Interfor Corporation
2014 Annual Report
For the three and twelve months ended December 31, 2014

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three month period and year ended December 31, 2014 ("Q4'14" and "2014", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation ("Interfor" or the "Company") for year ended December 31, 2014, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 12, 2015.

All figures are stated in Canadian dollars, unless otherwise noted, and references to US$/USD and ¥ are to the United States dollar and Japanese Yen, respectively. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2014 Annual Report.

Forward-Looking Statements

This MD&A contains forward-looking statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. Forward-looking statements are included under the headings "Overview of 2014", "Outlook", "Summary of Fourth Quarter 2014 Financial Performance", "Summary of 2014 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". These forward-looking statements reflect management's current expectations and beliefs and are based on certain assumptions including those related to general business and economic conditions in Canada, the U.S., Japan and China, and assessment of risks as described under "Risks and Uncertainties". Such forward-looking statements are subject to risks and uncertainties and no assurance can be given that any of the events anticipated by such statements will occur or, if they do occur, what benefit the Company will derive from them, if any. A number of factors could cause actual results, performance or developments to differ materially from those expressed or implied by such forward-looking statements, including those matters described under the heading "Risks and Uncertainties" and in Interfor's current Annual Information Form available on www.sedar.com. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.

Overview of 2014

Q4'14 Results

Interfor recorded a net loss of $5.2 million, or $0.08 per share, and Adjusted EBITDA of $37.4 million. These figures compare with net earnings and Adjusted EBITDA of $11.0 million and $45.4 million in Q3'14, and $11.4 million and $36.2 million in Q4'13, respectively. Sales revenue amounted to $389.0 million, compared with $373.1 million in Q3'14 and $315.3 million in Q4'13.

The net loss in the fourth quarter was impacted by an increase in the accrual for long term incentive compensation expense of $13.9 million, compared with an expense of $3.6 million in the third quarter. The long term incentive compensation programs are directly tied to Interfor's share price performance and are therefore marked-to-market at each quarter end. In the fourth quarter of 2014, Interfor's share price increased by 35.9%.

Lumber production in the fourth quarter of 2014 was 578 million board feet, up 11 million board feet or 1.9% compared to Q3'14 and up 108 million board feet or 23.0% compared to Q4'13. The production growth from Q4'13 primarily reflects the addition of two sawmills with the Tolleson acquisition and higher operating rates.

Interfor generated $25.0 million of cash from operations before working capital changes and $35.1 million after considering working capital changes. Capital spending amounted to $24.7 million during the quarter.

The Company reduced its net debt during the quarter to $202.6 million or 24.1% of invested capital, leaving $235.6 million of availability under its credit facilities.

Significant Operational Changes, Investment & Financing

On March 14, 2014, Interfor acquired all of the outstanding common shares of Tolleson Ilim Lumber Company ("Tolleson") from Ilim Timber Continental, S.A. for total consideration of $188.5 million, comprising $126.9 million in cash and 3,680,000 Common Shares valued at $61.6 million. This acquisition added two sawmills located in Perry and Preston, Georgia, and a remanufacturing facility in Perry, Georgia. We have filed a Business Acquisition Report on SEDAR with respect to this acquisition.

In conjunction with the acquisition of Tolleson, Interfor increased the credit available on two of its facilities to ensure sufficient liquidity and flexibility post-transaction. On March 21, 2014, the Company increased the credit available under its U.S. Operating Line from US$20 million to US$30 million, without significant change to other terms and conditions. On March 31, 2014, the Company increased the credit available under its Revolving Term Line from $200 million to $250 million, without change to other terms and conditions.

On June 27, 2014, the Company announced a curtailment of its Beaver-Forks operation on the Olympic Peninsula in Washington State. Following a comprehensive strategic review, permanent closure of the operation and consolidation of production at Interfor's Port Angeles facility was announced on July 31, 2014.

On November 6, 2014, Interfor announced a $50 million capital project to upgrade its sawmill in Castlegar, B.C. The project will convert the Castlegar mill to a two line operation with state-of-the-art technology and optimization. The project is scheduled for completion in the fourth quarter of 2015 with full operating performance targeted for the first quarter of 2016.

