INTERFOR

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 2018 Annual Report is consistent with that disclosed in the consolidated financial statements.

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

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

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

"Duncan K. Davies"

President and Chief Executive Officer

"Martin L. Juravsky"

Senior Vice President and Chief Financial Officer

February 7, 2019

KPMG

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CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Interfor Corporation,

Opinion

We have audited the accompanying consolidated financial statements of Interfor Corporation (the Company), which comprise:

- the consolidated statements of financial position as at December 31, 2018 and December 31, 2017;
- the consolidated statements of earnings and comprehensive income for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

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

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

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

Other Information

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

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

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

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

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

We have nothing to report in this regard.

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also:

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair representation.

- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

KPMG LLP, Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.
Vancouver, Canada
February 8, 2019

Interfor Corporation
Consolidated Statements of Financial Position
(Expressed in thousands of Canadian Dollars)
As at December 31, 2018 and 2017

	Note	December 31 2018	December 31 2017
Assets			
Current assets:			
Cash and cash equivalents		$ 166,152	$ 131,600
Marketable securities	*5*	42,863	-
Trade accounts receivable and other		90,384	112,470
Income tax receivable	*19*	3,008	1,289
Inventories	*6*	209,178	165,156
Prepayments		17,307	12,562
		528,892	423,077
Employee future benefits	*22(d)*	303	502
Deposits and other assets	*7*	16,842	6,404
Property, plant and equipment	*8*	725,266	670,830
Roads and bridges	*9*	29,829	24,092
Timber licences	*9*	64,153	66,589
Other intangible assets	*9*	5,288	14,170
Goodwill	*9*	158,799	147,081
Deferred income taxes	*19*	132	251
		$1,529,504	$1,352,996
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	*12, 22(c), 22(d)*	$ 155,434	$ 152,854
Reforestation liability	*11*	13,947	12,873
Income taxes payable	*19*	356	224
		169,737	165,951
Reforestation liability	*11*	28,235	27,535
Long term debt	*10*	272,840	250,900
Employee future benefits	*22(c), 22(d)*	8,687	8,249
Provisions and other liabilities	*12*	17,413	26,976
Deferred income taxes	*19*	58,527	19,197
Equity:			
Share capital	*13*	537,534	555,388
Contributed surplus		3,851	8,582
Translation reserve		84,423	40,720
Retained earnings		348,257	249,498
		974,065	854,188
		$ 1,529,504	$ 1,352,996

Commitments and contingencies *(note 20)*.

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

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

Interfor Corporation
Consolidated Statements of Earnings
(Expressed in thousands of Canadian Dollars, except earnings per share)
Years ended December 31, 2018 and 2017

	Note	2018	2017
Sales	*24*	$2,186,567	$1,990,106
Costs and expenses:			
Production		1,799,825	1,632,922
Selling and administration		52,992	50,775
Long term incentive compensation (recovery)	*12, 13(b)*	(7,829)	12,977
U.S. countervailing and anti-dumping duty deposits	*7, 20(c)*	53,337	18,630
Depreciation of plant and equipment	*8, 14*	80,273	77,623
Depletion and amortization of timber, roads and other	*9, 14*	36,048	38,635
		2,014,646	1,831,562
Operating earnings before write-downs and restructuring		171,921	158,544
Capital asset write-downs and restructuring costs	*18*	(15,304)	(9,203)
Operating earnings		156,617	149,341
Finance costs	*16*	(10,410)	(14,030)
Other foreign exchange gain (loss)		3,474	(2,035)
Other income (expense)	*17*	1,188	(1,987)
		(5,748)	(18,052)
Earnings before income taxes		150,869	131,289
Income tax expense:	*19*		
Current		2,955	1,064
Deferred		36,236	33,072
		39,191	34,136
Net earnings		$ 111,678	$ 97,153
Net earnings per share, basic and diluted	*21*	$ 1.60	$ 1.39

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Comprehensive Income
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2018 and 2017

	Note	2018	2017
Net earnings		$ 111,678	$ 97,153
Other comprehensive income (loss):			
Items that will not be recycled to Net earnings:			
Defined benefit plan actuarial gain (loss), net of tax	*19, 22(d)*	508	(1,350)
Items that are or may be recycled to Net earnings:			
Foreign currency translation differences for foreign operations, net of tax		43,703	(28,854)
Loss in fair value of interest rate swaps	*16, 26(b)*	-	(11)
Total items that are or may be recycled to Net earnings		43,703	(28,865)
Total other comprehensive income (loss), net of tax		44,211	(30,215)
Comprehensive income		$ 155,889	$ 66,938

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, 2018 and 2017

	Note	Share Capital	Contributed Surplus	Translation Reserve	Hedge Reserve	Retained Earnings	Total Equity
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 loss, net of tax	*22(d)*	-	-	-	-	(1,350)	(1,350)
Loss in fair value of interest rate swaps	*16, 26(b)*	-	-	-	(11)	-	(11)
Contributions:							
Stock options	*13(b)*	-	583	-	-	-	583
Balance at December 31, 2017		555,388	8,582	40,720	-	249,498	854,188
Net earnings:		-	-	-	-	111,678	111,678
Other comprehensive income:							
Foreign currency translation differences for foreign operations, net of tax		-	-	43,703	-	-	43,703
Defined benefit plan actuarial gain, net of tax	*22(d)*	-	-	-	-	508	508
Contributions and distributions:							
Share issuance, net of expenses	*13(a)*	214	(71)	-	-	-	143
Share repurchase	*13(a)*	(18,068)	(5,434)	-	-	(13,427)	(36,929)
Stock options	*13(b)*	-	774	-	-	-	774
Balance at December 31, 2018		$ 537,534	$ 3,851	$ 84,423	$ -	$ 348,257	$ 974,065

See accompanying notes to consolidated financial statements.

