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

Management is responsible for the integrity and fair presentation of the accompanying consolidated financial statements. The consolidated financial statements were prepared in accordance with International Financial Reporting Standards and, where necessary, are based in part on management's best estimates and judgements. Financial information included elsewhere in the 2019 Annual Report is consistent with that disclosed in the consolidated financial statements.

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

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

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

"Ian M. Fillinger"	*"Martin L. Juravsky"*
President and Chief Executive Officer	Senior Vice President and Chief Financial Officer

February 6, 2020

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

To the Shareholders of Interfor Corporation,

Opinion

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, 2019 and December 31, 2018 and January 1, 2018;
- the consolidated statements of earnings and comprehensive income for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of changes in equity for the years ended December 31, 2019 and December 31, 2018;
- the consolidated statements of cash flows for the years December 31, 2019 and December 31, 2018; and
- notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2019, December 31 3018, and January 1, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Emphasis of Matter – Comparative Information

We draw attention to *Note 4* to the financial statements ("*Note 4*"), which explains that certain comparative information presented:

- as at December 31, 2018 and for the year ended December 31, 2018 has been restated.
- as at January 1, 2018 has been derived from the financial statements for the year ended December 31, 2017 which have been restated (not presented herein).

Note 4 explains the reason for the restatement and also explains the adjustments that were applied to restate certain comparative information.

Our opinion is not modified in respect of this matter.

KPMG

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the ***"Auditors' Responsibilities for the Audit of the Financial Statements"*** section of our auditors' report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other responsibilities in accordance with these requirements.

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

Other Information

Management is responsible for the other information. Other information comprises:

- Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions; and
- Information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report".

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

The information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "Annual Report" is expected to be made available to us after the date of this auditors' report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue and auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit.

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

  The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.
Vancouver, Canada
February 6, 2020

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2019 and 2018 and January 1, 2018

	Note	December 31 2019	December 31 2018	January 1 2018
Assets			*(Note 4)*	*(Note 4)*
Current assets:				
Cash and cash equivalents		$ 34,900	$ 166,152	$ 131,600
Marketable securities	*5*	-	42,863	-
Trade accounts receivable and other		86,608	90,384	112,470
Income tax receivable	*21*	1,995	3,008	1,289
Inventories	*6*	181,577	209,178	165,156
Prepayments		20,449	16,833	12,186
		325,529	528,418	422,701
Employee future benefits	*24(d)*	673	303	502
Deposits and other assets	*7*	9,296	16,842	6,404
Right of use assets	*8*	32,780	37,778	38,600
Property, plant and equipment	*9*	739,515	723,773	669,165
Roads and bridges	*10*	24,353	29,829	24,092
Timber licences	*10*	60,596	64,153	66,589
Other intangible assets	*10*	3,480	5,288	14,170
Goodwill	*10*	138,734	158,799	147,081
Deferred income taxes	*21*	6,961	133	253
		$ 1,341,917	$ 1,565,316	$ 1,389,557
Liabilities and Shareholders' Equity				
Current liabilities:				
Trade accounts payable and provisions	*14, 24(c), 24(d)*	$ 114,358	$ 154,869	$ 152,355
Reforestation liability	*12*	13,021	13,947	12,873
Lease liabilities	*13*	10,105	10,158	8,019
Income taxes payable	*21*	163	356	224
		137,647	179,330	173,471
Reforestation liability	*12*	27,401	28,235	27,535
Lease liabilities	*13*	27,718	33,954	36,165
Long term debt	*11*	259,760	272,840	250,900
Employee future benefits	*24(c), 24(d)*	11,843	8,687	8,249
Provisions and other liabilities	*14*	18,957	16,421	25,808
Deferred income taxes	*21*	27,609	57,083	17,877
Equity:				
Share capital	*15*	533,685	537,534	555,388
Contributed surplus		4,471	3,851	8,582
Translation reserve		56,759	84,393	40,733
Retained earnings		236,067	342,988	244,849
		830,982	968,766	849,552
		$ 1,341,917	$ 1,565,316	$ 1,389,557

Commitments and contingencies *(Note 22)*. See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director "Thomas V. Milroy", Director

Interfor Corporation
Consolidated Statements of Earnings
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2019 and 2018

	Note	2019	2018
			(Note 4)
Sales	*26*	$ 1,875,821	$ 2,186,567
Costs and expenses:			
Production		1,728,394	1,789,590
Selling and administration		38,748	52,012
Long term incentive compensation expense (recovery)	*14, 15(b)*	3,446	(7,829)
U.S. countervailing and anti-dumping duty deposits	*7, 22(c)*	45,289	53,337
Depreciation of plant and equipment	*9, 16*	80,438	80,065
Depletion and amortization of timber, roads and other	*8, 10, 16*	44,294	46,148
		1,940,609	2,013,323
Operating earnings (loss) before write-downs and restructuring costs		(64,788)	173,244
Capital asset and goodwill write-downs and restructuring costs	*20*	(63,982)	(15,304)
Operating earnings (loss)		(128,770)	157,940
Finance costs	*18*	(15,024)	(12,452)
Other foreign exchange gain (loss)		(275)	3,474
Other income	*19*	5,925	1,188
		(9,374)	(7,790)
Earnings (loss) before income taxes		(138,144)	150,150
Income tax expense (recovery):	*21*		
Current		26	2,955
Deferred		(34,385)	36,137
		(34,359)	39,092
Net earnings (loss)		$ (103,785)	$ 111,058
Net earnings (loss) per share, basic and diluted	*23*	$ (1.54)	$ 1.59

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2019 and 2018

	Note	2019	2018 *(Note 4)*
Net earnings (loss)		$ (103,785)	$ 111,058
Other comprehensive income (loss):			
Items that will not be recycled to Net earnings (loss):			
Defined benefit plan actuarial gain, net of tax	*21, 24(d)*	603	508
Items that are or may be recycled to Net earnings (loss):			
Foreign currency translation differences for foreign operations, net of tax		(27,634)	43,660
Total other comprehensive income (loss), net of tax		(27,031)	44,168
Comprehensive income (loss)		$ (130,816)	$ 155,226

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, 2019 and 2018

	Note	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total Equity
Balance at December 31, 2017	*4*	$ 555,388	$ 8,582	$ 40,733	$ 244,849	$ 849,552
Net earnings:		-	-	-	111,058	111,058
Other comprehensive income:						
Foreign currency translation differences for foreign operations, net of tax		-	-	43,660	-	43,660
Defined benefit plan actuarial gain, net of tax	*21, 24(d)*	-	-	-	508	508
Contributions and distributions:						
Share issuance, net of expenses	*15(a)*	214	(71)	-	-	143
Share repurchase	*15(a)*	(18,068)	(5,434)	-	(13,427)	(36,929)
Stock options	*15(b)*	-	774	-	-	774
Balance at December 31, 2018	*4*	537,534	3,851	84,393	342,988	968,766
Net loss:		-	-	-	(103,785)	(103,785)
Other comprehensive income (loss):						
Foreign currency translation differences for foreign operations, net of tax		-	-	(27,634)	-	(27,634)
Defined benefit plan actuarial gain, net of tax	*21, 24(d)*	-	-	-	603	603
Contributions and distributions:						
Share issuance, net of expenses	*15(a)*	237	(72)	-	-	165
Share repurchases	*15(a)*	(4,086)	-	-	(3,739)	(7,825)
Stock options	*15(b)*	-	692	-	-	692
Balance at December 31, 2019		$ 533,685	$ 4,471	$ 56,759	$ 236,067	$ 830,982

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2019 and 2018

	Note	2019	2018
Cash provided by (used in):			*(Note 4)*
Operating activities:			
Net earnings (loss)		$ (103,785)	$ 111,058
Items not involving cash:			
Depreciation of plant and equipment	*9*	80,438	80,065
Depletion and amortization of timber, roads and other	*10*	44,294	46,148
Income tax expense (recovery)	*21*	(34,359)	39,092
Finance costs	*18*	15,024	12,452
Other assets		1,894	(3,000)
Reforestation liability	*12*	(1,286)	79
Provisions and other liabilities		3,620	(8,972)
Stock options	*15(b)*	692	774
Write-down of plant, equipment, intangibles, goodwill and other	*9, 10, 20*	45,494	13,925
Unrealized foreign exchange loss (gain)		554	(3,364)
Gain on lease modifications	*8, 13, 19, 20*	(1,140)	-
Other income	*19*	(5,866)	(1,188)
		45,574	287,069
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		1,517	27,414
Inventories		22,632	(33,821)
Prepayments		(4,443)	(3,035)
Trade accounts payable and provisions		(36,446)	(7,623)
Income taxes paid		(582)	(4,392)
		28,252	265,612
Investing activities:			
Additions to property, plant and equipment	*9*	(158,645)	(106,440)
Additions to logging roads and bridges	*10*	(22,447)	(32,165)
Additions to timber licences and other intangible assets	*10*	(77)	(158)
Proceeds on disposal of property, plant and equipment, timber and other	*19*	8,880	2,355
Net proceeds from (additions to) marketable securities, deposits and other assets		48,338	(48,385)
		(123,951)	(184,793)
Financing activities:			
Issuance of share capital, net of expenses	*15(b)*	165	143
Share repurchases	*15(a)*	(7,825)	(36,929)
Interest payments		(12,193)	(10,151)
Lease payments		(11,638)	(9,936)
Debt refinancing costs		(1,223)	(88)
Change in operating line components of long term debt	*11*	4	(2)
Additions to long term debt	*11*	197,925	155,909
Repayments of long term debt	*11*	(197,175)	(155,797)
		(31,960)	(56,851)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		(3,593)	10,584
Increase (decrease) in cash		(131,252)	34,552
Cash and cash equivalents, beginning of year		166,152	131,600
Cash and cash equivalents, end of year		$ 34,900	$ 166,152

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

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

These consolidated financial statements of the Company as at December 31, 2019 and 2018, and January 1, 2018 and for the years ended December 31, 2019 and 2018 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 6, 2020.