On December 17, 2014, the Company completed a US$50 million term debt financing with Prudential Capital Group. The Senior Secured Notes carry an annual interest rate of 4.02% and have a final maturity of June 26, 2023.

On December 18, 2014, Interfor signed an agreement to acquire four sawmills from Simpson Lumber Company, LLC ("Simpson") for consideration of US$94.7 million, plus working capital and contingent future consideration. The sawmills are located in Tacoma, Washington, Longview, Washington, Meldrim, Georgia and Georgetown, South Carolina and fit within the Company's existing operating infrastructure. Upon closing of this acquisition, Interfor's total production capacity will increase by 30% to 3.1 billion board feet. The Company's lumber capacity in the U.S. Southeast and U.S. Northwest will total 1.2 billion and 900 million board feet, respectively, representing 67% of the Company's total pro forma capacity. The completion of the transaction is subject to customary conditions and is expected on March 1, 2015.

Regulatory approval was received on January 23, 2015.

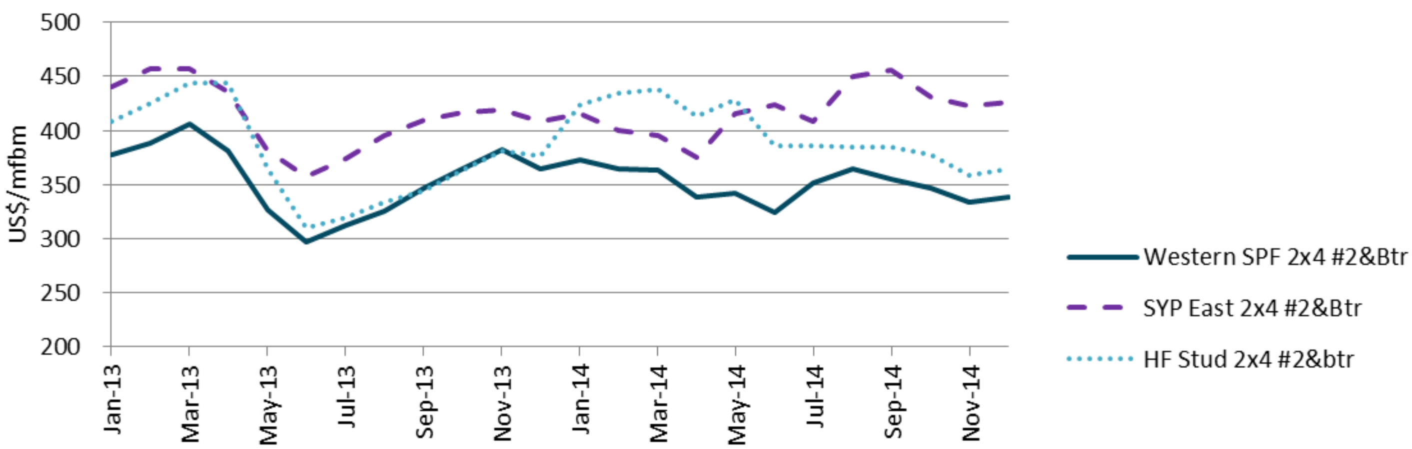
On January 27, 2015, Interfor closed a bought deal public offering of subscription receipts (the "Subscription Receipts") through a syndicate of underwriters. The Company issued an aggregate of 3,300,000 (including 300,000 Subscription Receipts issued pursuant to the exercise of the over-allotment option) Subscription Receipts at a price of $20.10 per Subscription Receipt, for aggregate gross proceeds of $66.3 million (the "Offering").

The gross proceeds from the Offering less one half of the underwriters' commission will be held in escrow until all conditions precedent to completion of the acquisition from Simpson, described above, have been satisfied. Each Subscription Receipt entitles the holder thereof, for no additional consideration and without further action, to one Common Share of the Company upon closing of this acquisition. Net proceeds of the offering will be used to partially fund the acquisition price and thereby provide the Company with ongoing financial flexibility.

Markets and Pricing

Average commodity lumber prices were modestly down across the board in the fourth quarter of 2014 as demand adjusted to reflect seasonal factors. The benchmark prices for Western SPF 2x4, SYP East 2x4 and HF Stud 2x4 9' declined US$17, US$11 and US$18, respectively, as compared to the prior quarter. Demand for lumber in China softened in the fourth quarter due to the combination of credit tightening and slowing real estate activity.

