possible trade actions against the Company therefore no accrual has been recognized as of December 31, 2015.

(d) Other contingencies:

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

21. Net earnings per share:

Net earnings per share is based on the earnings attributable to shareholders and a weighted average number of Shares, as defined in note 13, outstanding for the year.

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21. Net earnings per share (continued):

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

	2015			2014		
	Net loss	Weighted average number of Shares	Per Share	Net earnings	Weighted average number of Shares	Per Share
Issued Shares at January 1		66,730			63,050	
Effect of Shares issued on:						
March 14, 2014		-			2,955	
March 2, 2015		2,758			-	
Basic and diluted earnings (loss) per Share	\$ (30,386)	69,488*	\$ (0.44)	\$ 40,690	66,005	\$ 0.62

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

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

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

(a) Defined contribution plans:

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

For the DPSP, the Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2015, the pension expense for this plan is equal to the Company's contribution of \$1,785,000 (2014 - \$2,649,000).

Certain eligible employees of the Canadian Merchant Services Guild ("CMSG") are required to make contributions based on a percentage of earnings into a defined contribution plan. For 2015, the pension expense is equal to the Company's contribution of \$44,000 (2014 - \$49,000).

Employees of Interfor U.S. Inc. and Interfor Cedarprime Inc., wholly-owned U.S. operating subsidiaries of the Company, contribute a percentage of their earnings to a 401(k) plan which the Company matches and which vest immediately. The Company's funding obligations are satisfied upon making cash contributions to an employee's account. For 2015, the pension expense for this plan is equal to the Company's contribution of \$4,374,000 (2014 - \$2,502,000).

22. 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 2015, the pension expense for these plans is equal to the Company's contribution of \$3,958,000 (2014 - \$3,346,000). 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 2015 the Company recorded an expense of \$788,000 (2014 - \$792,000) in respect of these plans. The amounts accrued for defined contribution commitments is \$6,062,000 (2014 - \$5,481,000).

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

	2015	2014
Trade accounts payable and provisions	\$ 418	\$ 372
Employee future benefits obligation	5,644	5,109
	\$ 6,062	\$ 5,481

(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 receive a supplemental pension based on a percentage of final average earnings at retirement, and years of service. In 2014, SSCL settled all plan benefits for a defined benefit pension plan, which was terminated December 31, 2013.

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

(d) Defined benefit 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, 2013	December 31, 2016
CMSG Pension Plan	December 31, 2013	December 31, 2016

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

In 2015, the Company paid contributions of \$698,000 (2014 - \$1,333,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credits totaling \$2,464,000 (2014 - \$2,376,000). In 2016, the Company expects to pay contributions of \$732,000 to its defined benefit plans, and hold a total of \$2,464,000 of letters of credit.

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

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

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

(d) Defined benefit plans (continued):

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

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Defined benefit obligation:				
Beginning of year	\$ 48,729	\$ 53,178	\$ 1,700	\$ 1,545
Service cost	920	746	45	35
Employee contributions	339	369	-	-
Interest cost	1,990	2,464	67	72
Benefit payments	(2,094)	(2,839)	(48)	(70)
Past service settlements	-	(186)	-	-
Actuarial loss due to:				
Demographic assumptions	-	802	-	29
Financial assumptions	1,593	5,411	49	89
Experience adjustment	28	138	-	-
Settlements	-	(11,354)	-	-
End of year	\$ 51,505	\$ 48,729	\$ 1,813	\$ 1,700
Plan assets:				
Beginning of year	\$ 50,575	\$ 56,882	\$ -	\$ -
Interest on plan assets	1,995	2,595	-	-
Employer contributions	650	1,263	48	70
Employee contributions	339	369	-	-
Benefit payments	(2,094)	(2,839)	(48)	(70)
Administration costs	(110)	(374)	-	-
Actuarial gain	665	4,395	-	-
Settlements	-	(11,716)	-	-
End of year	\$ 52,020	\$ 50,575	\$ -	\$ -
Asset ceiling:				
Beginning of year	\$ -	\$ (700)	\$ -	\$ -
Interest effect	-	(32)	-	-
Impact of settlements	-	732	-	-
End of year	\$ -	\$ -	\$ -	\$ -