Details of Interfor's accounting policies are included in *Note 3*.

This is the first set of Interfor's annual financial statements in which IFRS 16, *Leases* has been applied. This change in accounting policy is described in *Note 4*.

(b) Basis of measurement:

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

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

(ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value at each reporting date;

(iii) Equity-settled share-based payments are measured at fair value at grant date;

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

(v) Reforestation obligations, lease liabilities and certain other provisions are measured at the discounted value of expected future cash flows.

(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.

2. Basis of Preparation (continued):

(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.

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, length of lease term including whether extension options will be exercised, rates for depreciation, depletion and amortization, fair values of assets and liabilities acquired in business combinations and impairment analysis of non-financial assets including goodwill.

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

Note 3(e)	Inventories
Note 3(i)	Impairment of non-financial assets
Note 3(j)	Reforestation and other decommissioning provisions
Note 3(l), 4	Lease liabilities and Right of Use ("ROU") assets
Note 3(m), 24(d)	Employee future benefits and other post-retirement plans
Note 3(n)	Cash-settled share based compensation
Note 3(o), 15(b)	Equity-settled share based compensation
Note 10	Roads and bridges, timber licences, other intangible assets and goodwill
Note 12	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 except if otherwise stated. See also *Note 4.*

(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.

3. Significant accounting policies (continued):

(a) Basis of consolidation (continued):

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.

Foreign exchange differences arising on revaluation are recognized in Net earnings. Revaluations related to cash and cash equivalents are adjusted to Other foreign exchange gain (loss), trade and other receivables are adjusted to Sales and trade payables and provisions 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 or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the Translation reserve to the Non-controlling interest in the foreign subsidiary.

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.

3. Significant accounting policies (continued):

(b) Foreign currency (continued):

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

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.

(c) Financial instruments:

(i) Non-derivative financial instruments:

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

Cash and cash equivalents, trade and other receivables, and interest bearing marketable securities expected to be held to maturity are categorized as amortized cost 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.

The Company applies an "expected credit loss" ("ECL") model to calculate the impairment of financial assets.

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

(ii) Derivative financial instruments:

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

Foreign currency exchange contracts and lumber futures contracts are designated as fair value through profit or loss ("FVTPL"). Consequently, these derivative financial instruments are carried on the Statements of Financial Position at fair value with changes in fair value being recorded in Net earnings in Other foreign exchange gain (loss) for foreign currency exchange contracts and in Sales for lumber futures contracts.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(ii) Derivative financial instruments (continued):

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

(iii) Share capital:

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

(d) Cash and cash equivalents:

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

(e) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average production cost 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 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, lagged by one month, 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 the lower of cost and replacement cost, which approximates net realizable value.

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation on machinery and equipment is provided based on 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, except for programs that extend the useful life of an asset or increase its value, for which costs are capitalized.

3. Significant accounting policies (continued):

(f) Property, plant and equipment (continued):

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.

(g) Logging roads and bridges:

Logging roads with an economic life of greater than one year and bridges are recorded at cost less accumulated amortization and impairment losses. Roads and permanent bridges are amortized on the basis of timber cut relative to available timber. Portable bridges are amortized on a straight line basis over the estimated useful life of the asset.

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

Logging roads with an economic life of one year or less are expensed to Production costs.

(h) Intangible assets:

(i) Timber licences:

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

(ii) Goodwill:

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

(iii) Other intangible assets:

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

(i) Impairment of non-financial assets:

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

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.

3. Significant accounting policies (continued):

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

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 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 (a cash generating unit or "CGU"). Goodwill is allocated to a CGU or group of CGU's expected to benefit from it.

Impairment losses recognized for a CGU are first allocated to reduce the carrying amount of goodwill, if any, assigned to the CGU, and then to amounts of the other assets in the CGU on a pro-rata basis, to the extent that the carrying value of an asset exceeds the higher of its fair value and value in use.

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

An impairment loss recorded against goodwill is not reversed.

(j) Reforestation and other decommissioning provisions:

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

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.

3. Significant accounting policies (continued):

(j) Reforestation and other decommissioning provisions (continued):

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

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

(k) Environmental costs:

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

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

(l) Leases:

The Company does not enter into agreements which would require it to act as a lessor and therefore the policy describes the accounting for leases as a lessee only.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Interfor recognizes a ROU asset and a lease liability at the lease commencement date. The ROU asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received. Any leasehold improvements are added to the related ROU asset.

The ROU asset is subsequently amortized using the straight-line method from the commencement date to the lesser of the end of the lease term or the useful life of the underlying asset. The ROU asset is reduced by any impairment losses, if any, and adjusted for remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments discounted using the interest rate implicit in the lease if readily determinable, or the Company’s incremental borrowing rate. The lease payments include fixed and variable payments, residual value guarantees, and the exercise price under a purchase option that the Company is reasonably certain to exercise.

3. Significant accounting policies (continued):

(l) Leases (continued):

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the expected future lease payments as a result of a revision to the lease term, for example. Remeasurements to the lease liability are reflected in the ROU asset to the extent that the carrying value of the ROU asset exceeds the adjustment, and to Other income (expense) in Net earnings otherwise.

Interfor does not recognize ROU assets and lease liabilities for leases of low-value assets and short-term leases. Lease payments associated with these leases are expensed on a straight line basis over the lease term.

(m) Employee future benefits and other post-retirement plans:

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

Plan assets are valued at fair value.

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

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

(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 Performance Share Units ("PSU"), granted under the TSR Plan, over the performance period based on the fair value of the PSUs at the date of the grant. Fair value is measured using a combination of call options which are valued using a Black-Scholes pricing model.

3. Significant accounting policies (continued):

(n) Cash-settled share based compensation (continued):

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

(o) Equity-settled share based compensation:

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

The grant-date fair value of options is recognized as Long term incentive compensation, with a corresponding increase in Contributed surplus, over the vesting period. The fair value of the options is determined using the Black-Scholes option pricing model which takes into account, as of the grant date, the exercise price, the expected option life, the current market price and expected volatility of Interfor Common shares, expected dividends, and the risk-free interest rate over the expected option life. Cash consideration received when an option is exercised is credited to Share capital, as is the related compensation expense previously recorded in Contributed surplus.

(p) Sales revenue:

The Company recognizes sales of lumber, logs, chips and by-products or other goods or services typically when the product is loaded onto the mode of transportation or delivered to the transfer point. Sales are measured based on the fair value of the consideration specified in a contract, net of applicable sales taxes, returns, rebates and discounts. Revenue includes amounts charged to customers for freight, wharfage and handling costs.

Actual costs of freight, wharfage and handling and duties are recorded to Production cost and U.S. countervailing and anti-dumping duty deposits, respectively, in Net earnings.

(q) Finance income and costs:

Finance income comprises interest income on marketable securities and other investments and interest on defined benefit plan assets.

Finance costs comprise interest expense on borrowings, the unwinding of the discount on decommissioning provisions, interest on defined benefit, lease liabilities and other obligations, the amortization of deferred 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.

3. Significant accounting policies (continued):

(r) Income tax (continued):

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 taxable entities, but the intention is to settle current tax liabilities and assets on a net basis or tax assets and liabilities will be realized simultaneously.

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

(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:

Several new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2019, and have not been applied in preparing these consolidated financial statements. None are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

4. Changes in accounting policies:

Effective January 1, 2019, the Company adopted IFRS 16, *Leases*, which replaced IAS 17, *Leases*. The Company adopted the standard using the full retrospective approach with restatement of each prior reporting period presented.

4. Changes in accounting policies (continued):

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Interfor recognized ROU assets, representing its right to use the underlying assets, and lease liabilities, representing its obligation to make lease payments.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining Whether an Arrangement Contains a Lease*. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all risks and rewards of ownership. Under IFRS 16, a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

ROU assets are accounted for under IAS 16, *Property, Plant and Equipment*, and are initially measured at cost, which includes the initial measurement of the lease obligation and other costs including amounts previously recognized as leasehold improvements, less lease incentives. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. In addition, the ROU assets may periodically be reduced by impairment losses and adjusted for certain remeasurements of the lease liabilities.