Benchmark Commodity Lumber Prices



Source: Random Lengths Publications, Inc. ("Random Lengths")

Lumber price levels remained above the relevant softwood lumber benchmark price in Q4'14 and enabled Canadian producers to ship lumber to U.S. markets without an export tax throughout the quarter. This export tax rate has been set at zero percent for January and February of 2015. The Company incurred $0.6 million of export taxes in the comparable period of 2013.

The U.S. dollar strengthened against the Canadian dollar during Q4'14, closing up 3.5% over September 30, 2014. The average rate of 1.1350 in Q4'14 was 8.2% higher than in the comparable quarter of 2013, which positively impacted Interfor's net earnings reported in Canadian dollars.

Outlook

The near term outlook for commodity lumber prices will be impacted by North American and overseas demand as well as supply side shifts within North America. With respect to demand, Interfor anticipates a gradual upward trend in U.S. housing starts for 2015 on positive gains in employment and consumer confidence while demand in China is expected to reflect a moderated real estate market. Log supply constraints in certain parts of British Columbia are anticipated to continue, which may lead to reductions in available lumber industry production from that region. By contrast, modest increases in industry capacity and utilization rates are anticipated in the U.S. South region.

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

Financial and Operating Highlights [1]

	Unit	For the 3 months ended December 31, 2014	2013	For the year ended December 31, 2014	2013	2012
Financial Highlights [2]						
Total sales	$mm	389.0	315.3	1,447.2	1,105.2	849.2
Lumber	$mm	318.6	249.2	1,177.3	872.3	631.2
Logs	$mm	37.4	41.3	144.8	136.6	113.9
Wood chips and other residual products	$mm	29.1	20.0	105.5	72.4	69.4
Ocean freight and other	$mm	3.9	4.9	19.6	23.9	34.7
Operating earnings (loss)	$mm	(1.1)	13.7	36.1	52.5	(3.1)
Net earnings (loss)	$mm	(5.2)	11.4	40.7	42.2	(9.5)
Net earnings (loss) per share, basic and diluted	$/share	(0.08)	0.18	0.62	0.73	(0.17)
EBITDA [3]	$mm	23.2	31.4	144.2	115.8	50.2
Adjusted EBITDA [3]	$mm	37.4	36.2	169.3	134.0	59.9
Adjusted EBITDA margin [3]	%	9.6%	11.5%	11.7%	12.1%	7.1%
Total assets	$mm	1,068.5	824.1	1,068.5	824.1	632.0
Total long-term debt	$mm	220.4	145.5	220.4	145.5	135.0
Pre-tax return on total assets [3]	%	-0.1%	6.8%	6.4%	7.3%	-0.4%
Net debt to invested capital [3]	%	24.1%	21.5%	24.1%	21.5%	24.2%
Operating Highlights						
Lumber production	million fbm	578	470	2,222	1,725	1,351
Lumber sales	million fbm	620	500	2,282	1,761	1,432
Lumber - average selling price [4]	$/thousand fbm	514	498	516	495	441
Log sales [5]	thousand cubic metres	358	397	1,440	1,339	1,352
Logs - average selling price [5]	$/cubic metre	84	92	85	88	72

Notes:

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

Summary of Fourth Quarter 2014 Financial Performance

Sales

Interfor recorded $389.0 million of total sales, up 23.4% from $315.3 million in the fourth quarter of 2013, driven by the sale of 620 million board feet of lumber at an average price of $514 per mfbm. Lumber sales volume and average selling price increased 120 million board feet and 3.2%, respectively, over the same quarter of 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 136 million board feet or 43.6% over the fourth quarter of 2013. This growth is mostly attributable to the acquisition of two sawmills in the first quarter of 2014, higher operating rates and the draw-down of lumber inventories.

The increase in the average selling price of lumber is primarily related to the U.S. dollar strengthening against the Canadian dollar by 8.2%, partially offset by lower benchmark prices and an increased proportion of Southern Yellow Pine sales.

Log sales of $37.4 million represents a decrease of $3.9 million or 9.4% compared to the same quarter of 2013. This reflects lower sales volume and an 8.7% decrease in the average selling price on B.C. log sales, which accounted for 80.3% of total log sales revenue in the quarter.