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

22. 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	
	2015	2014	2015	2014
Fair value of plan assets	\$ 52,020	\$ 50,575	\$ -	\$ -
Present value of unfunded obligations	(371)	(393)	(1,813)	(1,700)
Present value of funded obligations	(51,134)	(48,336)	-	-
Accrued benefit (obligation)	\$ 515	\$ 1,846	\$ (1,813)	\$ (1,700)

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	
	2015	2014	2015	2014
Statement of Earnings				
Production expense	\$ 1,030	\$ 1,120	\$ 45	\$ 35
Finance (income) costs	(5)	(199)	67	72
Restructuring costs	-	176	-	-
	\$ 1,025	\$ 1,197	\$ 112	\$ 107
Other comprehensive loss (income)				
Actuarial losses (gains)	\$ 956	\$ 1,956	\$ 49	\$ 118
Effect of asset ceiling limit	-	(732)	-	-
	\$ 956	\$ 1,224	\$ 49	\$ 118

The Company's accrued benefit assets (liabilities) are included in the Company's Statements of Financial Position as follows:

	Pension Benefits		Other Post-retirement Benefits	
	2015	2014	2015	2014
Employee future benefits asset	\$ 1,570	\$ 2,520	\$ -	\$ -
Trade accounts payable and provisions	(71)	(72)	(50)	(50)
Employee future benefits obligation	(984)	(602)	(1,763)	(1,650)
	\$ 515	\$ 1,846	\$ (1,813)	\$ (1,700)

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

(d) Defined benefit plans (continued):

Plan assets consist of:

Asset category	2015	2014
Investment Funds		
Canadian Equity	\$ 13,735	\$ 13,515
Global	16,946	14,855
Money Market	831	816
Fixed Income	19,050	19,809
Balanced	483	520
Cash	8	66
Other	967	994
Total	\$ 52,020	\$ 50,575

The plan assets held in investment funds are managed by 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	
	2015	2014	2015	2014
Defined benefit obligation as of December 31				
Discount rate	3.75%	3.99%	3.75%	4.00%
Compensation increases ¹	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.99%	4.74%	3.96%	4.75%
Compensation increases ¹	3.50%	3.50%	-	-

¹Compensation increases only relate to the CMSG plan.

For measurement purposes at December 31, 2015, the Company has assumed a 5.60% health care cost trend in 2016 grading down to 4.38% in 2021 (2014 – 5.85% health care cost trend in 2015 grading down to 4.38% in 2021).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	\$ 7,533	\$ 250

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.

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

(d) Defined benefit plans (continued):

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. The duration of the invested assets for the SSCL plan is approximately matched by the duration of the liabilities and are all held in fixed income investments.

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

23. Related party transactions:

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

The remuneration of key management personnel was as follows:

	2015	2014
Salary and short-term employee benefits	\$ 7,171	\$ 6,577
Post-employment benefits	728	671
Share-based compensation expense (recovery)	(3,447)	18,791
	\$ 4,452	\$ 26,039

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

	2015	2014
Trade accounts payable and provisions	\$ 5,669	\$ 13,824
Employee future benefits obligation	3,591	3,238
Provisions and other liabilities	10,239	16,761
	\$ 19,499	\$ 33,823

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Years ended December 31, 2015 and 2014

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

24. Segmented information:

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

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

	2015	2014
United States	\$ 1,144,927	\$ 864,309
Canada	236,517	231,733
Japan	140,900	127,279
China/Taiwan	110,828	170,785
Other export	54,203	53,051
	<u>\$ 1,687,375</u>	<u>\$ 1,447,157</u>

Sales by product line are as follows:

	2015	2014
Lumber	\$ 1,361,192	\$ 1,177,258
Logs	174,090	144,770
Wood chips and other by products	141,717	105,506
Ocean freight and other	10,376	19,623
	<u>\$ 1,687,375</u>	<u>\$ 1,447,157</u>

Non-current assets by geographic location are as follows:

	2015	2014
United States	\$ 709,002	\$ 467,241
Canada	369,573	342,290
	<u>\$ 1,078,575</u>	<u>\$ 809,531</u>

25. Capital management:

The Company's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Company monitors the pre-tax return on total assets, which it defines as operating earnings before restructuring and capital asset write-downs, divided by the average of Total assets for the period.