Interfor Corporation
Consolidated Statements of Cash Flows
(Expressed in thousands of Canadian Dollars)
Years ended December 31, 2018 and 2017

	Note	2018	2017
Cash provided by (used in):			
Operating activities:			
Net earnings		$ 111,678	$ 97,153
Items not involving cash:			
Depreciation of plant and equipment	*8*	80,273	77,623
Depletion and amortization of timber, roads and other	*9*	36,048	38,635
Income tax expense	*19*	39,191	34,136
Finance costs	*16*	10,410	14,030
Other assets		(3,000)	(4,203)
Reforestation liability	*11*	79	1,109
Provisions and other liabilities		(9,204)	5,629
Stock options	*13(b)*	774	583
Write-down of plant, equipment and intangibles	*8, 9, 18*	13,925	7,091
Unrealized foreign exchange loss (gain)		(3,885)	147
Other expense (income)	*17*	(1,188)	1,987
		275,101	273,920
Cash generated from (used in) operating working capital:			
Trade accounts receivable and other		27,392	(19,845)
Inventories		(33,821)	(14,243)
Prepayments		(3,128)	919
Trade accounts payable and provisions		(5,919)	19,688
Income taxes paid		(4,392)	(2,215)
		255,233	258,224
Investing activities:			
Additions to property, plant and equipment	*8*	(106,440)	(60,370)
Additions to roads and bridges	*9*	(32,165)	(32,211)
Additions to timber licences and other intangible assets	*9*	(158)	(2,360)
Proceeds on disposal of property, plant and equipment	*17*	2,355	561
Net proceeds from (additions to) marketable securities, deposits and other assets		(48,364)	3,279
		(184,772)	(91,101)
Financing activities:			
Share issuance, net of expenses	*13(b)*	143	-
Share repurchase	*13(a)*	(36,929)	-
Interest payments		(9,729)	(12,240)
Debt refinancing costs		(88)	(807)
Change in operating line components of long term debt	*10*	(2)	(64)
Additions to long term debt	*10*	155,909	76,107
Repayments of long term debt	*10*	(155,797)	(116,260)
		(46,493)	(53,264)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency		10,584	(1,529)
Increase in cash and cash equivalents		34,552	112,330
Cash and cash equivalents, beginning of year		131,600	19,270
Cash and cash equivalents, end of year		$ 166,152	$ 131,600

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, 2018 and 2017 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 7, 2019.

(b) Basis of measurement:

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

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

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

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

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

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

(c) Functional and presentation currency:

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

(d) Use of estimates and judgements:

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

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

2. Basis of Preparation (continued):

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

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

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

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 9	Roads and bridges, timber licences, other intangible assets and goodwill
Note 12	Reforestation liability

3. Significant accounting policies:

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

(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. Revaluations related to cash and cash equivalents are adjusted to Other foreign exchange gain (loss), trade and other receivables are adjusted to Sales and trade payables and provisions are adjusted to Production costs in the Statement of Earnings.

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 or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the Translation reserve to the Non-controlling interest in the foreign subsidiary.

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

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

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

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

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

(c) Financial instruments:

(i) Non-derivative financial instruments:

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

Cash and cash equivalents, trade and other receivables, and interest bearing marketable securities expected to be held to maturity are categorized as amortized cost and are initially measured at fair value plus any direct transaction costs and thereafter at amortized cost using the effective interest rate method, less any impairment losses.

3. Significant accounting policies (continued):

(c) Financial instruments (continued):

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

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

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

(ii) Derivative financial instruments:

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

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

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 is recognized in Other comprehensive income and presented in the Hedge reserve in Equity. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in Net earnings.

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

(iii) Share capital:

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

(d) Cash and cash equivalents:

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

(e) Inventories:

Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Cost is determined as the weighted average 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.

3. Significant accounting policies (continued):

(e) Inventories (continued):

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, lagged by one month, for the B.C. Interior, and adjusted for abnormal costs, as in the case of a curtailment. Log inventories purchased from external sources are valued at acquisition cost.

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

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

(f) Property, plant and equipment:

Property, plant and equipment are recorded at cost less accumulated depreciation and impairment losses. Depreciation on machinery and equipment is provided 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. Roads and permanent bridges are amortized on the basis of timber cut relative to available timber. Portable bridges are amortized on a straight line basis over the estimated useful life of the asset.

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

(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.

3. Significant accounting policies (continued):

(h) Intangible assets (continued):

(iii) Other intangible assets:

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

(i) Impairment of non-financial assets:

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

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

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.

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.

3. Significant accounting policies (continued):

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

Provisions are measured at the expected value of future cash flows, discounted to their present value and determined according to the probability of alternative estimates of cash flows occurring for each operation. The measurement under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, is based on best estimates and can be based on internal or external costs, depending upon which is most likely. Significant judgements and estimates are involved in forming expectations of future activities and the amount and timing of the associated cash flows. Those expectations are formed based on existing regulatory requirements and the expertise of Registered Professional Foresters and Engineers employed or contracted by the Company. Examples of considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities in terms of reforestation; and road structure and terrain for road deactivation.
Cash flows reflect the risks specific to the decommissioning provision. As such, the discount rate reflects the current risk-free rate given that risks are incorporated into the future cash flow estimates. Adjustments are made to decommissioning provisions each period for changes in the estimated timing or amount of cash flows, changes in the discount rate and the unwinding of the discount.

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

(k) Environmental costs:

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

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

(l) 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.

3. Significant accounting policies (continued):

(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.

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 which was included in Contributed surplus.

(o) Sales revenue:

The Company recognizes sales when control of lumber, logs, chips and by-products or other good or service has been transferred to the customer, measured based on the fair value of the consideration specified in a contract, net of applicable sales taxes, returns, rebates and discounts. The timing of transfer of control varies depending upon the individual terms of the contract of sale, but is typically when the product is loaded onto the mode of transportation or delivered to the transfer point. Revenue includes amounts charged to customers for freight, wharfage and handling costs.

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

3. Significant accounting policies (continued):

(p) Finance income and costs

Finance income comprises interest income on funds invested and interest on defined benefit plan assets.

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

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.

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

3. Significant accounting policies (continued):

(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, 2018, and have not been applied in preparing these consolidated financial statements. Of these pronouncements, IFRS 16, *Leases*, replacing IAS 17, *Leases*, is considered to be the most significant and has a required adoption date of January 1, 2019.

IFRS 16 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, a lessee recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease obligation, representing its obligation to make lease payments. Lease expense, which is currently recorded as a Production cost, will be replaced by depreciation on the right-of-use asset and interest expense on the lease obligation.

Right-of-use assets will be accounted for under IAS 16, *Property, Plant and Equipment*, and will initially be measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. Lease obligations will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

The Company intends to adopt the standard using the full retrospective approach with restatement of each prior reporting period presented. Interfor expects to utilize certain practical expedients and apply exemptions for short term and low-value leases.