Sales of wood chips and other residual products increased to $29.1 million, up $9.1 million over the comparable quarter of 2013. This increase mainly reflects a 23.0% rise in lumber production from Q4'13.

Operations

Production costs increased by $71.5 million or 26.3% over the fourth quarter of 2013, explained primarily by the 24.0% increase in lumber sales volume and the stronger U.S. dollar as noted above.

Depreciation of plant and equipment was $14.7 million, up 33.2% from the fourth quarter of 2013. The majority of this increase is explained by the inclusion of depreciation on the two sawmills acquired in the first quarter of 2014 and higher operating rates.

Depletion and amortization of timber, roads and other was $8.7 million, up 39.1% from the comparable quarter of 2013. This increase is mostly related to amortization of a non-competition agreement associated with the acquisition of Tolleson.

Corporate and Other

Selling and administration expenses were $8.9 million, up $1.9 million from the fourth quarter of 2013. This increase reflects the growth of Interfor's operations in the U.S. Southeast and includes $0.2 million of non-recurring costs associated with the Simpson acquisition.

The $13.9 million of long term incentive compensation expense reflects the impact of a 35.9% increase in the market price for Interfor Common Shares during the quarter on the Company's share-based incentive compensation plans.

Income Taxes

The Company recorded income tax expense of $0.2 million, comprised primarily of current taxes in respect of its U.S. operations.

Net Earnings (Loss)

The Company recorded a net loss of $5.2 million or $0.08 per share, compared to net earnings of $11.4 million or $0.18 per share in the comparable period of 2013. The net loss was impacted by the $13.9 million increase in the accrual for long term incentive compensation expense as noted above, compared to an increase of $5.2 million in the comparable quarter of 2013.

Summary of 2014 Financial Performance

Sales

Interfor recorded $1,447.2 million of total sales, up 30.9% from $1,105.2 million in 2013, driven by the sale of 2.3 billion board feet of lumber at an average price of $516 per mfbm. Lumber sales volume and average selling price increased 521 million board feet and 4.2%, respectively, over 2013.

The growth in lumber sales volume was primarily in the U.S. market, where sales increased by 512 million board feet or 47.7% over 2013. This growth is mostly attributable to the six sawmills in Georgia acquired since March of 2013 as well as increased demand.

The increase in the average selling price of lumber is primarily related to the strengthening of the U.S.

dollar against the Canadian dollar by 7.3%, partially offset by an increased proportion of Southern Yellow Pine sales.

Log sales of $144.8 million represents an increase of $8.2 million or 6.0% compared to 2013, with higher volume partially offset by a lower average realize price.

Sales of wood chips and other residual products increased to $105.5 million, up $33.1 million over 2013. This increase mainly reflects the 28.8% increase in lumber production over the prior year.

Operations

Production costs increased by $302.8 million or 32.2% compared to 2013, explained primarily by the acquisition of two sawmills in the first quarter of 2014, contributing to a 29.6% increase in lumber sales volume, and a 7.5% increases in B.C. log sales volumes. The stronger U.S. dollar as noted above also contributed to this increase.

Depreciation of plant and equipment was $55.2 million, up 40.7% from 2013. The majority of this increase is explained by the inclusion of depreciation on the six mills in the U.S. Southeast acquired since March 2013, and higher operating rates.

Depletion and amortization of timber, roads and other was $28.9 million, up 25.4% over 2013. Amortization of the non-competition agreement associated with the Tolleson acquisition contributed to this increase.

Corporate and Other

Selling and administration expenses were $35.5 million, up $6.7 million from 2013. This increase reflects the growth of our operations into the U.S. Southeast and includes $1.6 million of non-recurring expenses related to the Tolleson and Simpson acquisitions.

Long term incentive compensation expense was $23.9 million, up $5.1 million over 2013, as a result of a higher market price for Interfor Common Shares on the Company's share-based incentive compensation plans.

In conjunction with curtailment of the Beaver-Forks operation in the second quarter of 2014, the Company recorded asset impairment and restructuring charges of $14.2 million, net of an $8.5 million deferred tax recovery.

