INTERFOR CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

"Duncan K. Davies"	*"John A. Horning"*
President and Chief Executive Officer	Executive Vice President and Chief Financial Officer

February 8, 2018

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Interfor Corporation,

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Opinion

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

KPMG LLP (signed)

Chartered Professional Accountants

February 8, 2018
Vancouver, Canada

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

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

Commitments and contingencies *(note 18)*.

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder", Director *"D.W.G. Whitehead"*, Director

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

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

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

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows

(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2017 and 2016

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

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

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

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

2. Basis of Preparation:

(a) Statement of compliance:

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

(b) Basis of measurement:

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

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

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgements:

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

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

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

2. Basis of Preparation (continued):

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

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

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

3. Significant accounting policies:

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

(a) Basis of consolidation:

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

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

(b) Foreign currency:

(i) Foreign currency transactions:

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

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

3. Significant accounting policies (continued):

(b) Foreign currency (continued):

(ii) Foreign operations:

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

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

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

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

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

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

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

(c) Financial instruments:

(i) Non-derivative financial instruments:

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

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

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

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

(i) Non-derivative financial instruments (continued):

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

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

(ii) Derivative financial instruments:

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

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

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

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

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

(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.

3. Significant accounting policies (continued):

(e) Inventories:

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

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

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

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

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

(f) Property, plant and equipment:

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

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

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

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

(g) Logging roads and bridges:

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

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

3. Significant accounting policies (continued):

(h) Intangible assets:

(i) Timber licences:

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

(ii) Goodwill:

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

(iii) Other intangible assets:

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

(i) Impairment of non-financial assets:

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

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

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

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

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

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

3. Significant accounting policies (continued):

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

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

An impairment loss recorded against goodwill is not reversed.

(j) Reforestation and other decommissioning provisions:

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

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

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

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

(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.

3. Significant accounting policies (continued):

(l) Employee benefits:

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

Plan assets are valued at fair value.

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

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

(m) Cash-settled share based compensation:

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

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

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

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

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

(n) Equity-settled share based compensation:

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

3. Significant accounting policies (continued):

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

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

(o) Sales revenue:

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

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

(p) Finance income and costs:

Finance income comprises net interest income on funds invested.

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

(q) Income tax:

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

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

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.

3. Significant accounting policies (continued):

(q) Income tax (continued):

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

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

(r) Earnings per share:

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

(s) New standards and interpretations not yet adopted:

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

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

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements and is effective for annual periods beginning on or after January 1, 2018.

Neither IFRS 9 nor IFRS 15 will have a significant impact on the Company's financial statements.

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

3. Significant accounting policies (continued):

(t) Change in accounting policy:

The Company has adopted the disclosure requirements in *Disclosure Initiative (Amendments to IAS 7)*, which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in relation to the changes in borrowings arising from financing activities for the year ended December 31, 2017 (see note 8).

4. Inventories:

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

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

5. Investments and other assets:

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

6. Property, plant, and equipment

Cost	Note	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
Balance at December 31, 2015		$ 51,950	$ 131,131	$ 860,612	$ 32,005	$ 41,561	$ 69,732	$ 13,958	$ 18,386	$ 1,219,335
Additions		-	-	(2)	-	133	-	23	49,142	49,296
Disposals		(64)	(150)	(2,396)	(740)	(860)	-	(304)	(100)	(4,614)
Transfers		-	4,771	19,368	351	3,505	1,706	23	(29,724)	-
Transfers to other intangibles	*7*	-	-	-	-	-	-	-	(1,637)	(1,637)
Exchange rate movements		(578)	(2,102)	(16,039)	(414)	(626)	(1,000)	(139)	(436)	(21,334)
Balance at December 31, 2016		51,308	133,650	861,543	31,202	43,713	70,438	13,561	35,631	1,241,046
Additions		-	-	-	-	-	-	154	59,634	59,788
Disposals		(17)	(248)	(3,852)	(1,427)	(523)	(43)	(1,562)	-	(7,672)
Transfers		-	1,795	56,339	944	6,762	2,485	532	(68,857)	-
Transfers to other intangibles	*7*	-	-	-	-	-	-	-	(551)	(551)
Impairment	*16*	(234)	-	-	-	-	-	-	-	(234)
Exchange rate movements		(1,234)	(4,514)	(36,949)	(802)	(1,913)	(2,341)	(273)	(2,161)	(50,187)
Balance at December 31, 2017		$ 49,823	$ 130,683	$ 877,081	$ 29,917	$ 48,039	$ 70,539	$ 12,412	$ 23,696	$ 1,242,190

