INTERFOR

Building Value™

2018
Annual Report

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FINANCIAL HIGHLIGHTS

(in millions of dollars, except share and per share amounts)

	2018	2017
Financial Summary		
Sales	2,186.6	1,990.1
Net earnings	111.7	97.2
Adjusted EBITDA(1)	280.4	287.8
Per Share Data		
Net earnings per share		
- basic and diluted	1.60	1.39
Price range per share		
High	27.27	22.43
Low	13.26	13.49
Net book value per share	14.38	12.20
Operating cash flow (before working capital change) per share	3.95	3.91
Weighted average shares outstanding (millions)	69.7	70.0
Financial Position		
Total assets	1,529.5	1,353.0
Net debt(1)	63.8	119.3
Total shareholders' equity	974.1	854.2
Invested capital(1)	1,037.9	973.5
Financial Ratios (%)		
Net debt as a % of invested capital	6.1%	12.3%
Return on invested capital(1)	27.9%	28.1%
Adjusted EBITDA margin(1)	12.8%	14.5%

Notes:
1. See Glossary for definition.

"Viewed as a whole, 2018 will go down as one of the best years in Interfor's history."

Message to Shareholders – February 2019

For further highlights, please see the 2018 Message to Shareholders and Management's Discussion and Analysis on the following pages.

MESSAGE TO SHAREHOLDERS

Overview

2018 was a year of extremes. The business environment in the first half of the year was very strong and Interfor set a number of new records on production, sales and profitability. The second half was the opposite. Lumber prices dropped rapidly beginning in early June and ended the year well below the levels of recent years.....and our results followed.

Viewed as a whole, 2018 will go down as one of the best in Interfor's history.

Highlights for the year included:

- Production increased to 2.635 billion board feet;
- Sales revenue exceeded $2 billion for the first time;
- Net earnings and cash flow increased to $112 million and $275 million respectively;
- Net debt was reduced by $56 million;
- Good progress was made on our Phase I capital projects;
- US$240 million in Phase II capital upgrades were announced; and
- We repurchased and cancelled 2.278 million of the Company's common shares.

We are pleased with the results delivered in 2018 and excited about our future.

I invite you to review the material covered in the next few pages and later in this report and to form your own views on our progress.

Please feel free to forward any comments or questions you might have to me directly at duncan.davies@interfor.com.

Production Increases; Volatile Pricing Impacts Results

Interfor's production volumes increased 1.5% to 2.635 billion board feet in 2018 in spite of significant market and project related downtime in the second half of the year. Through the first half of the year, production was on track to exceed 2.7 billion board feet for the year, 4% above 2017 levels.

Sales volumes, including agency and wholesale activities, came in at 2.680 billion board feet.

The year was characterized by an unprecedented level of volatility in product prices.

The Random Lengths Composite Index ("RLCI"), which measures the price of a basket of products, rose rapidly through the first five months of the year to record levels, gaining US$149 per thousand board feet or 34% in the first twenty-two weeks of the year. Over the balance of the year, the RLCI dropped US$250 or 43% closing the year at US$332, more than US$100 below the closing price in December 2017.

For the year, the RLCI came in at US$460, 11% above the average for 2017.

In spite of the volatility in product prices, the Company delivered record earnings of $112 million on sales of $2.187 billion in 2018; EBITDA, reported before non-recurring items and share-based compensation, was $280 million, only slightly less than 2017.

Strong Cash Flow Contributes to Reduction in Net Debt and other Value-Creating Initiatives

In 2018, Interfor generated $275 million in cash, before changes in working capital, bringing the total for the last three years to more than $740 million.

Net debt was reduced during the year by $56 million and $139 million was invested in capital equipment and roads. An additional $37 million was invested buying back and cancelling more than 2.2 million of the Company's common shares, taking advantage of the weak market to return cash to shareholders in an advantageous manner.

At year-end, Interfor's net debt to invested capital ratio stood at 6.1% compared with 12.3% at year-end 2017, leaving the Company with more than $500 million in available liquidity and the financial capacity to pursue additional value-creating initiatives in the years ahead.

Phase I Capital Projects Underway; Second Phase Announced

In late November 2017, we announced plans to move forward with a number of discretionary projects designed to capture the potential within our existing platform of assets.

The first phase of the plan pertained to projects at our mills in Monticello, AR and Meldrim, GA involving a capital outlay of approximately US$65 million.

In addition to delivering significant improvements in mill level productivity and product quality, the Monticello and Meldrim projects will together add more than 150 million board feet to Interfor's production capacity. Both projects are scheduled for completion in the 2nd Quarter of 2019.

In August 2018 we announced the second phase of our investment plan.

These projects involve major upgrades to our mills at Thomaston and Eatonton, GA and at Georgetown, SC at a capital cost of US$240 million.

When completed, these projects will add more than 275 million board feet to our production capacity as well as substantially reducing conversion costs, improving lumber recovery and enhancing grade out-turns and product mix.

The Phase II projects will be completed in a series of stages over the next three years.

In addition to the Phase I and II projects, we have a number of additional machine center upgrades underway at various plants in B.C., the U.S. Northwest and the U.S. South which will complete over the next 12 to 18 months and more on the drawing board.

In our view, employing state-of-the-art technology is one of the keys to success in the lumber business.

Designing and building these projects is one of Interfor's strengths. We have a track record of completing major projects on-time and on-budget and exceeding pro forma returns and we are confident the projects currently underway will meet the same standard.

I'm personally very pleased to be underway with this stage of our strategy and look forward to realizing the benefits of these investments in the years ahead.