Income Taxes

The Company recorded an income tax recovery of $16.2 million, comprised of $1.3 million of current tax expense net of a $17.6 million deferred tax recovery. The deferred tax recovery includes two notable items: i) recognition of $19.3 million of previously unrecognized deferred tax assets related to its U.S. operations as a result of the acquisition of Tolleson; and ii) an $8.5 million recovery related to the Beaver-Forks restructuring and impairment charges.

Net Earnings

The Company recorded net earnings of $40.7 million or $0.62 per share, compared with $42.2 million or $0.73 per share of net earnings in 2013. As noted above, net earnings in 2014 were impacted by increased long term incentive compensation expense, restructuring and impairment charges associated with the curtailment of the Beaver-Forks operation and recognition of previously unrecognized deferred tax assets related to U.S. operations.

Summary of Quarterly Results [1]

	Unit	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4	2013 Q3	2013 Q2	2013 Q1
Financial Performance (Unaudited)									
Total sales	$mm	389.0	373.1	390.2	294.8	315.3	272.7	274.7	242.5
Lumber	$mm	318.6	303.0	325.2	230.4	249.2	212.2	219.5	191.4
Logs	$mm	37.4	34.4	35.4	37.6	41.3	36.6	32.6	26.1
Wood chips and other residual products	$mm	29.1	28.3	25.8	22.4	20.0	18.4	17.4	16.6
Ocean freight and other	$mm	3.9	7.4	3.8	4.4	4.9	5.4	5.2	8.4
Operating earnings (loss)	$mm	(1.1)	20.1	3.8	13.3	13.7	2.3	19.3	17.2
Net earnings (loss)	$mm	(5.2)	11.0	7.4	27.5	11.4	(0.1)	15.8	15.2
Net earnings (loss) per share, basic and diluted	$/share	(0.08)	0.16	0.11	0.43	0.18	(0.00)	0.28	0.27
EBITDA[2]	$mm	23.2	40.9	47.8	32.3	31.4	18.4	35.3	30.6
Adjusted EBITDA[2]	$mm	37.4	45.4	47.3	39.2	36.2	24.6	36.1	37.1
Shares outstanding - end of period	million	66.7	66.7	66.7	66.7	63.1	63.1	55.9	55.9
Shares outstanding - weighted average	million	66.7	66.7	66.7	63.8	63.1	55.9	55.9	55.9
Operating Performance									
Lumber production	million fbm	578	567	582	495	470	447	418	390
Lumber sales	million fbm	620	595	628	439	500	446	433	383
Lumber - average selling price[3]	$/thousand fbm	514	509	518	525	498	476	507	500
Log sales[4]	thousand cubic metres	358	380	305	398	397	353	301	289
Logs - average selling price[4]	$/cubic metre	84	75	103	82	92	93	90	76
Average USD/CAD exchange rate[5]	1 USD in CAD	1.1350	1.0890	1.0905	1.1033	1.0491	1.0385	1.0233	1.0080
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.1601	1.1208	1.0676	1.1053	1.0636	1.0303	1.0518	1.0160

Notes:

(1) Figures in this table may not add due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A.
(3) Gross sales before export taxes.
(4) For B.C. operations.
(5) Based on Bank of Canada foreign exchange rates.

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

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

Three sawmills acquired on March 1, 2013, and one sawmill acquired on July 1, 2013, contributed to growth in production, sales and earnings. Production, sales and earnings have also benefited since the acquisition of two sawmills on March 14, 2014. The permanent closure of the Beaver sawmill impacted production and sales in subsequent to Q2'14.

The volatility of the Canadian dollar against the U.S. dollar also impacted results, given that historically over 75% of the Canadian operation's lumber sales are to the U.S. and export markets priced in U.S. dollars. A weaker Canadian dollar increases the lumber sales realizations in Canada, and increases net earnings of U.S. operations when translated to Canadian dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout the fourth quarter of 2014. Net debt at quarter-end of $202.6 million, or 24.1% of invested capital, was $61.8 million higher than at December 31, 2013, due primarily to borrowings for the Tolleson acquisition.