The Company is in the final stages of validating its calculations of the financial impact of adoption of IFRS 16 on January 1, 2019. Adoption of the standard is expected to result in the following changes to Interfor's consolidated financial statements:

		Estimated impact as at January 1, 2019
Statement of Financial Position		
Right of Use Asset, net of accumulated amortization	Increase to Assets	$38,000
Lease obligation	Increase to Liabilities	45,000
Provisions and other liabilities	Increase to Liabilities	500
Deferred income tax	Decrease to Liabilities	1,800
Equity	Decrease to Equity	5,700

		Estimated impact for year ended December 31, 2018
Statement of Earnings		
Production costs and Selling and administration	Decrease	$10,500
Depreciation	Increase	10,000
Finance costs	Increase	2,000
Deferred income tax expense	Decrease	10
Net earnings	Decrease	1,490
Net earnings per share	Decrease	$0.02

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

3. Significant accounting policies (continued):

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

		Estimated impact for year ended December 31, 2018
Statement of Cash Flows		
Cash provided by:		
Operating activities	Increase	10,500
Financing activities	Decrease	10,500

The figures presented may change as a result of finalizing adjustments required on transition during the first quarter of 2019.

Application of the new standard is not anticipated to have a negative impact on any bank covenant calculations.

4. Changes in accounting policies:

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*. Adoption of these standards had no significant financial impact on Interfor's financial statements and accordingly, the information presented for 2017 has not been restated. The Company has adopted the additional disclosures required under these standards.

A number of other new standards were also effective from January 1, 2018, but they did not have a material impact on the Company's financial statements.

(a) IFRS 9, *Financial Instruments*:

IFRS 9, *Financial Instruments* replaced the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, and set out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost; fair value through other comprehensive income; and fair value through profit and loss. This classification of financial assets under IFRS 9 reflects the business model in which assets are managed and their contractual cash flow characteristics. IFRS 9 eliminated the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

IFRS 9 largely retained the requirements in IAS 39 for the classification and measurement of financial liabilities.

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

4. Changes in accounting policies (continued):

(a) IFRS 9, *Financial Instruments (continued)*:

The following table outlines the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Company's financial assets and liabilities as at January 1, 2018.

Financial instruments	Original classification under IAS 39	New classification under IFRS 9
Cash and cash equivalents	Loans and receivables	Amortized cost
Interest bearing marketable securities	Held to maturity	Amortized cost
Trade accounts receivable and other	Loans and receivables	Amortized cost
Deposits and other assets	Loans and receivables	Amortized cost
Trade accounts payable and provisions	Other financial liabilities	Other financial liabilities
Long term debt	Other financial liabilities	Other financial liabilities
Foreign currency exchange contracts	Held for trading	FVTPL
Lumber future contracts	Held for trading	FVTPL

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model to calculate the impairment of financial assets. Application of the ECL model had no significant impact on the Company's financial statements.

The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial assets and financial liabilities, and did not result in a change in the carrying value of any financial instruments on the transition date.

(b) IFRS 15, *Revenue from Contracts with Customers*:

IFRS 15, *Revenue from Contracts with Customers*, establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations. Under IFRS 15, revenue is recognised when a customer obtains control of the goods or services, whether at a point in time or over time.

IFRS 15 did not have a significant impact on the Company's accounting policies and had no financial impact on Interfor's financial statements.

5. Marketable securities:

	2018	2017
Marketable securities	$ 42,863	$ -

During 2018, the Company purchased high grade liquid marketable securities to yield a higher return on surplus cash. These securities, classified as at amortized cost, have interest rates of 1.75 to 2.34% and varying maturity dates through August 19, 2019. The fair value of these securities at December 31, 2018 is $42,843,000.

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

6. Inventories:

	2018	2017
Lumber	$ 95,563	$ 82,850
Logs	98,018	67,815
Other	15,597	14,491
	$ 209,178	$ 165,156

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, 2018, was $19,631,000 (2017 - $9,292,000).

7. Deposits and other assets:

	Note	2018	2017
Deposits on machinery and equipment		$ 6,068	$ -
Timber deposits and other		5,022	541
Countervailing and anti-dumping duties receivable	*20(c)*	4,347	3,769
Deferred financing fees, net of accumulated amortization		1,405	2,094
		$ 16,842	$ 6,404

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

8. 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, 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	*9*	-	-	-	-	-	-	-	(551)	(551)
Impairment	*18*	(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
Additions		-	-	-	-	459	-	30	107,585	108,074
Disposals		(4)	(1,659)	(10,321)	(2,898)	(3,993)	(1,507)	(113)	-	(20,495)
Transfers		-	3,531	39,927	1,201	6,671	7,098	1,097	(59,525)	-
Transfers to other intangibles	*9*	-	-	-	-	-	-	-	(34)	(34)
Exchange rate movements		1,535	5,721	49,731	927	2,933	3,217	328	3,474	67,866
Balance at December 31, 2018		$ 51,354	$ 138,276	$ 956,418	$ 29,147	$ 54,109	$ 79,347	$ 13,754	$ 75,196	$ 1,397,601

Accumulated Depreciation	Note		Buildings	Machinery and Equipment	Mobile Equipment	Computer Equipment	Site Improvements	Other		Total
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)
Impairment	*18*		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
Depreciation			7,075	59,492	2,409	6,132	4,019	1,146		80,273
Disposals			(1,578)	(9,810)	(2,658)	(3,739)	(1,507)	(36)		(19,328)
Impairment	*18*		1,894	8,658	-	19	1,187	-		11,758
Exchange rate movements			2,205	21,778	668	1,924	1,569	128		28,272
Balance at December 31, 2018			$ 64,966	$ 494,275	$ 22,095	$ 37,522	$ 46,545	$ 6,932		$ 672,335
Net book value at										
December 31, 2017		$ 49,823	$ 75,313	$ 462,924	$ 8,241	$ 14,853	$ 29,262	$ 6,718	$ 23,696	$ 670,830
December 31, 2018		51,354	73,310	462,143	7,052	16,587	32,802	6,822	75,196	725,266

There were no borrowing costs capitalized in 2018 or 2017. Additions in 2018 include $3,964,000 of accrued contract costs (2017 - $2,330,000)

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

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

Cost	Note	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2016		$ 118,780	$ 118,629	$ 42,459	$ 157,379
Additions		32,211	267	2,093	-
Transfers	8	-	-	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
Additions		32,165	83	75	-
Transfers	8	-	-	34	-
Disposals		(79,282)	-	-	-
Exchange rate movements		20	-	2,438	11,718
Balance at December 31, 2018		$ 101,612	$ 118,979	$ 45,686	$ 159,676

Accumulated amortization	Note	Roads and Bridges	Timber Licences	Other Intangibles	Goodwill
Balance at December 31, 2016		$ 98,041	$ 49,356	$ 23,442	$ 877
Amortization		28,846	2,951	6,838	-
Disposals		(2,292)	-	(5)	-
Impairment	18	-	-	34	-
Exchange rate movements		22	-	(1,340)	-
Balance at December 31, 2017		124,617	52,307	28,969	877
Amortization		26,442	2,519	7,087	-
Disposals		(79,282)	-	-	-
Impairment	18	-	-	2,167	-
Exchange rate movements		6	-	2,175	-
Balance at December 31, 2018		$ 71,783	$ 54,826	$ 40,398	$ 877
Net book value at					
December 31, 2017		$ 24,092	$ 66,589	$ 14,170	$ 147,081
December 31, 2018		29,829	64,153	5,288	158,799

For the purpose of impairment testing, goodwill components of $13,078,000 and $145,721,000 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 2017 and 2018. 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, 2018, and December 31, 2017 were determined to be higher than the related carrying amount and no impairment has been recognized.