Lease liabilities are initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, Interfor's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. Remeasurements occur when there is a change in future lease payments, residual value guarantees or Interfor's assessment of whether it will exercise a purchase, extension or termination option.

The Company applied judgement in determining the lease term for some lease contracts in which it is a lessee and that include renewal options. The assessment of whether Interfor is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognized.

Interfor has elected not to recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. Interfor recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

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

4. Changes in accounting policies (continued):

Consolidated Statements of Financial Position	**As at January 1, 2018**			**As at December 31, 2018**		
	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
Prepayments	$ 12,562	$ (376)	$ 12,186	$ 17,307	$ (474)	$ 16,833
Total current assets	423,077	(376)	422,701	528,892	(474)	528,418
Right of use assets	-	38,600	38,600	-	37,778	37,778
Property, plant and equipment	670,830	(1,665)	669,165	725,266	(1,493)	723,773
Deferred income tax asset	251	2	253	132	1	133
Total assets	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316
Trade accounts payable and provisions	$ 152,854	$ (499)	$ 152,355	$ 155,434	$ (565)	$ 154,869
Lease liabilities	-	8,019	8,019	-	10,158	10,158
Total current liabilities	165,951	7,520	173,471	169,737	9,593	179,330
Long term lease liabilities	-	36,165	36,165	-	33,954	33,954
Provisions and other liabilities	26,976	(1,168)	25,808	17,413	(992)	16,421
Deferred income tax payable	19,197	(1,320)	17,877	58,527	(1,444)	57,083
Translation reserve	40,720	13	40,733	84,423	(30)	84,393
Retained earnings	249,498	(4,649)	244,849	348,257	(5,269)	342,988
Total equity	854,188	(4,636)	849,552	974,065	(5,299)	968,766
Total liabilities and shareholders’ equity	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316

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

4. Changes in accounting policies (continued):

Consolidated Statement of Earnings
For the year ended December 31, 2018

	As previously reported	Adjustment	As adjusted
Sales	$ 2,186,567	$ -	$ 2,186,567
Cost and expenses			
Production	1,799,825	(10,235)	1,789,590
Selling and Administration	52,992	(980)	52,012
Long term incentive compensation	(7,829)	-	(7,829)
Anti-dumping duty deposits	53,337	-	53,337
Depreciation of plant and equipment	80,273	(208)	80,065
Depletion and amortization of timber, roads and other	36,048	10,100	46,148
	2,014,646	(1,323)	2,013,323
Operating earnings before write-downs and restructuring costs	171,921	1,323	173,244
Capital asset and goodwill write-downs and restructuring costs	(15,304)	-	(15,304)
Operating earnings	156,617	1,323	157,940
Finance costs	(10,410)	(2,042)	(12,452)
Other foreign exchange gain	3,474	-	3,474
Other income	1,188	-	1,188
	(5,748)	(2,042)	(7,790)
Earnings before income taxes	150,869	(719)	150,150
Income tax expense			
Current	2,955	-	2,955
Deferred	36,236	(99)	36,137
	39,191	(99)	39,092
Net earnings	$ 111,678	$ (620)	$ 111,058
Net earnings per share, basic and diluted	$ 1.60	$ (0.01)	$ 1.59

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

4. Changes in accounting policies (continued):

Consolidated Statement of Comprehensive Income
For the year ended December 31, 2018

	As previously reported	Adjustment	As adjusted
Net earnings	$ 111,678	$ (620)	$ 111,058
Other comprehensive income:			
Items that will not be recycled to net earnings:			
Defined benefit plan actuarial gain, net of tax	508	-	508
Items that are or may be recycled to net earnings:			
Foreign currency translation differences for foreign operations, net of tax	43,703	(43)	43,660
Total other comprehensive income, net of tax	44,211	(43)	44,168
Comprehensive income	$ 155,889	$ (663)	$ 155,226

Consolidated Statement of Changes in Equity:
As at December 31,2018:

	As previously reported	Adjustment	As adjusted
Balance at December 31, 2017			
Translation reserve	$ 40,720	$ 13	$ 40,733
Retained earnings	249,498	(4,649)	244,849
Total equity	854,188	(4,636)	849,552
Net earnings	111,678	(620)	111,058
Foreign currency translation differences for foreign operations, net of tax	43,703	(43)	43,660
Balance at December 31, 2018			
Translation reserve	84,423	(30)	84,393
Retained earnings	348,257	(5,269)	342,988
Total equity	974,065	(5,299)	968,766

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

4. Changes in accounting policies (continued):

Consolidated Statement of Cash Flows
For the year ended December 31,2018

	As previously reported	Adjustment	As adjusted
Cash provided by (used in):			
Operating activities:			
Net earnings	$ 111,678	$ (620)	$ 111,058
Depreciation of plant and equipment	80,273	(208)	80,065
Depletion and amortization of timber, roads and other	36,048	10,100	46,148
Income tax expense	39,191	(99)	39,092
Finance costs	10,410	2,042	12,452
Provisions and other liabilities	(9,204)	232	(8,972)
Unrealized foreign exchange gain	(3,885)	521	(3,364)
Cash generated from operations before working capital changes	275,101	11,968	287,069
Trade accounts receivable and other	27,392	22	27,414
Prepayments	(3,128)	93	(3,035)
Trade accounts payable and provisions	(5,919)	(1,704)	(7,623)
Cash generated from operating activities	255,233	10,379	265,612
Investing activities:			
Net additions to marketable securities deposits and other assets	(48,364)	(21)	(48,385)
Cash used in investing activities	(184,772)	(21)	(184,793)
Financing activities:			
Interest payments	(9,729)	(422)	(10,151)
Lease payments	-	(9,936)	(9,936)
Cash used in financing activities	(46,493)	(10,358)	(56,851)

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

5. Marketable securities:

	2019	2018
Marketable securities	$ -	$ 42,863

During 2018, the Company purchased high grade liquid marketable securities to yield a higher return on surplus cash. These securities, classified as at amortized cost, had interest rates of 1.75 to 2.34% and varying maturity dates through August 19, 2019. The Company did not purchase additional marketable securities in 2019.

6. Inventories:

	2019	2018
Lumber	$ 91,702	$ 95,563
Logs	70,422	98,018
Other	19,453	15,597
	$ 181,577	$ 209,178

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, 2019, was $17,515,000 (2018 - $19,631,000).

7. Deposits and other assets:

	Note	2019	2018
Deposits on machinery and equipment		$ -	$ 6,068
Timber deposits and other		3,683	5,022
Countervailing and anti-dumping duties receivable	*22(c)*	4,139	4,347
Deferred financing fees, net of accumulated amortization		1,474	1,405
		$ 9,296	$ 16,842

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

8. Right of use assets:

Cost	*Note*	Property	Facilities	Mobile and other equipment	Foreshore and other rights	Total
Balance at December 31, 2017		$ -	$ -	$ -	$ -	$ -
Restatement for IFRS 16, *Leases*	*4*	21,414	13,805	18,825	5,097	59,141
Balance at January 1, 2018		21,414	13,805	18,825	5,097	59,141
New leases		134	241	7,531	557	8,463
Lease disposals and modifications		-	(32)	(1,831)	(41)	(1,904)
Exchange rate movements		7	337	1,174	-	1,518
Balance at December 31, 2018	*4*	21,555	14,351	25,699	5,613	67,218
New leases		7	324	10,210	731	11,272
Lease disposals and modifications		(5,624)	(85)	(3,757)	(594)	(10,060)
Exchange rate movements		(7)	(199)	(881)	-	(1,087)
Balance at December 31, 2019		$ 15,931	$ 14,391	$ 31,271	$ 5,750	$ 67,343

Accumulated Amortization	*Note*	Property	Facilities	Mobile equipment and other	Foreshore and other rights	Total
Balance at December 31, 2017		$ -	$ -	$ -	$ -	$ -
Restatement for IFRS 16, *Leases*	*4*	6,701	4,312	7,128	2,400	20,541
Balance at January 1, 2018		6,701	4,312	7,128	2,400	20,541
Amortization		1,162	1,588	6,857	493	10,100
Lease disposals and modifications		-	(32)	(1,831)	(41)	(1,904)
Exchange rate movements		1	111	591	-	703
Balance at December 31, 2018	*4*	7,864	5,979	12,745	2,852	29,440
Amortization		1,016	1,583	8,670	520	11,789
Lease disposals and modifications		(2,419)	(72)	(3,041)	(579)	(6,111)
Exchange rate movements		(1)	(84)	(470)	-	(555)
Balance at December 31, 2019		$ 6,460	$ 7,406	$ 17,904	$ 2,793	$ 34,563

Net book value at					
January 1, 2018	$ 14,713	$ 9,493	$ 11,697	$ 2,697	$ 38,600
December 31, 2018	13,691	8,372	12,954	2,761	37,778
December 31, 2019	9,471	6,985	13,367	2,957	32,780