As at December 31, 2014, the Company had net working capital of $109.7 million and available capacity on operating and term facilities of $235.6 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

In 2014, the Company generated $143.0 million of cash flow from operations before changes in working capital, up $19.3 million over 2013. Incremental cash flow generated from increased sales was partially offset by a small reduction in margin on production costs and a $6.7 million increase in selling and administration costs. The increase in selling and administration costs includes $1.6 million of a non-recurring nature related to the Tolleson and Simpson acquisitions.

Total cash generated from operations after changes in working capital was $161.8 million, with $18.8 million of cash released from operating working capital. The reduction in working capital was led by a $17.3 million decrease in log inventory compared to December 31, 2013. In 2013, $26.2 million of cash was consumed by operating working capital, leading to $97.5 million of total cash generated from operations.

Cash Flow from Investing Activities

Investing activities totaled $200.9 million in 2014, including $124.4 million related to the Tolleson acquisition, $48.9 million for property, plant and equipment and $26.7 million for development of logging roads. Discretionary mill improvements of $25.0 million during the period included the installation of a new kiln and crane at the Thomaston sawmill, a Weinig moulder at the Gilchrist sawmill and preparatory work on the Castlegar sawmill rebuild.

In 2013, total investing activities of $186.7 million included $86.6 million related to the acquisition of Rayonier's Wood Products Business, $33.8 million for the acquisition of the Thomaston sawmill and $68.3 million of capital expenditures. Capital expenditures included the addition of two timber tenures in the Kootenay Region of B.C. from Springer Creek Management Ltd. with a combined Allowable Annual Cut of approximately 174,000 cubic metres.

Cash Flow from Financing Activities

Net drawings on the Company's long term debt facilities were $59.4 million 2014, leading to total cash from financing activities of $51.5 million. This includes US$112.5 million drawn from the Company's Revolving Term Line and Operating Line to fund the Tolleson acquisition.

In 2013, net drawings on the Company's long term debt facilities were $4.2 million with total cash from financing activities of $78.0 million. This includes $82.4 million of net cash proceeds raised from the issuance of 7,187,500 Common Shares.

Summary of Contractual Obligations

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

		Payments due by Period			
Thousands of Canadian dollars	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and accrued liabilities	$105,150	$105,150	$ -	$ -	$ -
Income taxes payable	365	365	-	-	-
Reforestation liability	34,628	9,797	9,040	8,456	7,335
Long term debt	220,419	-	104,709	-	115,710
Provisions and other liabilities	68,317	31,908	12,270	3,314	20,825
Operating leases and expected capital commitments	83,864	64,294	10,040	4,510	5,020
Total obligations [1]	$512,743	$211,514	$136,059	$ 16,280	$148,890

Note: (1) Figures in this table may not add due to rounding

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2014:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit and maximum borrowing available	$ 65,000	$250,000	$116,010	$ 34,803	$465,813
Less:					
Drawings	-	104,409	116,010	-	220,419
Outstanding letters of credit included in line utilization	8,637	-	-	1,183	9,820
Unused portion of facility	$ 56,363	$145,591	-	$ 33,620	$235,574

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand. Based on current pricing, cash flow projections and existing credit lines, the Company believes it has sufficient liquidity to meet all of its financial obligations.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the twelve months ended December 31, 2014.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance bonds, primarily for timber sales. At December 31, 2014, such instruments aggregated $30.9 million (December 31, 2013 - $26.7 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

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

Interest Rate Swaps

As at December 31, 2014, Interfor had drawn $104.4 million of floating rate debt, excluding letters of credit, from its operating and term credit facilities, and $116.0 million of fixed rate debt through the Senior Secured Notes. The Company's operating and term credit facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian dollar loans or at LIBOR for U.S. dollar loans, in all cases dependent upon a financial ratio. The Senior Secured Notes bear interest at 4.33% and 4.02% for Series A and Series B, respectively.

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

On March 25, 2013, the Company entered into two interest rate swaps, each with a notional value of US$25.0 million and maturing on February 17, 2017. Under the terms of these swaps, the Company pays an amount based on a fixed annual interest rate of 0.84% and receives payment based on 90 day LIBOR which is recalculated at set interval dates.

These interest rate swaps convert the Company's floating-rate interest expense to fixed-rate interest expense and have been designated as cash flow hedges. The fair value of these interest rate swaps at December 31, 2014, being an asset of $0.1 million (measured based on Level 2 of the fair value hierarchy), has been recorded in Trade accounts receivable and other (2013 - $0.2 million) and a negligible loss (2013 - $0.2 million gain) has been recognized in Other comprehensive income.