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

9. Roads and bridges, timber licences, 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 10.0 percent (2017 – 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 2.2 percent (2017 – 1.6 percent) and 2.3 percent (2017 – 2.2 percent) for Canadian and U.S. CGU's, respectively, were applied to the projected cash flows for years.

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

10. Borrowings:

2018	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 272,840	$ 68,210	$ 606,050
Maximum borrowing available	65,000	200,000	272,840	50,590	588,430
Drawings	-	-	272,840	-	272,840
Outstanding letters of credit included in line utilization	14,858	-	-	2,810	17,668
Unused portion of line	$ 50,142	$ 200,000	$ -	$ 47,780	$ 297,922
2017					
Available line of credit	$ 65,000	$ 200,000	$ 250,900	$ 62,725	$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of line	$ 52,485	$ 200,000	$ -	$ 60,091	$ 312,576

Minimum principal amounts due on long term debt are follows:

2019	$ -
2020	-
2021	7,389
2022	7,389
2023	7,390
Thereafter	250,672
	$ 272,840

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

10. Borrowings (continued):

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

	2018	2017
Drawings at January 1	$ 250,900	$ 308,821
Operating line net repayments	(2)	(64)
Additions to long term debt	155,909	76,107
Repayments of long term debt	(155,797)	(116,260)
Effects of changes in foreign exchange rates	21,830	(17,704)
Drawings at December 31	$ 272,840	$ 250,900

(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' 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 licences and mortgage security on certain assets. The Lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of net debt to capitalization and a minimum net worth calculation.

The Lines mature on September 15, 2021.

As at December 31, 2018, including letters of credit, the Lines were drawn by $14,771,000 (2017 - $12,333,000) and US$64,000 (2017 – US$ 145,000) revalued at the year-end exchange rate to $87,000 (2017 - $182,000) for total borrowings of $14,858,000 (2017 - $12,515,000).

U.S. Dollar drawings under the Lines were designated as a hedge against the Company's investment in its U.S. operations and foreign exchange losses of $81,000 for the year ended December 31, 2018 (2017 - $128,000 gain) arising on revaluation of the Lines were recognized in Foreign currency translation differences in Other comprehensive income.

As at December 31, 2018, unused available credit on the Lines was $250,142,000 (2017 - $252,485,000).

(b) Senior Secured notes:

On August 13, 2018, the Company repaid US$45,550,000 and US$38,200,000 of its Series A and Series B Senior Secured Notes, respectively. On August 14, 2018, the Company issued US$45,550,000 of Series D Senior Secured Notes, bearing interest at 4.95%, and US$38,200,000 of Series E Senior Secured Notes, bearing interest at 4.82%, and requiring payments of US$27,917,000 on each of August 14, 2027 and 2028, with the balance due on August 14, 2029.

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

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

10. Borrowings (continued):

(b) Senior Secured notes (continued):

As at December 31, 2018, the Company's Senior Secured Notes consisted of the following:

	2018	2017
Series A (US$4,450,000)	$ 6,071	$ 62,725
Series B (US$11,800,000)	16,098	62,725
Series C (US$100,000,000)	136,420	125,450
Series D (US$45,550,000)	52,112	-
Series E (US$38,200,000)	62,139	-
	$ 272,840	$ 250,900

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

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of net debt to total capitalization and a minimum net worth calculation.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $21,747,000 (2017 - $17,640,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the year ended December 31, 2018.

(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 a wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum tangible net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. On June 15, 2018, the Company extended the maturity of its U.S. Operating Line from May 1, 2019 to June 15, 2021, with no other significant changes.

As at December 31, 2018, the U.S. Operating Line was drawn by US$2,060,000 including outstanding letters of credit, revalued at the year-end exchange rate to $2,810,000 (2017 – US$2,100,000 revalued at the year-end exchange rate to $2,634,000).

As at December 31, 2018, $47,780,000 (US$35,024,000) of the available U.S. Operating Line was unused (2017 - $60,091,000; US$47,900,000).

11. Reforestation liability:

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

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

11. Reforestation liability (continued):

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

	2018	2017
Reforestation liability, beginning of year	$ 40,408	$ 37,540
Reforestation expense on current logging and market logging agreements	14,063	13,780
Reforestation expenditures	(12,456)	(10,774)
Unwind of discount	621	500
Changes in estimated future reforestation expenditures	(454)	(638)
	$ 42,182	$ 40,408
Consisting of:		
Current reforestation liability	$ 13,947	$ 12,873
Long term reforestation liability	28,235	27,535
	$ 42,182	$ 40,408

The total undiscounted amount of the estimated future expenditures required to settle the reforestation obligation, adjusted for inflation, at December 31, 2018 is $44,277,000 (2017 - $42,549,000). The reforestation expenditures are expected to occur over the next one to eighteen years and have been discounted at a long term risk-free interest rate of 2% (2017 – 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.

12. Provisions and other liabilities:

2018	*Note*	Current	Non-current	Total
Restructuring	*12(a), 18*	$ 423	$ 820	$ 1,243
Road deactivation	*12(a)*	594	3,959	4,553
Environmental	*12(a)*	146	759	905
Cash-settled share based compensation				
SAR Plan	*12(b)*	2,324	27	2,351
TSR Plan	*12(c)*	1,514	1,766	3,280
DSU Plan	*12(d)*	1,864	7,292	9,156
Lease incentives and other		1,265	2,790	4,055
		$ 8,130	$ 17,413	$ 25,543

2017	*Note*	Current	Non-current	Total
Restructuring	*12(a), 18*	$ 298	$ 1,026	$ 1,324
Road deactivation	*12(a)*	776	3,840	4,616
Environmental	*12(a)*	56	747	803
Cash-settled share based compensation				
SAR Plan	*12(b)*	5,355	186	5,541
TSR Plan	*12(c)*	1,390	5,277	6,667
DSU Plan	*12(d)*	547	13,566	14,113
Retained compensation liabilities	*12(e)*	1,451	-	1,451
Lease incentives and other		766	2,334	3,100
		$ 10,639	$ 26,976	$ 37,615

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

12. Provisions and other liabilities (continued):

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.