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

25. Capital management (continued):

There were no changes in the Company's approach to capital management during 2015. 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 \$20 million; 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 and a minimum net worth requirement.

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

26. Financial instruments:**(a) Fair value of financial instruments:**

At December 31, 2015, the fair value of the Company's long term debt approximated its carrying value of \$468,759,000 (2014 - \$220,419,000). The fair values of other financial instruments approximate their carrying values due to their short-term nature.

(b) Derivative financial instruments:

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

The Company has four interest rate swaps outstanding, each with a notional value of US\$25,000,000. The intent of these interest rate swaps is to convert floating-rate interest expense to fixed-rate interest expense.

The Company entered into two interest rate swaps on March 25, 2013, each with notional value of US\$25,000,000 and maturing February 27, 2017. Under the terms of these swaps the Company pays an amount based on a fixed annual interest rate of 0.84% and receives a 90 day LIBOR which is recalculated at set interval dates. On April 14, 2014, the Company entered into two interest rate swaps, each with a notional value of US\$25,000,000 and maturing on April 14, 2016. Under the terms of these interest swaps, the company pays an amount based on a fixed annual interest rate of 0.58% and receives a 90 day LIBOR which is recalculated at set interval dates.

26. Financial instruments (continued):

(b) Derivative financial instruments (continued):

In respect of its trading in foreign currency exchange forward, collar and option contracts, and interest rate swaps, the Company does not expect any credit losses in the event of non-performance by counterparties as the counterparties are the Company's bankers, which are all highly rated.

As at December 31, 2015, the Company had no outstanding obligations under foreign currency contracts.

Fair value of the Company's derivative financial instruments is measured based on Level 2 of the fair value hierarchy as defined under IFRS 13, *Fair Value Measurement* and summarized in the following table as at December 31, 2015 and 2014.

	2015	2014
Foreign exchange collars and forward contracts	\$ -	\$ (177)
Interest rate swaps	61	132
Total asset (liability), net	\$ 61	\$ (45)

Financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while 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 on the Statements of Financial Position.

The following table summarizes the gain (loss) on derivative financial instruments for the years ended December 31, 2015 and 2014.

	2015	2014
Foreign exchange collars and forward contracts ¹	\$ (1,420)	\$ (884)
Interest rate swaps ²	(71)	(34)
Lumber futures ³	(1)	9
Total loss, net	\$ (1,492)	\$ (909)

¹ Recognized in Other foreign exchange gain (loss) in Net earnings (loss).

² Recognized in Other comprehensive income.

³ Recognized in Other income (loss) in Net earnings (loss).

26. Financial instruments (continued):

(c) Hedge of investment in foreign operations:

As at December 31, 2015, U.S. Dollar borrowings under the Revolving Term Line and Senior Secured Notes were designated as hedges against the Company's investment in its U.S. operations with unrealized foreign exchange gains (losses) recorded in Other comprehensive income as follows:

Designation date	Opening			Closing balance ¹	Unrealized foreign exchange gains (losses) ²	
	balance ¹	Additions ¹	Payments ¹		2015	2014
October 1, 2008 ³	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,259)
March 2, 2013 ³	-	-	-	-	-	(4,184)
June 26, 2013 ⁴	50,000	-	-	50,000	(11,195)	120
March 13, 2014 ³	90,000	-	(15,000)	75,000	(17,313)	(4,958)
December 15, 2014 ³	-	-	-	-	-	(297)
December 17, 2014 ⁴	50,000	-	-	50,000	(11,195)	(4,825)
January 14, 2015 ³	-	10,000	-	10,000	(1,892)	-
February 26, 2015 ³	-	135,000	(135,000)	-	(4,112)	-
March 16, 2015 ⁴	-	100,000	-	100,000	(10,370)	-
March 30, 2015 ³	-	10,000	-	10,000	(1,260)	-
May 12, 2015 ³	-	35,000	-	35,000	(6,073)	-
	\$190,000	\$290,000	\$(150,000)	\$330,000	\$(63,410)	\$(15,403)

¹Denominated in U.S. Dollars.