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

9. Property, plant, and equipment:

Cost	*Note*	Land	Buildings	Machinery and equipment	Mobile equipment	Computer equipment	Site improvements	Other	Projects in process	Total
Balance at December 31, 2017		$ 49,823	$ 130,683	$ 877,081	$ 29,917	$ 48,039	$ 70,539	$ 12,412	$ 23,696	$ 1,242,190
Restatement for IFRS 16, *Leases*	*4*	-	-	-	-	-	-	(2,328)	-	(2,328)
Balance at January 1, 2018		49,823	130,683	877,081	29,917	48,039	70,539	10,084	23,696	1,239,862
Additions		-	-	-	-	459	-	30	107,585	108,074
Disposals		(4)	(1,659)	(10,321)	(2,898)	(3,993)	(1,507)	(113)	-	(20,495)
Transfers		-	3,531	39,927	1,201	6,671	7,098	1,097	(59,525)	-
Transfers to other intangibles	*10*	-	-	-	-	-	-	-	(34)	(34)
Exchange rate movements		1,535	5,721	49,731	927	2,933	3,217	278	3,474	67,816
Balance at December 31, 2018		51,354	138,276	956,418	29,147	54,109	79,347	11,376	75,196	1,395,223
Additions		-	-	-	18	-	-	-	157,304	157,322
Disposals		(27)	(198)	(11,830)	(1,856)	(2,653)	-	-	-	(16,564)
Transfers		-	7,269	62,787	2,950	11,509	6,314	42	(90,871)	-
Transfers to other intangibles	*10*	-	-	-	-	-	-	-	(532)	(532)
Exchange rate movements		(915)	(3,502)	(31,176)	(531)	(1993)	(2092)	(188)	(4,980)	(45,377)
Balance at December 31, 2019		$ 50,412	$ 141,845	$ 976,199	$ 29,728	$ 60,972	$ 83,569	$ 11,230	$ 136,117	$ 1,490,072

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

9. Property, plant, and equipment (continued):

Accumulated Amortization	Note		Buildings	Machinery and equipment	Mobile equipment	Computer equipment	Site improvements	Other		Total
Balance at December 31, 2017			$ 55,370	$ 414,157	$ 21,676	$ 33,186	$ 41,277	$ 5,694		$ 571,360
Restatement for IFRS 16, *Leases*	*4*		-	-	-	-	-	(663)		(663)
Balance at January 1, 2018			55,370	414,157	21,676	33,186	41,277	5,031		570,697
Depreciation			7,075	59,492	2,409	6,132	4,019	938		80,065
Disposals			(1,578)	(9,810)	(2,658)	(3,739)	(1,507)	(36)		(19,328)
Impairment	*20*		1,894	8,658	-	19	1,187	-		11,758
Exchange rate movements			2,205	21,778	668	1,924	1,569	114		28,258
Balance at December 31, 2018			64,966	494,275	22,095	37,522	46,545	6,047		671,450
Depreciation			6,944	59,690	2,003	6,530	4,292	979		80,438
Disposals			(168)	(10,527)	(1,631)	(2,578)	-	-		(14,904)
Impairment	*20*		2,980	27,884	50	65	1,431	6		32,416
Exchange rate movements			(1,477)	(14,602)	(394)	(1,268)	(1,015)	(87)		(18,843)
Balance at December 31, 2019			$ 73,245	$ 556,720	$ 22,123	$ 40,271	$ 51,253	$ 6,945		$ 750,557
Net book value at										
January 1, 2018		$ 49,823	$ 75,313	$ 462,924	$ 8,241	$ 14,853	$ 29,262	$ 5,053	$ 23,696	$ 669,165
December 31, 2018		51,354	73,310	462,143	7,052	16,587	32,802	5,329	75,196	723,773
December 31, 2019		50,412	68,600	419,479	7,605	20,701	32,316	4,285	136,117	739,515

There were no borrowing costs capitalized in 2019 or 2018. Additions in 2019 include $2,640,000 of accrued contract costs (2018 - $3,964,000).

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

10. Roads and bridges, timber licences, other intangible assets and goodwill:

Cost	*Note*	Roads and bridges	Timber licences	Other intangibles	Goodwill
Balance at December 31, 2017		$ 148,709	$ 118,896	$ 43,139	$ 147,958
Additions		32,165	83	75	-
Transfers	*9*	-	-	34	-
Disposals		(79,282)	-	-	-
Exchange rate movements		20	-	2,438	11,718
Balance at December 31, 2018		101,612	118,979	45,686	159,676
Additions		22,447	-	77	-
Transfers	*9*	-	-	532	-
Disposals		(2,174)	(5,638)	(936)	(13,955)
Exchange rate movements		(12)	-	(1,456)	(6,987)
Balance at December 31, 2019		$ 121,873	$ 113,341	$ 43,903	$ 138,734

Accumulated amortization	*Note*	Roads and bridges	Timber licences	Other intangibles	Goodwill
Balance at December 31, 2017		$ 124,617	$ 52,307	$ 28,969	$ 877
Amortization		26,442	2,519	7,087	-
Disposals		(79,282)	-	-	-
Impairment	*20*	-	-	2,167	-
Exchange rate movements		6	-	2,175	-
Balance at December 31, 2018		71,783	54,826	40,398	877
Amortization		27,645	2,476	2,384	-
Disposals		(1,901)	(4,557)	(936)	(13,955)
Impairment	*20*	-	-	-	13,078
Exchange rate movements		(7)	-	(1,423)	-
Balance at December 31, 2019		$ 97,520	$ 52,745	$ 40,423	$ -
Net book value at					
December 31, 2018		$ 29,829	$ 64,153	$ 5,288	$ 158,799
December 31, 2019		24,353	60,596	3,480	138,734

For the purpose of impairment testing at December 31, 2019 and 2018, goodwill of $138,734,000 is attributable to the U.S. South cash-generating unit ("S CGU") and $13,078,000 to the cash generating unit associated with B.C. Coastal manufacturing ("Coast CGU").

The recoverable amounts for the goodwill impairment assessments were based on the CGU's value in use determined by discounting the future cash flows generated from the continuing use of the units for a period of 20 years. The cash flows were projected based on past experience, actual operating results and the five year business plan in the assessment for both 2018 and 2019. 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 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. These assumptions include lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs and the future capital required to maintain the assets in their current operating condition.

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

10. Roads and bridges, timber licences, other intangible assets and goodwill (continued):

A post-tax discount rate of 10.0 percent (2018 – 10.0 percent) was applied in determining the recoverable amount of each CGU assessed. The discount rate was estimated with the assistance of external experts, past experience, and the industry targeted capital structure. Inflation rates of 1.9 percent (2018 – 2.2 percent) and 1.7 percent (2018 – 2.3 percent) for Canadian and U.S. CGU's, respectively, were applied to the projected cash flows.

The recoverable amounts of the S CGU as at December 31, 2019 and 2018 were determined to be higher than the related carrying amount and no impairment has been recognized.

The recoverable amount of the Coast CGU as at December 31, 2019, determined on a value-in-use basis, did not exceed the carrying amount and an impairment loss of $13,078,000 (2018 – nil) has been recognized in Capital asset and goodwill write-downs and restructuring costs (*Note 20*). The impairment loss was related to the reconfiguration of the Company's B.C. Coastal business and was fully allocated to goodwill.

11. Borrowings:

2019	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 259,760	$ 609,760
Maximum borrowing available	350,000	259,760	609,760
Drawings	-	259,760	259,760
Outstanding letters of credit included in line utilization	21,752	-	21,752
Unused portion of line	$ 328,248	$ -	$ 328,248

2018	U.S. Operating Line	Operating Line	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 68,210	$ 65,000	$ 200,000	$ 272,840	$ 606,050
Maximum borrowing available	50,590	65,000	200,000	272,840	588,430
Drawings	-	-	-	272,840	272,840
Outstanding letters of credit included in line utilization	2,810	14,858	-	-	17,668
Unused portion of line	$ 47,780	$ 50,142	$ 200,000	$ -	$ 297,922

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

11. Borrowings (continued):

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

2020	$ -
2021	7,035
2022	7,035
2023	7,035
2024	43,293
Thereafter	195,362
	$ 259,760

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

	2019	2018
Drawings at January 1	$ 272,840	$ 250,900
Operating Line net repayments	4	(2)
Additions to long term debt	197,925	155,909
Repayments of long term debt	(197,175)	(155,797)
Effects of changes in foreign exchange rates	(13,834)	21,830
Drawings at December 31	$ 259,760	$ 272,840

(a) Revolving Term Line and Operating Line:

On March 28, 2019, the Company consolidated its existing Revolving Term Line, Operating Line and U.S. Operating Line into one credit facility. The new Revolving Term Line (the "Line") increased total credit availability to $350 million and reduced the security requirements, financial covenants and certain other restrictions. The maturity was extended from September 15, 2021 to March 28, 2024.

The 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 to total capitalization.

The Line is secured by a general security agreement and mortgage security on certain of the Company's Canadian assets.