Based on the Company's average debt level during 2014, there is no net earnings exposure to changes in interest rates as all debt is covered by fixed rate instruments.

Foreign Currency Contracts

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

As at December 31, 2014, the Company had outstanding forward currency exchange contract obligations to sell during 2015 a maximum of US$11.0 million at an average rate of $1.1527 per U.S. dollar and ¥53.6 million at an average rate of ¥107.1 per U.S. dollar. Under outstanding call/put option collar agreements, the Company also had the right to sell US$4 million per month at an average rate of $1.1000 per U.S. dollar and the obligation to sell US$4 million per month at an average rate of $1.1638 per U.S. dollars in each of January, February and March 2015.

All foreign currency gains or losses in 2014 have been recognized in Other foreign exchange gain (loss) in Net earnings and the fair value of the foreign currency contracts has been recorded as a liability of $0.2 million in Trade accounts payable and provisions (2013 - $0.1 million asset recorded in Trade accounts receivable and other).

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

As at December 31, 2014, the Company had designated the US$90.0 million drawn under its Revolving Term Line and US$100.0 million drawn under its Senior Secured Notes as hedges against the net investment in its U.S. operations. The Company recorded a $20.4 million unrealized foreign exchange net gain on translation of its U.S. operations with a U.S. dollar functional currency to Other comprehensive income (loss) in 2014 (2013 - $8.2 million net gain).

Outstanding Shares

As of February 12, 2015, Interfor had 66,730,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2014.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2014.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2014, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

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

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

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

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

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

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

Appropriate discount rates are determined by reference to current market conditions, specific company factors and asset specific factors. The inflation rate applied within the cash flow projections represents the published Bank of Canada consumer price index as at December 31, 2014.

Interfor assesses the recoverability of Property, Plant and Equipment, Logging Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. The Company assessed the recoverability of goodwill as at December 31, 2014 and concluded that there were no impairments.

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

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

Pension and Other Post-retirement Benefits. The Company sponsors two defined benefit pension plans for those hourly employees not covered by forest industry union plans; a third defined benefit pension plan wound-up in the fourth quarter of 2014. It also sponsors two post-retirement medical and life insurance plans.

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

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

Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2014, and have not been applied in preparing the Company's 2014 annual consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect the financial statements.

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

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements. Application is required for annual periods beginning on or after January 1, 2017, with earlier adoption permitted. The Company has not yet completed an assessment of the impact, if any, of this standard on its financial statements.

Non-GAAP Measures

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

Thousands of Canadian dollars	For the 3 months ended December 31, 2014	2013	For the year ended December 31, 2014	2013	2012
Adjusted EBITDA					
Net earnings (loss)	(5,187)	11,431	40,690	42,239	(9,474)
Add:					
Depreciation of plant and equipment	14,707	11,040	55,167	39,206	28,745
Depletion and amortization of timber, roads and other	8,699	6,253	28,912	23,061	23,648
Restructuring costs, capital asset and timber write-downs	857	49	24,129	371	529
Finance costs	2,268	2,097	8,915	9,069	6,441
Other foreign exchange loss (gain)	1,646	211	2,651	1,250	(189)
Income tax expense (recovery)	160	324	(16,230)	555	458
EBITDA	23,150	31,405	144,234	115,751	50,158
Add:					
Long term incentive compensation	13,864	5,205	23,933	18,841	10,065
Other expense (income)	(3)	(375)	37	(602)	(334)
Beaver sawmill post-closure wind-down costs	363	-	1,075	-	-
Adjusted EBITDA	37,374	36,235	169,279	133,990	59,889
Pre-tax return on total assets					
Operating earnings (loss) before restructuring and capital asset write-downs	(259)	13,737	60,192	52,882	(2,569)
Total assets (1)	1,058,346	812,305	946,325	728,083	623,438
Pre-tax return on total assets (2)	-0.1%	6.8%	6.4%	7.3%	-0.4%
Net debt to invested capital					
Net debt					
Long term debt	220,419	145,479	220,419	145,479	135,046
Cash and cash equivalents	(17,866)	(4,717)	(17,866)	(4,717)	(14,994)
Total net debt	202,553	140,762	202,553	140,762	120,052
Invested capital					
Net debt	202,553	140,762	202,553	140,762	120,052
Shareholders' equity	636,480	515,137	636,480	515,137	376,030
Total invested capital	839,033	655,899	839,033	655,899	496,082
Net debt to invested capital (3)	24.1%	21.5%	24.1%	21.5%	24.2%