³Drawn on Revolving Term Line.

²Denominated in Canadian Dollars.

⁴Drawn on Senior Secured Notes.

Repayments were de-designated as a hedge of the Company's investment in its U.S. operations.

(d) Financial risk management:

Financial instrument assets include cash and cash equivalents, deposits and accounts receivable. Cash and cash equivalents, deposits and accounts receivable are designated as loans and receivables and measured at amortized cost.

Financial instrument liabilities include bank indebtedness, accounts payable and other provisions, long term debt, and certain other long term liabilities. All financial liabilities are designated as other liabilities and are initially measured at fair value plus any direct transaction costs and subsequently at amortized cost using the effective interest method.

There are no financial instruments classified as available-for-sale or held-to-maturity.

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

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits.

26. Financial instruments (continued):

(d) Financial risk management (continued):

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

(i) Credit risk:

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

Accounts receivable

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

Most North American sales are conducted under standard industry terms. Most lumber sales outside of the North American markets are either insured as to 90% of the receivable amounts by the Export Development Corporation or are secured by documentary collections or irrevocable letters of credit.

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, a reserve in respect of doubtful accounts of \$67,000 was recorded as at December 31, 2015 (2014 - \$46,000).

Deposits

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

Guarantees

The Company did not provide any guarantees in 2015.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Exposure to credit risk

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

	2015	2014
United States	\$ 62,148	\$ 44,975
Canada	16,233	16,107
Japan	5,837	7,848
China/Taiwan	5,523	4,444
Other	5,477	6,909
	\$ 95,218	\$ 80,283

(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 estimated cash payments due in respect of contractual and legal obligations including capital commitments are summarized as follows: ¹

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

¹ Figures in table may not add due to rounding.

² On February 9, 2016, the Company extended the maturities of its Operating Line and Revolving Term Line from February 27, 2017 to May 19, 2019.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk:

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

Currency risk

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

At December 31, 2015, the Company has U.S. Dollar drawings under its Revolving Term Line and Senior Secured Notes of US\$330,000,000 (2014 – US\$190,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

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

2015	CAD	USD	Japanese ¥
Accounts receivable	18,292	18,526	17,678
Accounts receivable held by foreign subsidiaries with USD functional currency	-	36,909	-
	18,292	55,435	17,678
2014	CAD	USD	Japanese ¥
Accounts receivable	19,745	20,773	27,211
Accounts receivable held by foreign subsidiaries with USD functional currency	-	31,184	-
	19,745	51,957	27,211

As at December 31, 2015, the domestic operations of the Company held cash and cash equivalents of US\$5,118,000 (2014 – US\$2,414,000). Cash and cash equivalents held by foreign subsidiaries totaled US\$320,000 (2014 - US\$9,650,000).

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Based on the Company's net exposure to foreign currencies as at December 31, 2015, 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	\$269,000 decrease in net earnings
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Based on the Company's net exposure to foreign currencies as at December 31, 2015, 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	\$1,652,000 increase in OCI
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Interest rate risk

The Company has reduced its exposure to changes in interest rates on borrowings by entering into interest rate swaps, as described in Note 26(b). The intent of these swaps is to convert floating-rate interest expense to fixed-rate interest expense. In addition, the Company issued US\$100,000,000 of Senior Secured Notes (note 10(c)) on March 16, 2015, which bear interest at a fixed rate of 4.17%.

Based on the Company's average debt level during 2015, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of \$74,000 in net earnings.

Other market price risk

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