The Line is subject to certain financial covenants including a maximum ratio of net debt to total capitalization.

As at December 31, 2019, including letters of credit, the Lines were drawn by $18,890,000 (2018 - $14,771,000) and US$2,204,000 (2018 – US$ 64,000), revalued at the year-end exchange rate to $2,863,000 (2018 - $87,000), for total borrowings of $21,752,000 (2018 - $14,858,000).

As certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations, the Company recognized a foreign exchange gain of $750,000 for the year ended December 31, 2019 in Foreign currency translation differences in Other comprehensive income (2018 - $81,000 loss).

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

11. Borrowings (continued):

(b) Senior Secured notes:

The Senior Secured Notes have a weighted average fixed interest rate of 4.47% and maturities from June 26, 2021 to August 14, 2029.

On March 28, 2019, the Company amended the financing agreement to reduce the security requirements, financial covenants and certain other restrictions. The Senior Secured Notes are subject to certain financial covenants including a maximum ratio of net debt to total capitalization.

As at December 31, the Company's Senior Secured Notes consisted of the following:

	2019	2018
Series A (US$4,450,000) bearing interest at 4.33% with payments of US $1,483,000 due on June 26, 2021 and 2022, and the balance due on June 26, 2023	$ 5,780	$ 6,071
Series B (US$11,800,000) bearing interest at 4.02% with payments of $3,933,000 due on June 26, 2021 and 2022, and the balance due on June 26, 2023	15,326	16,098
Series C (US$100,000,000) bearing interest at 4.17% with payments of US $33,333,000 due on March 26, 2024 and 2025, and the balance due on March 26, 2026	129,880	136,420
Series D (US$45,550,000) bearing interest at 4.95% with payments of US $15,183,000 due on August 14, 2027 and 2028, and the balance due on August 14, 2029	59,160	52,112
Series E (US$38,200,000) bearing interest at 4.82% with payments of US $12,733,000 due on August 14, 2027 and 2028, and the balance due on August 14, 2029	49,614	62,139
	$ 259,760	$ 272,840

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $13,080,000 (2018 – $21,747,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2019.

(c) U.S. Operating Line:

On March 28, 2019, the Company extinguished its U.S. Operating Line.

As at December 31, 2018, the U.S. Operating Line was drawn by US$2,060,000, including outstanding letters of credit, revalued at the year-end exchange rate to $2,810,000 and $47,780,000 (US$35,024,000) of the line was unused.

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.

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

12. Reforestation liability (continued):

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

	2019	2018
Reforestation liability, beginning of year	$ 42,182	$ 40,408
Reforestation expense on current logging and market logging agreements	11,727	14,063
Reforestation expenditures	(13,936)	(12,456)
Unwind of discount	454	621
Changes in estimated future reforestation expenditures	(5)	(454)
	$ 40,422	$ 42,182
Consisting of:		
Current reforestation liability	$ 13,021	$ 13,947
Long term reforestation liability	27,401	28,235
	$ 40,422	$ 42,182

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2019 is $42,212,000 (2018 - $44,277,000). The reforestation expenditures are expected to occur over the next one to seventeen years and have been discounted at a long term risk-free interest rate of 2 percent (2018 – 2 percent). 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. Lease liabilities:

Changes in the lease liabilities for the years ended December 31 are as follows:

	Note	2019	2018
Lease liabilities, beginning of year		$ 44,112	$ 44,184
New leases		11,213	8,441
Payment of lease liabilities		(11,638)	(9,936)
Payment of interest		(1,950)	(2,042)
Interest expense	*18*	1,950	2,042
Lease modifications		(5,089)	-
Exchange rate movements		(775)	1,423
		$ 37,823	$ 44,112
Consisting of:			
Current lease liabilities		$ 10,105	$ 10,158
Long term lease liabilities		27,718	33,954
		$ 37,823	$ 44,112

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

13.Lease liabilities (continued):

Maturity analysis – contractual undiscounted cash flows are as follows:

	2019	2018
Due within one year	$ 11,639	$ 11,916
One to five years	19,776	22,451
More than five years	11,394	18,002
Total undiscounted lease liabilities	$ 42,809	$ 52,369

For the year ended December 31, 2019, the Company recorded expenses of $3,365,000 (2018 – $4,639,000) related to short-term leases and $551,000 (2018 – $254,000) related to low-value leases in Production costs. Cash payments for short-term and low-value leases for the year ended December 31, 2019 totaled $3,916,000 (2018 - $4,893,000).

14.Provisions and other liabilities:

2019	*Note*	Current	Non-current	Total
Restructuring	*14(a), 20*	$ 5,428	$ 1,992	$ 7,420
Road deactivation	*14(a)*	829	3,413	4,242
Environmental	*14(a)*	50	772	822
Cash-settled share based compensation				
SAR Plan	*14(b)*	1,816	13	1,829
TSR Plan	*14(c)*	1,567	3,097	4,664
DSU Plan	*14(d)*	1,198	8,742	9,940
Deferred charges and other		3,685	928	4,613
		$ 14,573	$ 18,957	$ 33,530

2018	*Note*	Current	Non-current	Total
Restructuring	*14(a), 20*	$ 423	$ 820	$ 1,243
Road deactivation	*14(a)*	594	3,959	4,553
Environmental	*14(a)*	146	759	905
Cash-settled share based compensation				
SAR Plan	*14(b)*	2,324	27	2,351
TSR Plan	*14(c)*	1,514	1,766	3,280
DSU Plan	*14(d)*	1,864	7,292	9,156
Deferred charges and other		1,115	1,798	2,913
		$ 7,980	$ 16,421	$ 24,401

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

(a) Provisions:

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

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

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

14. 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 risk-free discount rate. The unwinding of the discount is recognized as a Finance cost in Net earnings.

	Note	Restructuring	Road deactivation	Environmental
Balance at December 31, 2017		$ 1,324	$ 4,616	$ 803
Provisions made during year	*20*	629	322	-
Expenditures made during year		(806)	(434)	-
Unwind of discount		-	86	12
Changes in estimated future expenditures		-	(37)	90
Exchange rate movements		96	-	-
Balance at December 31, 2018		1,243	4,553	905
Provisions made during year	*20*	15,493	495	-
Expenditures made during year		(9,268)	(880)	-
Unwind of discount		-	60	10
Changes in estimated future expenditures		-	14	(93)
Exchange rate movements		(48)	-	-
Balance at December 31, 2019		$ 7,420	$ 4,242	$ 822

(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 are 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.

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

14. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

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

	2019		2018	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	371,124	$ 9.67	421,259	$ 9.23
Exercised	(63,600)	5.18	(48,135)	5.79
Expired or cancelled	(18,080)	16.92	(2,000)	9.18
Outstanding, end of year	289,444	$10.20	371,124	$ 9.67
Units exercisable, end of year	283,180	$10.10	337,319	$ 8.97

There were no grants under the SAR Plan in 2019 or 2018.

Details of units outstanding under the SAR Plan at December 31, 2019 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2019	Weighted average remaining unit life (yrs.)	Weighted average strike price	Number exercisable, December 31, 2019	Weighted average strike price
$4.64-$4.77	70,500	1.8	4.66	70,500	4.66
$6.01-$9.18	127,200	2.5	8.18	127,200	8.18
$14.99-$17.43	91,744	4.3	17.26	85,480	17.43
	289,444		$10.20	283,180	$10.10

For the year ended December 31, 2019, the Company recorded Long term incentive compensation expense in respect of the SAR Plan of $131,000 (2018 - $2,240,000 recovery).

(c) Total Shareholder Return Plan:

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

	2019	2018
Outstanding, beginning of year	664,810	609,108
Granted	271,022	200,677
Matured	(237,497)	(144,975)
Outstanding, end of year	698,335	664,810

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

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

14. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan (continued):

The fair value of PSUs is measured based on a combination of call options which are valued using a Black-Scholes pricing model with weighted average assumptions for grants as follows:

	2019	2018
Risk-free interest rate	2.22%	2.33%
Expected life	3 years	3 years
Annualized volatility	33% to 44%	31% to 48%
Dividend rate	0%	0%
Termination rate	0%	0%
Grant date fair value per unit	$16.50	$24.21

For the year ended December 31, 2019, the Company recorded Long term incentive compensation expense under the TSR Plan of $1,852,000 (2018 - $1,998,000 recovery).

(d) Deferred Share Unit Plan:

DSUs may be granted directly to directors or officers of the Company at the discretion of the Board of Directors, who are required to take DSU's as payment of at least 60% of their annual retainer. The DSU Plan allows for the issuance of DSUs with immediate or deferred vesting. There were no unvested DSU's outstanding as at December 31, 2019 and 2018.

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

	2019		2018	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	657,322	$13.93	670,748	$21.04
Granted[1]	60,098	14.56	39,594	19.16
Exercised	(53,824)	15.78	(53,020)	23.89
Outstanding, end of year	663,596	$14.98	657,322	$13.93

[1]Fair value at the date of the grants.