	Note	Restructuring	Road deactivation	Environmental
Balance at December 31, 2016		$ 2,605	$ 4,379	$ 809
Provisions made during year	*18*	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
Provisions made during year	*18*	629	322	-
Expenditures made during year		(806)	(434)	-
Unwind of discount		-	86	12
Changes in estimated future expenditures		-	(37)	90
Exchange rate movements		96	-	-
Balance at December 31, 2018		$ 1,243	$ 4,553	$ 905

(b) Share Appreciation Rights Plan:

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

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

12. Provisions and other liabilities (continued):

(b) Share Appreciation Rights Plan (continued):

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

	2018		2017	
	Units	Weighted average strike price	Units	Weighted average strike price
Outstanding, beginning of year	421,259	$ 9.23	738,199	$ 8.02
Granted	-	-	6,405	14.99
Exercised	(48,135)	5.79	(312,582)	6.38
Expired or cancelled	(2,000)	9.18	(10,763)	12.58
Outstanding, end of year	371,124	$ 9.67	421,259	$ 9.23
Units exercisable, end of year	337,319	$ 8.97	323,263	$ 7.80

Weighted average fair value assumptions for the grant made in 2017 (no grant made in 2018) are as follows:

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

Details of units outstanding under the SAR Plan at December 31, 2018 are as follows:

	Units outstanding			Units exercisable	
Strike price	Number outstanding, December 31, 2018	Weighted average remaining unit life (yrs.)	Weighted average strike price	Number exercisable, December 31, 2018	Weighted average strike price
$1.38-$4.64	75,500	2.7	$ 4.12	75,500	$ 4.12
$4.77-$5.40	42,500	1.4	4.85	42,500	4.85
$6.01-$9.18	143,300	3.6	8.25	143,300	8.25
$14.99-$17.43	109,824	5.4	17.21	76,019	17.43
	371,124		$ 9.67	337,319	$ 8.97

For the year ended December 31, 2018, the Company recorded Long term incentive compensation recovery in respect of the SAR Plan of $2,240,000 (2017 – $3,120,000 expense).

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

12. Provisions and other liabilities (continued):

(c) Total Shareholder Return Plan:

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

	2018	2017
Outstanding, beginning of year	609,108	546,049
Granted	200,677	226,636
Matured	(144,975)	(163,577)
Outstanding, end of year	664,810	609,108

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.

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:

	2018	2017
Risk-free interest rate	2.33%	1.17%
Expected life	3 years	3 years
Annualized volatility	31% to 48%	35% to 39%
Dividend rate	0%	0%
Termination rate	0%	0%
Grant date fair value per unit	$24.21	$10.86

For the year ended December 31, 2018, the Company recorded Long term incentive compensation recovery under the TSR Plan of $1,998,000 (2017 – $5,042,000 expense).

(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.

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

12.Provisions and other liabilities (continued):

(d) Deferred Share Unit Plan (continued):

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

	2018		2017	
	Units	Average unit value	Units	Average unit value
Outstanding, beginning of year	670,748	$21.04	724,918	$15.15
Granted[1]	39,594	19.16	45,817	18.90
Exercised	(53,020)	23.89	(99,987)	15.08
Outstanding, end of year	657,322	$13.93	670,748	$21.04

[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, 2018, the Company recorded a recovery of $3,689,000 (2017 – $4,637,000 expense) in respect of the DSU Plan, of which a recovery of $4,448,000 (2017 – $3,771,000 expense) was recorded in Long term compensation and an expense of $759,000 (2017 - $866,000), related to payment for directors' fees, was recorded in Selling and administration.

(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 was earned and recognized as an expense over the incentive period. The liability was fully paid in April, 2018. For the year ended December 31, 2018, the Company recorded a Long term incentive compensation expense of $83,000 (2017 - $461,000) in respect of the retained compensation liabilities.

13.Share capital:

(a) Share transactions:

Authorized capital at December 31, 2018 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, 2016 and December 31, 2017		70,030,455	$ 555,388
Exercise of stock options	*13(b)*	7,707	214
Repurchase of common shares		(2,277,540)	(18,068)
Balance, December 31, 2018		67,760,622	$ 537,534

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

13. Share capital (continued):

(a) Share transactions (continued):

On March 1, 2018, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 3,500,000 Shares. On December 21, 2018, the Company amended the NCIB, to increase the number of Shares to 6,934,356, or 10% of its public float as at March 1, 2018. This NCIB began on March 7, 2018 and expires on March 6, 2019.

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

As at the close of business on February 7, 2019, Interfor had purchased 439,900 Shares at a cost of $6,630,000 since December 31, 2018.

All Shares repurchased were cancelled.

At December 31, 2018, 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 1,210,757 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 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:

	2018			2017		
	Options		Weighted average exercise price	Options		Weighted average exercise price
Outstanding, beginning of year	332,647	$	14.64	181,525	$	14.10
Granted	103,721		23.26	154,469		15.44
Exercised	(7,707)		18.54	-		-
Expired or cancelled	(15,385)		14.07	(3,347)		22.22
Outstanding, end of year	413,276	$	16.75	332,647	$	14.64
Options exercisable, end of year	70,869	$	14.67	21,297	$	21.67

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

13.Share capital (continued):

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

Weighted average fair value assumptions for grants made in 2018 and 2017 are as follows:

	2018	2017
Risk-free interest rate	2.23%	1.24%
Expected life	6.6 years	6.7 years
Annualized volatility	39%	41%
Dividend rate	0%	0%
Termination rate	6%	6%
Grant date fair value per unit	$9.90	$6.62

Details of options outstanding under the option plan at December 31, 2018 are as follows:

	Units outstanding			Units exercisable	
Strike price	Number outstanding, December 31, 2018	Weighted average remaining unit life (yrs.)	Weighted average exercise price	Number exercisable, December 31, 2018	Weighted average strike price
$9.78-$13.72	109,830	7.2	$ 10.47	42,564	$ 10.49
$15.01-$15.44	154,196	8.1	15.42	2,549	15.01
$17.26-$23.26	149,250	8.2	22.75	25,756	21.54
	413,276		$ 16.75	70,869	$ 14.67

The Company recognized an expense of $774,000 for the year ended December 31, 2018 (2017 – $583,000) in Long term incentive compensation.