Accumulated Depreciation	Note	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Total
Balance at December 31, 2015		$ 43,689	$ 318,152	$ 18,111	$ 23,639	$ 33,647	$ 4,507	$ 441,745
Depreciation		6,796	53,527	3,276	6,072	5,003	1,418	76,092
Disposals		(86)	(1,564)	(596)	(677)	-	(284)	(3,207)
Transfers		-	(27)	-	27	-	-	-
Impairment	*16*	-	1,155	-	-	-	-	1,155
Exchange rate movements		(463)	(4,390)	(162)	(344)	(329)	(32)	(5,720)
Balance at December 31, 2016		49,936	366,853	20,629	28,717	38,321	5,609	510,065
Depreciation		7,003	56,254	2,856	6,136	4,061	1,313	77,623
Disposals		(135)	(1,598)	(1,298)	(523)	(43)	(1,111)	(4,708)
Transfers		-	-	-	-	-	-	-
Impairment	*16*	26	6,713	-	84	-	-	6,823
Exchange rate movements		(1,460)	(14,065)	(511)	(1,228)	(1,062)	(117)	(18,443)
Balance at December 31, 2017		$ 55,370	$ 414,157	$ 21,676	$ 33,186	$ 41,277	$ 5,694	$ 571,360

Net book value at	Land	Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other	Projects in Process	Total
December 31, 2016	$ 51,308	$ 83,714	$ 494,690	$ 10,573	$ 14,996	$ 32,117	$ 7,952	$ 35,631	$ 730,981
December 31, 2017	49,823	75,313	462,924	8,241	14,853	29,262	6,718	23,696	670,830

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

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

Cost	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2015	$ 95,042	$ 118,434	$ 40,269	$ 161,791
Additions	24,631	195	1,487	-
Transfers	-	-	1,637	-
Disposals	(824)	-	(18)	-
Exchange rate movements	(69)	-	(916)	(4,412)
Balance at December 31, 2016	118,780	118,629	42,459	157,379
Additions	32,211	267	2,093	-
Transfers	-	-	551	-
Disposals	(2,292)	-	(10)	-
Exchange rate movements	10	-	(1,954)	(9,421)
Balance at December 31, 2017	$ 148,709	$ 118,896	$ 43,139	$ 147,958

Accumulated amortization	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2015	$ 74,431	$ 46,005	$ 16,668	$ 877
Amortization	24,478	3,351	7,066	-
Disposals	(824)	-	(6)	-
Exchange rate movements	(44)	-	(286)	-
Balance at December 31, 2016	98,041	49,356	23,442	877
Amortization	28,846	2,951	6,838	-
Disposals	(2,292)	-	(5)	-
Impairment	-	-	34	
Exchange rate movements	22	-	(1,340)	-
Balance at December 31, 2017	$ 124,617	$ 52,307	$ 28,969	$ 877
Net book value at				
December 31, 2016	$ 20,739	$ 69,273	$ 19,017	$ 156,502
December 31, 2017	24,092	66,589	14,170	147,081

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

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

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

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

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

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

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

8. Cash and borrowings:

2017	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 250,900	$ 62,725	$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of line	$ 52,485	$ 200,000	$ -	$ 60,091	$ 312,576
2016					
Available line of credit	$ 65,000	$ 200,000	$ 268,540	$ 67,135	$ 600,675
Maximum borrowing available	65,000	200,000	268,540	65,627	599,167
Drawings	-	40,281	268,540	-	308,821
Outstanding letters of credit included in line utilization	10,026	-	-	3,296	13,322
Unused portion of line	$ 54,974	$ 159,719	$ -	$ 62,331	$ 277,024

Minimum principal amounts due on long term debt are follows:

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

8. Cash and borrowings (continued):

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

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

(a) Operating Line and Revolving Term Line:

The Canadian Operating Line of credit and Revolving Term Line (the "Lines") may be drawn in either CAD$ or US$ advances, and bear interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of net debt divided by trailing twelve months' trailing EBITDA[1]. The amount available under the Operating Line is subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

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

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

As at December 31, 2017, including letters of credit, the Lines were drawn by $12,333,000 (2016 - $10,026,000) and US$145,000 (2016 – US$30,000,000) revalued at the year-end exchange rate to $182,000 (2016 - $40,281,000) for total borrowings of $12,515,000 (2016 - $50,307,000).