Changes to the market value of the Company's Common Shares subsequent to issuance of awards results in adjustments to the compensation accrual and Long term incentive compensation in Net earnings. For the year ended December 31, 2019, the Company recorded an expense of $1,646,000 (2018 - $3,689,000 recovery) in respect of the DSU Plan. This expense is comprised of two components, an expense of $771,000 (2018 - $4,448,000 recovery), recorded in Long term compensation, for the change in value of outstanding DSUs due to market value fluctuations and an expense of $875,000 (2018 - $759,000), recorded in Selling and administration, for the value of DSUs issued in the year.

(e) Retained compensation liabilities:

For the year ended December 31, 2018, the Company recorded Long term incentive compensation of $83,000 in respect of incentive payments payable to certain senior management as a result of acquisition of the Tolleson sawmills in 2014. The liability was fully settled in April 2018.

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

15. Share capital and contributed surplus:

(a) Share transactions:

Authorized capital at December 31, 2019 consists of:

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

Common Share transactions were as follows:

Issued and Fully Paid	*Note*	Number		Share capital		Contributed surplus
Balance, December 31, 2017		70,030,455	$	555,388	$	8,582
Exercise of stock options	*15(b)*	7,707		214		(71)
Repurchase of common shares		(2,277,540)		(18,068)		(5,434)
Stock options	*15(b)*	-		-		774
Balance, December 31, 2018		67,760,622		537,534		3,851
Exercise of stock options	*15(b)*	14,437		237		(72)
Repurchase of common shares		(515,100)		(4,086)		-
Stock options	*15(b)*	-		-		692
Balance, December 31, 2019		67,259,959	$	533,685	$	4,471

On March 4, 2019, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 6,652,006 Shares. This NCIB began on March 7, 2019 and expires on March 6, 2020.

During 2019, Interfor purchased 515,100 Shares at an average price of $15.19 per share for a cost of $4,086,000 charged against Share capital, based on the average per share amount for Shares in that account as at the transaction date, and the balance of $3,739,000 to Retained earnings.

During 2018, Interfor purchased 2,277,540 Shares at an average price of $16.21 per share for a cost of $36,929,000, of which $18,068,000 and $5,434,000 were charged against Share capital and Contributed surplus, respectively, based on the average per share amount for Shares in those accounts as at the transaction date, and the balance of $13,427,000 to Retained earnings.

All repurchased Shares were cancelled.

(b) Equity-settled share based compensation:

The Company has a stock option plan for its key employees and directors under which options may be granted to purchase up to 1,631,740 Shares, of which 1,127,478 remain reserved 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 Share on the trading day immediately preceding the grant date.

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

15. Share capital and contributed surplus (continued):

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

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

	2019		2018	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	413,276	$ 16.75	332,647	$ 14.64
Granted	135,282	17.63	103,721	23.26
Exercised	(14,437)	11.43	(7,707)	18.54
Expired or cancelled	(52,003)	17.45	(15,385)	14.07
Outstanding, end of year	482,118	$ 17.08	413,276	$ 16.75
Options exercisable, end of year	136,744	$ 14.94	70,869	$ 14.67

Weighted average fair value assumptions for grants made in 2019 and 2018 are as follows:

	2019	2018
Risk-free interest rate	1.81%	2.23%
Expected life	6.6 years	6.6 years
Annualized volatility	40%	39%
Dividend rate	0%	0%
Termination rate	6%	6%
Grant date fair value per unit	$7.53	$9.90

Details of stock options outstanding at December 31, 2019 are as follows:

		Units outstanding		Units exercisable	
Strike price	Number outstanding, December 31, 2019	Weighted average remaining unit life (yrs.)	Weighted average exercise price	Number exercisable, December 31, 2019	Weighted average strike price
$9.78-$13.72	100,871	6.5	$ 10.63	51,998	$ 10.52
$15.01-$15.44	255,036	8.0	16.71	58,064	15.56
$22.22-$23.26	126,211	7.3	22.99	26,682	22.22
	482,118		$ 17.08	136,744	$ 14.94

The Company recognized an expense of $692,000 for the year ended December 31, 2019 (2018 – $774,000) in Long term incentive compensation.

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

16. Depreciation, depletion, and amortization:

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

	2019	2018
Production	$ 120,834	$ 117,783
Selling and administration	3,898	8,430
	$ 124,732	$ 126,213

17. Personnel expenses:

	Note	2019	2018
Wages and salaries		$ 286,349	$ 289,406
Government administered pensions and unemployment insurance		16,257	15,258
Workers' compensation insurance		7,110	7,293
Contributions to defined contribution plans	*24*	14,651	12,131
Expenses related to defined benefit plans	*24*	1,334	1,430
Cash-settled share based payments and other long term compensation (recovery)	*14, 15(b)*	3,446	(7,829)
Medical, dental, group insurance and other		40,017	33,200
		$ 369,164	$ 350,889

18. Finance costs:

Recognized in Net earnings (loss):

	Note	2019	2018
Interest expense on:			
Borrowings		$ 12,962	$ 12,296
Lease liabilities	*13*	1,950	2,042
Pension obligations	*24(c), 24(d)*	2,767	2,280
Interest revenue from:			
Marketable securities and other		(2,351)	(3,864)
Pension assets	*24(c), 24(d)*	(1,960)	(1,805)
Unwind of discount on provisions	*12, 14(a)*	524	719
Amortization of deferred finance costs		1,132	784
		$ 15,024	$ 12,452

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

19. Other income:

	2019	2018
Gain on disposal of surplus property, plant and equipment, timber and other	$ 5,866	$ 1,188
Gain on lease modifications	59	-
	$ 5,925	$ 1,188

On June 28, 2019, the Company received compensation of $7,500,000 from the Government of B.C. for the settlement of two timber Licenses cancelled following the passing into law of the Great Bear Rainforest (Forest Management) Act and recognized a gain of $6,418,000 in Other income.

20. Capital asset and goodwill write-downs and restructuring costs:

	Note	2019	2018
Write-down of plant, equipment, intangibles and other	*9, 10*	$ 32,416	$ 13,925
Goodwill impairment	*10*	13,078	-
Severance and other closure costs	*14(a)*	19,099	1,379
Gain on lease modifications	*13*	(1,081)	-
Parts inventory write-downs		470	-
		$ 63,982	$ 15,304

The Company took $14,474,000 in asset impairments for capital asset write-downs on buildings, equipment and other assets related to the permanent closure of Interfor's Hammond sawmill, and $13,078,000 for the impairment of goodwill and $19,099,000 in costs for the settlement of various human resource and other matters resulting from the reconfiguration of the Company's B.C. Coastal business and succession arrangements related to the retirement of Interfor's CEO.

The Company also took an impairment charge of $16,131,000 against assets in the U.S. Northwest based on the same impairment assessment process as described in *Note 10.*

Asset impairments on plant and equipment to be replaced in conjunction with capital projects to rebuild and modernize multiple sawmills in the U.S. South were $1,811,000 and $13,925,000 in 2019 and 2018, respectively.

21. Income taxes:

Income tax expense is as follows:

	2019	2018
Current tax expense:		
Current year	$ 762	$ 2,834
Adjustments for prior periods	(736)	121
	26	2,955
Deferred income tax expense:		
Origination and reversal of temporary differences	(34,385)	36,137
	$ (34,359)	$ 39,092

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

21. Income taxes (continued):

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

	2019	2018
Defined benefit plan actuarial gains	$ 223	$ 188
Foreign exchange gain (loss) on intercompany financing	(373)	373
Foreign currency translation differences for foreign operations	(1,771)	2,624
	$ (1,921)	$ 3,185

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

	2019	2018
Income tax expense at the statutory rate of 27.00% (2018 – 27.00%)	$ (37,299)	$ 40,541
Entities with different tax rates and foreign rate adjustments	1,135	(4,861)
Impairment of book goodwill	3,531	-
Income Tax Credit	-	340
Adjustment to state tax temporary differences	(902)	1,462
Other	(824)	1,610
	$ (34,359)	$ 39,092

There was no change in Canadian statutory tax rate of 27% in 2019 (2018 – 27%). Interfor recorded a deferred income tax expense in respect of its U.S. operations in 2018 and 2019 at a combined federal and state income tax rate of 24%.
The Company has the following non-capital loss carryforwards that are available to reduce future taxable income:

(a) Canadian non-capital loss carry-forwards which total approximately $92,640,000 (2018 - $47,343,000) and expire between 2031 and 2039.

(b) U.S. federal net operating loss carry-forwards which total approximately US$106,181,000 (2018 - US$44,004,000) and expire between 2024 and 2035. U.S. federal net operating loss generated in tax years ending after December 31, 2017 may be carried forward indefinitely but the post-2017 loss can only offset 80% of the taxable income in any given tax year.

As at December 31, 2019, the Company recognized deferred tax asset of $6,961,000 in Canada to the extent its non-capital loss carry-forwards exceed taxable temporary differences because management believes it is probable that future taxable profit will be sufficient to utilize available non-capital losses in Canada within their carry forward periods.