14.Depreciation, depletion, and amortization:

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

	2018	2017
Production	$ 108,682	$ 108,718
Selling and administration	7,639	7,540
	$ 116,321	$ 116,258

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

15. Personnel expenses:

	Note	2018	2017
Wages and salaries		$ 289,406	$ 263,318
Government administered pensions and unemployment insurance		15,258	15,875
Workers' compensation insurance		7,293	7,975
Contributions to defined contribution plans	*22*	12,131	10,804
Expenses related to defined benefit plans	*22*	1,430	1,195
Cash-settled share based payments and other long term compensation (recovery)	*12, 13(b)*	(7,829)	12,977
Medical, dental, group insurance and other		33,200	28,117
		$ 350,889	$ 340,261

16. Finance costs:

Recognized in Net earnings:

	Note	2018	2017
Interest on borrowings		$ 10,553	$ 12,528
Interest revenue		(2,121)	(325)
Interest on defined benefit and other obligations		2,280	2,455
Interest revenue on defined benefit assets	*22(d)*	(1,805)	(1,950)
Unwind of discount on provisions	*11, 12(a)*	719	582
Amortization of deferred finance costs		784	740
		$ 10,410	$ 14,030

Recognized in Other comprehensive income:

	2018	2017
Effective portion of changes in fair value of interest rate swap	$ -	$ (11)

17. Other income (expense):

	2018	2017
Gain (loss) on disposal of surplus property, plant and equipment	$ 1,188	$ (2,408)
Gain on disposal of investments	-	421
	$ 1,188	$ (1,987)

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

18. Capital asset write-downs and restructuring costs:

	Note	2018	2017
Write-down of plant, equipment and intangibles	8, 9	$ 13,925	$ 7,091
Severance and legal	12(a)	1,402	2,427
Onerous contracts recovery	12(a)	(23)	(336)
Site closure costs		-	21
		$ 15,304	$ 9,203

In 2017 and 2018, the Company recorded asset write-downs totaling $7,091,000 and $13,925,000, respectively, primarily on plant and equipment to be replaced in conjunction with capital projects to rebuild and modernize multiple sawmills in the U.S. South.

19. Income taxes:

Income tax expense is as follows:

	2018	2017
Current tax expense:		
Current year	$ 2,834	$ 1,007
Adjustments for prior periods	121	57
	2,955	1,064
Deferred income tax expense:		
Origination and reversal of temporary differences	36,236	33,072
	$ 39,191	$ 34,136

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

	2018	2017
Defined benefit plan actuarial gain(loss)	$ 188	$ (504)
Foreign exchange gain on intercompany financing	373	-
Foreign currency translation differences for foreign operations	2,648	(168)
	$ 3,209	$ (672)

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

	2018	2017
Income tax expense at the statutory rate of 27.00% (2017 – 26.00%)	$ 40,735	$ 34,135
Entities with different tax rates and foreign rate adjustments	(4,861)	3,632
Change of U.S. statutory rate	-	(4,740)
Change of Canadian statutory rate	-	445
Income Tax Credit	340	488
Adjustment to state tax temporary differences	1,462	-
Other	1,515	176
	$ 39,191	$ 34,136

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

19. Income taxes (continued):

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. Consequently, Interfor recorded a deferred income tax expense in respect of its U.S. operations in 2017 and 2018 at a combined federal and state income tax rate of 24%.

Unrecognized deferred income taxes:

As at December 31, 2018, 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 $7,011,000 (2017 - $7,940,000).

Recognized deferred income taxes:

December 31, 2018	Opening Balance	Recognized in Income Tax Expense	Recognized in Other Comprehensive Income (loss)	Ending Balance
Deferred income tax assets				
Losses	$ 58,286	$ (32,343)	$ -	$ 25,943
Reserves	22,903	(2,659)	-	20,244
Tax credits	334	(329)	-	5
Share issue costs	339	(170)	-	169
Defined benefit plan	504	-	(188)	316
Other	4,148	639	-	4,787
Deferred income tax liabilities				
Capital assets	(105,083)	(1,374)	-	(106,457)
Foreign currency exchange gain on financing arrangement	-	-	(373)	(373)
Foreign currency translation differences for foreign operations	(377)	-	(2,652)	(3,029)
Total	$ (18,946)	$ (36,236)	$ (3,213)	$ (58,395)

December 31, 2017	Opening Balance	Recognized in Income Tax Expense	Recognized in in Other Comprehensive Income (loss)	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)

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

19. Income taxes (continued):

Represented by the following:

	2018	2017
Deferred income tax assets	$ 132	$ 251
Deferred income tax liabilities	(58,527)	(19,197)
	$ (58,395)	$ (18,946)

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 $47,343,000 (2017 - $66,657,000), and expire between 2032 and 2036; and

(b) U.S. federal net operating loss carry-forwards which total approximately US$44,004,000 (2017 - US$132,408,000), and expire between 2024 and 2035.

20. Commitments and contingencies:

(a) Operating leases and contractual obligations:

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

2019	$ 36,960
2020	8,440
2021	6,590
2022	4,880
2023	3,840

Interfor also has contractual obligations for capital projects of $161,420,000 expected to be paid in 2019.

(b) Surety bonds:

The Company has posted $46,996,000 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. On January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there was reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada and the U.S Department of Commerce ("DoC") imposed duties on Canadian shipments of softwood lumber into the U.S.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

20. Commitments and contingencies (continued):

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

The rate amendments resulted in an overpayment of duty deposits of US$3,004,000 ($3,920,000) which the Company recorded as a reduction to its U.S. CV and AD duty deposits in the Statement of earnings in December 2017. In addition, Interfor recorded a receivable for US$187,000 ($239,000) in 2017 for amounts overpaid from November 8 through December 26, 2017 as a result of DoC arithmetic errors in the duty rates, and an additional US$74,000 ($93,000) in 2018. As the dispute will be subject to a lengthy resolution process, these receivables are recorded in Deposits and other assets on the Statement on Financial Position.

Duty deposits recognized as receivables total US$3,265,000, of which US$3,187,000 remains outstanding, and was revalued at the year-end exchange rate to $4,347,000.

Cumulative duties of US$60,440,000 paid by Interfor since the inception of the current trade dispute remain held in trust by the U.S pending the First Administrative Review and conclusion of all appeals of U.S decisions. With the exception of US$3,265,000 recorded as a long term receivable, Interfor has recorded the duty deposits as an expense.