Notes:
(1) Opening total assets for three month periods; average of opening and closing total assets for annual periods.
(2) Annualized rate.
(3) Net Debt to Invested Capital balances are as of the period end.

Risks and Uncertainties

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

Price Volatility

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

Competition

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

Factors which affect the Company’s competitive position include:

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

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

Availability and Cost of Log Supply

The log requirements of the Company’s sawmills are met using logs harvested from its timber tenures, by long term trade and purchase agreements and by purchases on the open market and through timber sale bids. Logs produced but unsuitable for use in the Company’s sawmills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company’s Canadian sawmills generally purchase less than 50% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre through purchase agreements for its U.S. based sawmills, with a small volume occasionally supplied by the Company’s Canadian coastal logging operations for the sawmill located on Washington’s Olympic Peninsula. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on the Company’s business, financial position, results of operations and cash flow. In addition, weather-related issues can restrict timely access to log supply.

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

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

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

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

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

<u>Government Regulation</u>

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

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

<u>Allowable Annual Cut ("AAC")</u>

The Company holds cutting rights in British Columbia that represent an AAC of approximately of 3.9 million cubic metres. Of this amount, 3.6 million cubic metres is in the form of replaceable tenures. The remaining portion is held in non-replaceable tenures (timber licences and non-replaceable forest licences) that will expire over time.

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

Reductions in the Company's AAC from any new protected areas are subject to compensation, once these areas have been formally removed. Currently there are no compensation claims outstanding.

The amount of timber available for harvest in the southern portion of the B.C. Interior is expected to remain stable for the next several years, then decline as a consequence of an accelerated harvest to address the impact from the mountain pine beetle epidemic. The overall timber supply is expected to be reduced in the B.C. Interior over the next three to ten years as the surplus of dead pine is no longer useable. The AAC determinations are made by the provincial Chief Forester in a Timber Supply Review process and will vary by location.

<u>Aboriginal Issues</u>

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

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

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

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

Softwood Lumber Agreement

A portion of the Company's products that are manufactured in Canada are exported for sale. The Company's financial results are dependent on continued access to the export markets and tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company. As a result of the Softwood Lumber Agreement ("SLA") implemented by the federal governments of Canada and the United States on October 12, 2006, Canadian softwood lumber exporters pay an export charge when the Random Lengths Framing Lumber Composite Price ("RLCI") of lumber is at or below US$355 per mfbm. On January 23, 2012, Canada and the United States agreed to a two-year extension of the SLA through October 2015. The RLCI benchmark exceeded US$355 per mfbm for all but three months in 2013 and remained above this threshold for all of 2014.

There is no assurance that the SLA will be renewed or, if is renewed, that export duties will not be increased from current ranges or that other thresholds in the SLA, such as differential trigger prices, surge limits and quotas will not change in a manner that adversely affects the Company. Further, the expiry of the SLA without its renewal, or any amendments to the SLA, could result in the imposition of export duties or other protective measures, such as antidumping duties or countervailing duties, that are in excess of the range of export duties that are currently imposed under the SLA. The SLA provides that no action may be taken with respect to the imposition of softwood lumber duties from Canada for the twelve-month period following expiry of the SLA.

Stumpage Fees

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

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

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The collective agreement with the Southern Interior USW agreement (Grand Forks and Castlegar) expires on June 30, 2018, while the USW agreement for the B.C. Coast (Acorn and Hammond) expires on June 15, 2019. The Company also has 22 employees in the B.C. Interior who are members of the Canadian Marine Service Guild ("CMSG"), and their collective agreement expired September 30, 2014. Negotiations with the CMSG regarding renewal of the expired agreement are in process, with employees continuing to work under the terms of the expired agreement with no workplace disruptions.

Additional Information

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

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