Unrecognized deferred income taxes:

As at December 31, 2019, the Company has unrecognized deferred income tax assets of $2,945,000 (2018 - $7,011,000) in relation to accrued foreign exchange losses on U.S. Dollar denominated debt. These losses, if realized, will result in allowable capital losses which can be applied against the taxable portion of capital gains, if any, arising in future years.

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

21. Income taxes (continued):

Recognized deferred income taxes:

December 31, 2019	Opening balance	Recognized in Income tax expense	Recognized in Other Comprehensive income (loss)	Ending balance
Deferred income tax assets				
Losses	$ 25,943	$ 30,146	$ -	$ 56,089
Reserves	20,244	2,551	-	22,795
Tax credits	5	22	-	27
Share issue costs	169	(169)	-	-
Defined benefit plan	316	-	(223)	93
Other	5,818	(15)	-	5,803
Deferred income tax liabilities				
Capital assets	(106,067)	1,850	-	(104,217)
Foreign currency				
Foreign exchange gain on financing	(373)	-	373	-
Translation differences for foreign operations	(3,005)	-	1,767	(1,238)
Total	$ (56,950)	$ 34,385	$ 1,917	$ (20,648)

December 31, 2018	Opening balance	Recognized in Income tax expense	Recognized in Other Comprehensive income (loss)	Ending balance
Deferred income tax assets				
Losses	$ 58,286	$ (32,343)	$ -	$ 25,943
Reserves	22,903	(2,659)	-	20,244
Tax credits	334	(329)	-	5
Share issue costs	339	(170)	-	169
Defined benefit plan	504	-	(188)	316
Other	5,179	639	-	5,818
Deferred income tax liabilities				
Capital assets	(104,792)	(1,275)	-	(106,067)
Foreign currency				
Foreign exchange gain on financing	-	-	(373)	(373)
Translation differences for foreign operations	(377)	-	(2,628)	(3,005)
Total	$ (17,624)	$ (36,137)	$ (3,189)	$ (56,950)

Represented by the following:

	2019	2018
Deferred income tax assets	$ 6,961	$ 133
Deferred income tax liabilities	(27,609)	(57,083)
	$ (20,648)	$ (56,950)

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

22. Commitments and contingencies:

(a) Contractual obligations:

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

2020	$ 5,990
2021	8,940
2022	2,060
2023	-
2024	-

Interfor also has contractual obligations for capital projects and timber acquisitions of $142,442,000 expected to be paid in 2020.

(b) Surety bonds:

The Company has posted $45,303,000 in surety performance, bid and payment bonds, with various expiry dates extending through January 2025.

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

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards. As a result of DoC rate corrections for this period, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at December 31, 2019 (December 31, 2018 – US$3,187,000) and was revalued at the year-end exchange rate to $4,139,000 (December 31, 2018 - $4,347,000).

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

22. Commitments and contingencies (continued):

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

On February 3, 2020, the DoC issued its preliminary revised CV and AD duty rates based on completion of its first administrative review of shipments for the years ended December 31, 2017 and 2018. The following tables summarizes the cash deposit rates currently in effect and the issued preliminary revised rates:

Year ended December 31	Cash deposit rates in effect	Preliminary revised rates
2017		
AD	14.19%	6.71%
CV	6.04%	1.66%
Total	20.23%	8.37%
2018		
AD	14.19%	6.55%
CV	6.04%	1.66%
Total	20.23%	8.21%

The DoC may further amend these preliminary revised duty rates at any time, with final rate determinations expected to be published in August, 2020. At such time, the final rates determined and published for 2018 will be applied to new lumber shipments.

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018 and US$33,765,000 in 2019, all of which remain held in trust by the U.S. All duty deposits, except for US$3,265,000 noted above, have been expensed at the cash deposit rates currently in effect with no adjustments recorded to reflect the preliminary revised rates.

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

(d) Acquisition of B.C. Interior Cutting Rights:

On June 3, 2019, Interfor entered into a purchase agreement with Canadian Forest Products Ltd. to acquire two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior. The cash purchase price of $60 million will be financed from Interfor's available cash balance and/or borrowings under its existing bank credit facility.

The transaction is subject to various consents, including that by the Government of B.C. The transaction is targeted to close in the first quarter, 2020.

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

22. Commitments and contingencies (continued):

(e) Other contingencies:

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

23. Net earnings (loss) per share:

Net earnings (loss) per share is based on the earnings attributable to shareholders and a weighted average number of shares, as defined in *Note 15*, outstanding for the year.

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

	2019			2018		
	Net loss	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at December 31		67,760,622			70,030,455	
Effect of shares issued		7,096			6,465	
Effect of shares repurchased		(490,515)			(323,736)	
Basic earnings (loss) per share	$ (103,785)	67,277,203	$(1.54)	$ 111,058	69,713,184	$1.59
Effect of dilutive securities:						
Stock options	-	23,811		-	74,968	
Diluted earnings (loss) per share	$ (103,785)	67,277,203*	$(1.54)	$ 111,058	69,788,152	$ 1.59

* 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 calculating diluted earnings (loss) per share.

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

The Company maintains several savings and retirement plans that are available to employees who 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 2019, the pension expense for this plan is equal to the Company's contribution of $2,393,000 (2018 - $2,303,000).

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

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

(a) Defined contribution plans (continued):

For certain eligible employees of the Canadian Merchant Services Guild ("CMSG"), the Company makes required contributions based on a percentage of earnings into a defined contribution plan. For 2019, the pension expense is equal to the Company's contribution of $42,000 (2018 - $41,000).

Employees of the Company's U.S. operating subsidiaries 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 2019, the pension expense for this plan is equal to the Company's contribution of $4,954,000 (2018 - $4,810,000).

(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 2019, the pension expense for this plan is equal to the Company's contribution of $3,183,000 (2018 - $3,189,000). 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 2019, the Company recorded an expense of $4,079,097 (2018 - $1,788,000) in respect of these plans of which $717,000 (2018 - $319,000) has been recorded in Finance costs.

The accrued obligation for this plan is included in the Company's Statements of Financial Position as follows:

	2019	2018
Trade accounts payable and provisions	$ 612	$ 678
Employee future benefits obligation	9,885	6,708
	$ 10,497	$ 7,386

(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.

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

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

(d) Defined benefit plans (continued):

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").

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, 2018	December 31, 2021
Executive Plan - Funded	December 31, 2019	December 31, 2020
Executive Plan - Unfunded	December 31, 2019	December 31, 2020
CMSG Pension Plan	December 31, 2016	December 31, 2019
CMSG Post-Retirement Benefits	December 31, 2018	December 31, 2021

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 2019, the Company paid contributions of $900,000 (2018 - $1,314,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credit totaling $5,155,000 (2018 - $4,419,000). In 2020, the Company expects to pay contributions of $735,000 to its defined benefit plans and post a total of $5,903,000 in letters of credit.

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

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

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

(d) Defined benefit plans (continued):

	Pension Benefits 2019	Pension Benefits 2018	Other Post-retirement Benefits 2019	Other Post-retirement Benefits 2018
Defined benefit obligation:				
Beginning of year	$ 53,972	$ 56,996	$ 896	$ 1,668
Service cost	1,030	1,077	8	46
Employee contributions	394	493	-	-
Interest cost	2,027	1,858	23	103
Benefit payments	(2,692)	(2,818)	(47)	(268)
Actuarial loss (gain) due to:				
Demographic assumptions	-	-	-	-
Financial assumptions	5,752	(3,695)	63	(408)
Experience adjustment	819	61	-	(245)
End of year	$ 61,302	$ 53,972	$ 943	$ 896
Plan assets:				
Beginning of year	$ 53,073	$ 56,289	$ -	$ -
Interest on plan assets	1,960	1,805	-	-
Employer contributions	853	1,046	47	268
Employee contributions	394	493	-	-
Benefit payments	(2,692)	(2,818)	(47)	(268)
Administration costs	(206)	(151)	-	-
Actuarial gain (loss)	7,460	(3,591)	-	-
End of year	$ 60,842	$ 53,073	$ -	$ -
Net employee future benefits liability	$ (460)	$ (899)	$ (943)	$ (896)

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

	Pension Benefits 2019	Pension Benefits 2018	Other Post-retirement Benefits 2019	Other Post-retirement Benefits 2018
Fair value of plan assets	$ 60,842	$ 53,073	$ -	$ -
Present value of unfunded obligations	(281)	(299)	(943)	(896)
Present value of funded obligation	(61,021)	(53,673)	-	-
Net employee future benefits liability	$ (460)	$ (899)	$ (943)	$ (896)
Employee future benefits asset	$ 673	$ 303	$ -	$ -
Trade accounts payable and provisions	(68)	(69)	(50)	(50)
Employee future benefits obligation	(1,065)	(1,133)	(893)	(846)
Net employee future benefits liability	$ (460)	$ (899)	$ (943)	$ (896)

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

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

(d) Defined benefit plans (continued):

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	
	2019	2018	2019	2018
Statement of Earnings				
Production expense	$ 1,236	$ 1,228	$ 8	$ 46
Finance costs	67	53	23	103
	$ 1,303	$ 1,281	$ 31	$ 149
Other comprehensive income (loss)				
Actuarial gain (loss)	$ 889	$ 43	$ (63)	$ 653

Plan assets consist of:

Asset category	2019	2018
Investment Funds		
Fixed Income	$ 21,528	$ 20,765
Global	19,696	16,435
Canadian Equity	18,078	14,358
Money Market	1,178	1,109
Balanced	356	364
Cash	6	42
Total	$ 60,842	$ 53,073

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

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

	Pension Benefits		Other Post-retirement Benefits	
	2019	2018	2019	2018
Defined benefit obligation as of December 31				
Discount rate	3.00%	3.75%	3.00%	3.75%
Compensation increases[1]	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.75%	3.25%	3.75%	3.25%
Compensation increases[1]	3.50%	3.50%	-	-

[1]Compensation increases only relate to the CMSG plan.