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

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

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

8. Cash and borrowings (continued):

(b) Senior Secured notes:

The Company's Senior Secured Notes consist of Series A and Series B Senior Secured Notes (each US$50,000,000 and bearing interest at 4.33% and 4.02%, respectively) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at December 31, 2017, US$200,000,000 of Senior Secured Notes were outstanding (2016 – US$200,000,000) and revalued at the year-end exchange rate to $250,900,000 (2016 - $268,540,000).

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Total payments of US$33,333,000 (US$16,667,000 for each of the Series A and Series B Senior Secured Notes) are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $17,640,000 (2016 - $8,260,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2017.

(c) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. On May 17, 2017, the Company extended the maturity of its U.S. Operating Line from May 1, 2018 to May 1, 2019 with no other significant changes.

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

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

(d) Cash and cash equivalents:

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

9. Provisions and other liabilities:

2017	Note	Current	Non-current	Total
Restructuring	*9(a), 16*	$ 298	$ 1,026	$ 1,324
Road deactivation	*9(a)*	776	3,840	4,616
Environmental	*9(a)*	56	747	803
Cash-settled share based compensation				
SAR Plan	*9(b)*	5,355	186	5,541
TSR Plan	*9(c)*	1,390	5,277	6,667
DSU Plan	*9(d)*	547	13,566	14,113
Retained compensation liabilities	*9(e)*	1,451	-	1,451
Lease incentives and other		766	2,334	3,100
		$ 10,639	$ 26,976	$ 37,615

2016	Note	Current	Non-current	Total
Restructuring	*9(a), 16*	$ 987	$ 1,618	$ 2,605
Road deactivation	*9(a)*	221	4,158	4,379
Environmental	*9(a)*	56	753	809
Cash-settled share based compensation				
SAR Plan	*9(b)*	5,904	385	6,289
TSR Plan	*9(c)*	1,188	1,625	2,813
DSU Plan	*9(d)*	1,515	9,468	10,983
Contingent future payment	*9(f)*	13,427	-	13,427
Retained compensation liabilities	*9(e)*	-	1,076	1,076
Lease incentives and other		1,295	2,207	3,502
		$ 24,593	$ 21,290	$ 45,883

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

(a) Provisions:

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

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

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

9. Provisions and other liabilities (continued):

(a) Provisions (continued):

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

(b) Share Appreciation Rights Plan:

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

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

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

9. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

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

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

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

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

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

(c) Total Shareholder Return Plan:

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

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

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

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

9. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan (continued):

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

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

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

(d) Deferred Share Unit Plan:

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

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

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

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

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

[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, 2017, the Company recorded an expense of $4,637,000 (2016 –$1,775,000) in respect of the DSU Plan, of which $3,771,000 (2016 – $916,000) was recorded in Long term compensation and $866,000 (2016 - $860,000), related to payment for directors' fees, was recorded in Selling and administration.

9. Provisions and other liabilities (continued):

(e) Retained compensation liabilities:

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

(f) Contingent future payment:

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

10. Reforestation liability:

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

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

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

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

11. Share capital:

(a) Share transactions:

Authorized capital at December 31, 2017 consists of:

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

Common Share transactions were as follows:

Issued and Fully Paid	*Note*	Number	Amount
Balance, December 31, 2015		70,030,455	$ 553,559
Deferred income tax on share issue costs	*17*	-	1,829
Balance, December 31, 2016 and 2017		70,030,455	$ 555,388

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

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

(b) Equity-settled share based compensation:

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

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

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

11. Share capital:

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

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

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

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

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

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

12. Depreciation, depletion, and amortization:

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

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

13. Personnel expenses:

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

14. Finance costs:

Recognized in Net earnings:

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

Recognized in Other comprehensive income:

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

15. Other income (expense):

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

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

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

16. Restructuring costs:

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

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

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

17. Income taxes:

Income tax expense is as follows:

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

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

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

Income tax recovery recognized in Equity is as follows:

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

17. Income taxes (continued):

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

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

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

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

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

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

Unrecognized deferred income taxes:

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

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

17. Income taxes (continued):

Recognized deferred income taxes:

December 31, 2017	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
Deferred income tax assets					
Losses	$ 114,778	$ (56,492)	$ -	$ -	$ 58,286
Reserves	21,364	1,539	-	-	22,903
Tax credits	870	(536)	-	-	334
Share issue costs	692	(353)	-	-	339
Defined benefit plan	-	-	504	-	504
Other	4,672	(524)	-	-	4,148
Deferred income tax liabilities					
Capital assets	(128,377)	23,294	-	-	(105,083)
Foreign currency translation differences for foreign operations	(536)	-	159	-	(377)
Total	$ 13,463	$ (33,072)	$ 663	$ -	$ (18,946)