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

(d) Timber licences:

Three timber licences held by Interfor for harvesting within the B.C. Coast region (the "Licences") were 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 and initiated arbitration proceedings in 2017. In late 2018, the Company negotiated a settlement with the Government on the two most significant timber licences, but did not recognize a gain as the settlement amount is conditional upon approval by the Government's Treasury Board in the normal course. In the interim, Interfor has agreed to hold the arbitration in abeyance.

Compensation for the third licence remains under negotiation.

It is expected that compensation for the Licences will exceed their net book value as at December 31, 2018.

(e) Other contingencies:

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

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

21. Net earnings per share:

Net earnings per share is based on the earnings attributable to shareholders and a weighted average number of shares, as defined in note 12, outstanding for the year.

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

	2018			2017		
	Net earnings	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at December 31		70,030,455			70,030,455	
Effect of shares issued		6,465			-	
Effect of shares repurchased		(323,736)			-	
Basic earnings per share	$111,678	69,713,184	$1.60	$ 97,153	70,030,455	$1.39
Effect of dilutive securities:						
Stock options	-	74,968		-	43,810	
Diluted earnings per share	$ 111,678	69,788,152	$1.60	$ 97,153	70,074,265	$1.39

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

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

(a) Defined contribution plans:

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

For the DPSP, the Company’s funding obligations are satisfied upon making cash contributions to an employee’s account. For 2018, the pension expense for this plan is equal to the Company’s contribution of $2,303,000 (2017 - $1,891,000).

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 2018, the pension expense is equal to the Company’s contribution of $41,000 (2017 - $39,000).

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 2018, the pension expense for this plan is equal to the Company’s contribution of $4,810,000 (2017 - $4,652,000).

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

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

(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 2018, the pension expense for this plan is equal to the Company's contribution of $3,189,000 (2017 - $3,295,000). 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 2018, the Company recorded an expense of $1,788,000 (2017 - $927,000) in respect of these plans.

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

	2018	2017
Trade accounts payable and provisions	$ 678	$ 799
Employee future benefits obligation	6,708	5,493
	$ 7,386	$ 6,292

(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").

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

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

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

(d) Defined benefit plans (continued):

The 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 2018, the Company paid contributions of $1,314,000 (2017 - $961,000), and in lieu of making cash special payments to fund certain deficits, posted letters of credit totaling $4,419,000 (2017 - $3,699,000). In 2019, the Company expects to pay contributions of $985,000 to its defined benefit plans, and post a total of $5,112,000 in letters of credit.

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

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

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

(d) Defined benefit plans (continued):

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

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Defined benefit obligation:				
Beginning of year	$ 56,996	$ 51,209	$ 1,668	$ 1,889
Service cost	1,077	935	46	53
Employee contributions	493	385	-	-
Interest cost	1,858	1,921	103	71
Benefit payments	(2,818)	(2,721)	(268)	(66)
Actuarial loss (gain) due to:				
Demographic assumptions	-	253	-	9
Financial assumptions	(3,695)	3,688	(408)	(288)
Experience adjustment	61	1,326	(245)	-
Settlements	-	-	-	-
End of year	$ 53,972	$ 56,996	$ 896	$ 1,668
Plan assets:				
Beginning of year	$ 56,289	$ 52,811	$ -	$ -
Interest on plan assets	1,805	1,950	-	-
Employer contributions	1,046	895	268	66
Employee contributions	493	385	-	-
Benefit payments	(2,818)	(2,721)	(268)	(66)
Administration costs	(151)	(165)	-	-
Actuarial gain (loss)	(3,591)	3,134	-	-
Settlements	-	-	-	-
End of year	$ 53,073	$ 56,289	$ -	$ -
Net employee future benefits liability	$ (899)	$ (707)	$ (896)	$ (1,668)

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

	Pension Benefits		Other Post-retirement Benefits	
	2018	2017	2018	2017
Fair value of plan assets	$ 53,073	$ 56,289	$ -	$ -
Present value of unfunded obligations	(299)	(331)	(896)	(1,668)
Present value of funded obligation	(53,673)	(56,665)	-	-
Net employee future benefits liability	$ (899)	$ (707)	$ (896)	$ (1,668)
Employee future benefits asset	$ 303	$ 502	$ -	$ -
Trade accounts payable and provisions	(69)	(71)	(50)	(50)
Employee future benefits obligation	(1,133)	(1,138)	(846)	(1,618)
Net employee future benefits liability	$ (899)	$ (707)	$ (896)	$ (1,668)

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

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

(d) Defined benefit plans (continued):

The following 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	
	2018	2017	2018	2017
Statement of Earnings				
Production expense	$ 1,228	$ 1,100	$ 46	$ 53
Finance (income) costs	53	(29)	103	71
	$ 1,281	$ 1,071	$ 149	$ 124
Other comprehensive income (loss)				
Actuarial gain (loss)	$ 43	$ (2,133)	$ 653	$ 279

Plan assets consist of:

Asset category	2018	2017
Investment Funds		
Fixed Income	$ 20,765	$ 18,718
Global	16,435	18,351
Canadian Equity	14,358	17,704
Money Market	1,109	977
Balanced	364	433
Cash	42	106
Total	$ 53,073	$ 56,289

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	
	2018	2017	2018	2017
Defined benefit obligation as of December 31				
Discount rate	3.75%	3.25%	3.75%	3.25%
Compensation increases[1]	3.50%	3.50%	-	-
Pension expense				
Discount rate	3.25%	3.75%	3.25%	3.75%
Compensation increases[1]	3.50%	3.50%	-	-

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

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

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

(d) Defined benefit plans (continued):

For measurement purposes at December 31, 2018, the Company has assumed a 7.00% health care cost trend in 2019 grading down to 5.00% in 2024 (2017 – 5.11% health care cost trend in 2018 grading down to 4.38% in 2021).

	Pension Benefits	Other Post-retirement Benefits
Effect of 1% decrease in discount rate on defined benefit obligation	$ 7,821	$ 91

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 fourteen 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.