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

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

(d) Defined benefit plans (continued):

For measurement purposes at December 31, 2019, the Company has assumed a 7.00% health care cost trend in 2020 grading down to 5.00% in 2024 (2018 – 7.00% health care cost trend in 2019 grading down to 5.00% in 2024).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	$ 9,373	$ 101

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

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

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

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

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

25. 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:

	2019	2018
Salary and short-term employee benefits	$ 4,540	$ 8,257
Post-employment benefits	3,566	1,732
Share-based compensation expense (recovery)	4,008	(5,255)
	$ 12,114	$ 4,734

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

	2019	2018
Trade accounts payable and provisions	$ 1,277	$ 6,654
Employee future benefits obligation	4,502	5,146
Provisions and other liabilities	11,261	9,830
	$ 17,040	$ 21,630

(Tabular amounts expressed in thousands of Canadian Dollars, except number of shares and per share amounts) 54

26. Segmented information:

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

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

	2019	2018
United States	$ 1,349,096	$ 1,576,802
Canada	273,745	293,144
Japan	109,769	115,923
China/Taiwan	55,261	99,175
Other export	87,950	101,523
	$ 1,875,821	$ 2,186,567

Sales by product line are as follows:

	2019	2018
Lumber	$ 1,576,123	$ 1,841,100
Logs	116,175	167,852
Wood chips and other by products	174,107	165,855
Ocean freight and other	9,416	11,760
	$ 1,875,821	$ 2,186,567

Non-current assets by geographic location are as follows:

	2019	2018
United States	$ 711,739	$ 686,897
Canada	304,649	350,001
	$ 1,016,388	$ 1,036,898

27. Capital management:

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

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

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

27. Capital management (continued):

Under its debt financing agreements, the Company cannot exceed a net debt to total capitalization ratio of 50 percent, with net debt under banking arrangements defined as the total of indebtedness, including letters of credit and long term debt, net of cash and cash equivalents and government securities maturing within 365 days, up to a limit; and total capitalization defined as total debt plus shareholders' equity and subordinated debt, excluding non-controlling interests, deferred income taxes, and a maximum of $20 million cumulative (from January 1, 2012) non-cash asset revaluations. The financial covenants under the debt financing agreements also carry a minimum EBITDA coverage ratio dependent upon the net debt to total capitalization ratio.

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

The Company monitors capital using a ratio of "Net debt" to "Invested capital" and manages to a target range. Net debt is calculated as the total of long term debt, less cash and cash equivalents and marketable securities. Invested capital is the total of net debt and equity. Interfor's net debt to invested capital ratio as at December 31, 2019 was as follows:

	2019	2018
Long term debt	$ 259,760	$ 272,840
Less:		
Cash and cash equivalents	(34,900)	(166,152)
Marketable securities	-	(42,863)
Net debt	224,860	63,825
Add: Equity	830,982	968,766
Invested capital	$1,055,842	$1,032,591
Net debt to invested capital ratio	21.3%	6.2%

From time to time, the Company purchases its own shares in the open market, with the timing dependent upon market prices and under a defined NCIB. All repurchased Shares are cancelled.

28. Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2019, the fair value of the Company's Long term debt exceeded its carrying value by $19,958,000 (2018 – $1,639,000) and there were no marketable securities (2018 – the carrying value of the marketable securities exceeded its fair value by $20,000, measured based on level 2 of the fair value hierarchy).

The fair values of other financial instruments approximate their carrying values due to their short-term nature.

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

28. Financial instruments (continued):

(b) Derivative financial instruments:

The Company did not trade any foreign exchange contracts or lumber futures in 2019 and 2018.

(c) Hedge of investment in foreign operations:

Certain U.S. Dollar drawings under the Revolving Term Line and all drawings under the Senior Secured Notes were designated as hedges against the Company's investment in its U.S. operations and repayments were de-designated as a hedge. Interfor recorded an unrealized foreign exchange gain of $13,830,000 (2018 - $21,747,000 loss) arising on revaluation of hedged U.S. Dollar debt in Other comprehensive income for the year ended December 31, 2019.

(d) Financial risk management:

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

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

(i) Credit risk:

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

Accounts receivable

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

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. A $87,000 reserve in respect of doubtful accounts was recorded as at December 31, 2019 (2018 - $149,000).

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, or both, credit exposure for these sales is limited.

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

28.Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

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

	2019	2018
United States	$ 39,728	$ 42,016
Canada	35,635	31,460
Japan	1,962	576
China/Taiwan	8,142	10,826
Other	1,141	5,506
	$ 86,608	$ 90,384

Marketable securities

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. All marketable securities held at December 31, 2018 matured in 2019 with no further investments in 2019.

The exposure to credit risk for marketable securities at amortized cost at December 31 by geographic region was as follows:

	2019	2018
United States	$ -	$ 36,049
Canada	-	6,814
	$ -	$ 42,863

Guarantees

The Company did not provide any guarantees in 2019 and 2018.

(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 reports are reviewed by senior management to monitor cash balances available liquidity.

The Company maintains a $350 million Revolving Term Line credit facility with a syndicate of highly rated Canadian and international banks which can be drawn in either Canadian or US funds and matures in the year 2024. Except for outstanding letters of credit, this line remains undrawn at December 31, 2019.

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

28. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

The following table summarizes Interfor's available liquidity as of December 31, 2019:

Unused portion of Revolving Term Line, see *Note 11*	$ 328,248
Add: cash and cash equivalents	34,900
Available liquidity at December 31, 2019	$ 363,148

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

		Payments due by period			
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
Trade accounts payable and provisions	$ 98,976	$ 98,976	$ -	$ -	$ -
Income taxes payable	163	163	-	-	-
Reforestation liability	42,212	13,021	12,563	7,782	8,846
Lease liabilities	42,809	11,639	13,451	6,325	11,394
Long term debt	342,592	18,637	36,754	70,340	216,861
Provisions and other liabilities	41,246	11,810	10,720	3,635	15,081
Capital commitments and other	183,473	164,463	19,010	-	-
Total obligations	$ 751,471	$ 318,709	$ 92,498	$ 88,082	$ 252,182

(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, marketable securities, accounts receivable, duty deposits, accounts payable and provisions, long term debt, lease liabilities and intercompany loans that are denominated in a currency other than the respective functional currencies of the Company's domestic and foreign operations.

The Company routinely assesses its foreign exchange exposure and may use foreign currency exchange forward, collar and option contracts to manage its currency risk from time to time.

At December 31, 2019, the Company has U.S. Dollar drawings under its Senior Secured Notes of US$200,000,000 (2018 - US$200,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

28. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk (continued)

As at December 31, 2019, the domestic operations of the Company held cash and cash equivalents of US$13,587,000 (2018 – US$34,304,000). Cash and cash equivalents held by foreign subsidiaries totaled US$6,133,000 (2018 - US$81,750,000).

In 2018, the Company invested surplus cash in high grade liquid marketable securities to yield a higher return with varying maturity dates through August 19, 2019. All marketable securities matured in 2019 and the Company made no further purchases in 2019. At December 31, 2018, the Company held Marketable of US$4,995,000 in domestic operations and US$26,425,000 in foreign subsidiaries.

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

2019	CAD	USD	Japanese ¥
Accounts receivable	35,595	13,999	3,979
Accounts receivable held by foreign subsidiaries with USD functional currency	-	25,241	-
	35,595	39,240	3,979
2018	**CAD**	**USD**	**Japanese ¥**
Accounts receivable	33,819	18,603	20,976
Accounts receivable held by foreign subsidiaries with USD functional currency	-	22,670	-
	33,819	41,273	20,976

Based on the Company's net exposure to foreign currencies as at December 31, 2019, the sensitivity of Company's annual Net earnings and Other comprehensive income are as follows:

U.S. Dollar	$0.01 increase vs CAD	$63,000 decrease in Net earnings
U.S. Dollar	$0.01 increase vs CAD	$6,798,000 increase in OCI

Interest rate risk

Borrowings under the Line were minimal in 2019, resulting in little exposure to floating interest rate changes under its credit facilities. As a result, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

Other market risk:

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