December 31, 2016	Opening Balance	Recognized in Income Tax Expense	Recognized in in Other Comprehensive Income (loss)	Recognized in Shareholder's Equity	Ending Balance
Deferred income tax assets					
Losses	$ 117,627	$ (3,986)	$ -	$ 1,137	$ 114,778
Reserves	20,494	870	-	-	21,364
Tax credits	111	759	-	-	870
Share issue costs	-	-	-	692	692
Other	2,520	2,152	-	-	4,672
Deferred income tax liabilities					
Capital assets	(122,228)	(6,149)	-	-	(128,377)
Foreign currency translation differences for foreign operations	145	-	(681)	-	(536)
Total	$ 18,669	$ (6,354)	$ (681)	$ 1,829	$ 13,463

Represented by the following:

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

18. Commitments and contingencies:

(a) Operating leases and contractual obligations:

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

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

(b) Surety bonds:

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

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

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

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

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

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

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

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

18. Commitments and contingencies (continued):

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

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

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

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

(d) Timber licence:

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

Interfor is entitled to compensation from the Government of B.C. based upon the value of the harvesting rights under the Licence. In late 2017, the Company initiated arbitration proceedings, but is currently still in active negotiations with the Government. Although it is not practicable to estimate the value or form of compensation that would be received by Interfor, it is expected that such compensation would exceed the net book value of the Licence as at December 31, 2017.

(e) Other contingencies:

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

19. Net earnings per share:

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

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

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

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

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

(a) Defined contribution plans:

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

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

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

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

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

(b) Unionized employees' pension plan:

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

(c) Supplementary pension plans:

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

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

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

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

(d) Defined benefit plans:

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

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

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

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

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

(d) Defined benefit pension plans (continued):

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

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

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

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

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

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

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

(d) Defined benefit plans (continued):

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

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

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

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

20. 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	
	2017	2016	2017	2016
Statement of Earnings				
Production expense	$ 1,100	$ 1,090	$ 53	$ 51
Finance (income) costs	(29)	(50)	71	91
Restructuring costs	-	466	-	-
	$ 1,071	$ 1,506	$ 124	$ 142
Other comprehensive income (loss)				
Actuarial gains (losses)	$ (2,133)	$ 1,509	$ 279	$ -

Plan assets consist of:

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

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

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

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

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

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

(d) Defined benefit plans (continued):

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

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

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

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

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

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

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

21. Related party transactions:

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

The remuneration of key management personnel was as follows:

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

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

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

22. Segmented Information:

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

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

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

Sales by product line are as follows:

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

Non-current assets by geographic location are as follows:

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

23. Capital management:

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

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

23. Capital management (continued):

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

24. Financial instruments:

(a) Fair value of financial instruments:

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

(b) Derivative financial instruments:

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

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

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

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

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

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

24. Financial instruments (continued):

(b) Derivative financial instruments (continued):

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

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

[1] Recognized in Other comprehensive income.
[2] Recognized in Sales in Net earnings.

(c) Hedge of investment in foreign operations:

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

(d) Financial risk management:

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

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

(i) Credit risk:

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

Accounts receivable

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

24. Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Accounts receivable (continued)

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

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

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

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

Deposits

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

Guarantees

The Company did not provide any guarantees in 2017.

(ii) Liquidity risk:

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

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

24. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

The following table summarizes Interfor's credit facilities and available liquidity as of December 31, 2017:

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 250,900	$ 62,725	$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Less:					
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of facility	$ 52,485	$ 200,000	$ -	$ 60,091	312,576
Add unrestricted cash and cash equivalents					131,263
Available liquidity at December 31, 2017					$ 443,839

The estimated cash payments due in respect of contractual and legal obligations including 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 accrued liabilities	$ 141,013	$ 141,013	$ -	$ -	$ -
Income taxes payable	224	224	-	-	-
Reforestation liability	42,550	12,873	13,112	7,580	8,985
Long term debt	307,317	10,469	20,937	101,078	174,833
Provisions and other liabilities	44,278	11,226	8,041	2,140	22,871
Operating leases and capital commitments	96,927	50,097	20,459	11,630	14,741
Total obligations	$ 632,309	$ 225,902	$ 62,549	$ 122,428	$ 221,430

(iii) Market risk:

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

Currency risk

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

24. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk (continued)

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

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

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

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

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

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

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

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

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

24. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Interest rate risk

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

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

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

Other market price risk

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