23. Related party transactions:

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

The remuneration of key management personnel was as follows:

	2018	2017
Salary and short-term employee benefits	$ 8,257	$ 6,898
Post-employment benefits	1,732	661
Share-based compensation expense (recovery)	(5,255)	8,833
	$ 4,734	$ 16,392

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

	2018	2017
Trade accounts payable and provisions	$ 6,654	$ 4,921
Employee future benefits obligation	5,146	3,986
Provisions and other liabilities	9,830	18,264
	$ 21,630	$ 27,171

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

24. Segmented Information:

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

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

	2018	2017
United States	$ 1,576,802	$ 1,364,294
Canada	293,144	254,941
Japan	115,923	145,324
China/Taiwan	99,175	121,238
Other export	101,523	104,309
	$ 2,186,567	$ 1,990,106

Sales by product line are as follows:

	2018	2017
Lumber	$ 1,841,100	$1,679,428
Logs	167,852	157,641
Wood chips and other by products	165,855	146,452
Ocean freight and other	11,760	6,585
	$ 2,186,567	$ 1,990,106

Non-current assets by geographic location are as follows:

	2018	2017
United States	$ 761,697	$ 679,951
Canada	238,915	249,968
	$ 1,000,612	$ 929,919

25. Capital management:

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

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

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

25.Capital management (continued):

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

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

The Company monitors capital using a ratio of "Net debt" to "Invested capital" and manages to a target range. Net debt is calculated as the total of long term debt, less cash and cash equivalents and marketable securities. Invested capital is the total of net debt and equity. Interfor's net debt to invested capital ratio at December 31, 2018 was as follows:

	2018	2017
Long term debt	$ 272,840	$ 250,900
Less:		
Cash and cash equivalents	(166,152)	(131,600)
Marketable securities	(42,863)	-
Net debt	63,825	119,300
Add: Equity	974,065	854,188
Invested capital	$1,037,890	$ 973,488
Net debt to invested capital ratio	6.1%	12.3%

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

26.Financial instruments:

(a) Fair value of financial instruments:

At December 31, 2018, the fair value of the Company's Long term debt exceeded its carrying values by $1,639,000 (2017 – $6,937,000) and the carrying value of the marketable securities exceeded its fair value by $20,000 (2017 – not applicable), 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.

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.

26. Financial instruments (continued):

(b) Derivative financial instruments:

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.

The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts except lumber futures are the Company's bankers who are highly-rated and, hence, the risk of credit loss on the instruments is mitigated.

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

The Company's interest rate swaps matured on February 27, 2017.

The Company did not trade any foreign exchange contracts and had minimal trades in lumber futures in 2018 and 2017.

(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 losses of $21,747,000 (2017 - $17,768,000 gain) arising on revaluation of hedged U.S. Dollar debt in Other comprehensive income for the year ended December 31, 2018.

(d) Financial risk management:

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

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

(i) Credit risk:

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

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

26.Financial instruments (continued):

(d) Financial risk management (continued):

(i) Credit risk (continued):

Accounts receivable

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

The Company regularly reviews the collectability of its accounts receivable and establishes an allowance for doubtful accounts based on its best estimate of any potentially uncollectible accounts. A $149,000 reserve in respect of doubtful accounts was recorded as at December 31, 2018 (2017 - $nil).

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

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

	2018	2017
United States	$ 42,016	$ 50,555
Canada	31,460	33,132
Japan	576	4,823
China/Taiwan	10,826	15,130
Other	5,506	8,830
	$ 90,384	$ 112,470

Marketable securities

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

The exposure to credit risk for marketable securities at amortized cost at December 31, 2018 by geographic region was as follows:

	2018	2017
United States	$ 36,049	$ -
Canada	6,814	-
	$ 42,863	$ -

Guarantees

The Company did not provide any guarantees in 2018.

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

26. Financial instruments (continued):

(d) Financial risk management (continued):

(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.

In 2018, the Company purchased high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. Primary considerations in selecting investments for the temporary deployment of surplus funds are safety of principal and liquidity, with yield a secondary consideration.

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. With the exception of outstanding letters of credit, these lines remain undrawn at December 31, 2018.

The following table summarizes Interfor's credit facilities and available liquidity as of December 31, 2018:

	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 272,840	$ 68,210	$ 606,050
Maximum borrowing available	65,000	200,000	272,840	50,590	588,430
Less:					
Drawings	-	-	272,840	-	272,840
Outstanding letters of credit included in line utilization	14,858	-	-	3,356	18,214
Unused portion of facility	$ 50,142	$ 200,000	$ -	$ 47,234	297,376
Add cash and cash equivalents					166,152
Add marketable securities					42,863
Available liquidity at December 31, 2018					$ 506,391

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

26. Financial instruments (continued):

(d) Financial risk management (continued):

(ii) Liquidity risk (continued):

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

		Payments due by period			
	Total	Up to 1 year	2-3 years	4-5 years	After 5 years
Trade accounts payable and provisions	$ 145,985	$ 145,985	$ -	$ -	$ -
Income taxes payable	356	356	-	-	-
Reforestation liability	44,277	13,947	13,685	8,023	8,622
Long term debt	366,762	12,186	31,822	38,226	284,528
Provisions and other liabilities	31,563	8,184	5,684	2,336	15,359
Operating leases and capital commitments	441,160	198,380	223,250	8,720	10,810
Total obligations	$ 1,030,103	$ 379,038	$ 274,441	$ 57,305	$ 319,319

(iii) Market risk:

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

Currency risk

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

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

At December 31, 2018, the Company has U.S. Dollar drawings under its Senior Secured Notes of US$200,000,000 (2017 - US$200,000,000). These U.S. Dollar drawings have been designated as a hedge against the Company's net investment in its U.S. operations.

As at December 31, 2018, the domestic operations of the Company held cash and cash equivalents of US$34,304,000 (2017 – US$2,397,000). Cash and cash equivalents held by foreign subsidiaries totaled US$81,750,000 (2017 - US$48,965,000).

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Currency risk (continued):

In 2018, the Company invested surplus cash in high grade liquid marketable securities to yield a higher return. At December 31, 2018, the domestic operations of the Company held Marketable securities of US$4,995,000 (2017 - $nil). Marketable securities held by foreign subsidiaries totaled US$26,425,000 (2017 - $nil).

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

2018	CAD	USD	Japanese ¥
Accounts receivable	33,819	18,603	20,976
Accounts receivable held by foreign subsidiaries with USD functional currency	-	22,670	-
	33,819	41,273	20,976

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

Based on the Company's net exposure to foreign currencies as at December 31, 2018, including U.S. Dollar denominated cash and cash equivalents, marketable securities and other financial instruments and net earnings of U.S. subsidiaries, 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	$1,034,000 increase in Net earnings

Based on the Company's net exposure to foreign currencies as at December 31, 2018, 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	$4,705,000 increase in OCI

Interest rate risk

Borrowings under the Lines and U.S. Operating Line were minimal in 2018, resulting in little exposure to floating interest rate changes. US$200,000,000 of borrowings under the Senior Secured Notes were outstanding for the entire year (note 10(b)) and bear interest at fixed rates ranging from 4.02% to 4.95%.

During 2018, the Company had minimal borrowings subject to variable interest rates under its credit facilities. As a result, based on the Company's average debt level during 2018, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

Other market risk:

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