Safety Results Encouraging; On-going Vigilance Required

I don't often comment on our safety performance in this Message. Not because our performance isn't good but rather because I believe, first, that providing a safe work environment is a fundamental obligation of the Company's management and, second, we have an expectation that our results will be good. And, they are.....and they're getting better each and every year.

More information on our safety record is available for those who would like to see it in our Corporate Sustainability Report which was published for the first time last year.

An updated version of the CSR will be published in March and it will show that we had the best safety results in our history in 2018.

In that regard, I'd like to extend my heartfelt thanks to our staff and employees who have built a culture at Interfor where great safety results go hand-in-hand with great operating and financial performance. We never want to rest on our laurels but I can tell you that I'm extremely proud of our achievements in this area.

Rhonda Hunter Nominated to Stand for Election

I'm delighted as well to tell you that Rhonda Hunter of Newhope, AR has agreed to stand for election to Interfor's Board of Directors at our upcoming AGM.

Rhonda, who is 56, retired about a year ago from Weyerhaeuser Company, where she served most recently as Senior Vice-President, Timberlands.

Her knowledge of the industry in both North America and internationally and her expertise in timberlands will, we believe, prove especially valuable as we seek additional opportunities for investment in the years ahead.

New-Term Outlook Uncertain; Vision Remains Intact

While prices have bounced back to some extent in the first few weeks of 2019, we haven't yet seen the increases we expected. The reasons for this involve a combination of higher interest rates, declining consumer and builder confidence, and the continuation of colder and wetter weather longer than is often the case.

That said, we continue to believe that conditions are ripe for a strong year: in-market inventory levels are lower-than-normal, the repair and remodel market remains strong, there is significant pent-up demand for housing and, in our view, projections of increased supply are overstated.

Either way, with well-positioned mills and a strong balance sheet, Interfor is in great shape to deliver on our goal of building long-term value for our shareholders.

In closing, I would like to thank our employees, our Board of Directors and especially our shareholders for their on-going support.

I look forward to reporting to you on our progress again this time next year.

Duncan Davies
President & CEO
February 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 7, 2019

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2018 ("Q4'18" and "2018", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2018, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 7, 2019.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2018 Annual Report.

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Fourth Quarter, 2018", "Strategic Capital Plan Update", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report, are described under the heading "Risks and Uncertainties". Material factors and assumptions used to develop the forward-looking information in this report, include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein.

Unless otherwise indicated, the forward-looking statements in this report are based on the Company's expectations at the date of this report. Interfor undertakes no obligation to update such forward-looking information or statements, except as required by law.

Overview of Fourth Quarter, 2018

Interfor recorded net earnings of $111.7 million, or $1.60 per share, in 2018, compared to $97.2 million, or $1.39 per share in 2017. Adjusted EBITDA was $280.4 million on record annual sales of $2.2 billion.

Interfor recorded a net loss in Q4'18 of $13.2 million, or $0.19 per share, compared to net earnings of $28.1 million, or $0.40 per share in Q3'18 and $36.2 million, or $0.52 per share in Q4'17. Adjusted net loss in Q4'18 was $19.8 million compared to Adjusted net earnings of $28.2 million in Q3'18 and $45.1 million in Q4'17.

Adjusted EBITDA was $6.2 million on sales of $468.5 million in Q4'18 versus $69.4 million on sales of $570.5 million in Q3'18.

Notable items in the quarter included:

- Lumber Price Volatility
    - Key benchmark prices decreased in Q4'18 versus Q3'18. The Western SPF Composite and KD H-F Stud 2x4 9' benchmarks fell US$117 and US$132 per mfbm, respectively. The SYP Composite decreased US$77 to US$386 per mfbm.
    - Interfor's average lumber selling price fell $102 to $599 per mfbm, on 647 million board feet of lumber sales.
- Lumber Production Decline Due to Temporary Factors
    - Total lumber production was 607 million board feet, down 67 million board feet quarter-over-quarter. This decline reflects Interfor's previously announced plan to temporarily reduce production across its B.C. Interior operating platform. In addition, project related down-time in the U.S. South and normal holiday-related operating schedules further contributed to the lower lumber production.
    - Production in the B.C. region declined to 174 million board feet from 224 million board feet in the preceding quarter. The U.S. South and U.S. Northwest regions accounted for 303 million board feet and 130 million board feet, respectively, compared to 313 million board feet and 137 million board feet in Q3'18, respectively.
    - Lumber inventory levels ended at 32 million board feet lower than Q3'18.
- Log Cost Inflation in B.C.
    - Operating cost increases were driven by B.C. log cost inflation, which was impacted by higher stumpage rates and open market log costs.
    - Interfor's operating costs were also impacted by an increase in its net realizable value provision for log and lumber inventories by $8.2 million in Q4'18.
- Financial Flexibility
    - Net debt ended the quarter at $63.8 million, or 6.1% of invested capital, resulting in available liquidity of $506.9 million.
    - Interfor generated $6.7 million of cash from operations before changes in working capital, or $0.10 per share, and total cash from operations of $18.0 million. The $11.3 million net cash inflow from working capital was driven by reduced accounts receivable and lumber inventory volumes, partially offset by a seasonal increase in B.C. Interior log volumes.

- Capital investments of $59.4 million in Q4'18 included $38.1 million on U.S. South focused high-return discretionary projects, with the remainder related to maintenance capital and woodlands projects.
- Interfor purchased and cancelled 1,680,295 of its Common Shares ("Shares") at a cost of $25.0 million in Q4'18, for a total of 2,277,540 Shares purchased at a cost of $36.9 million in 2018. The Company's normal course issuer bid ("NCIB") was amended in December 2018 and permits the purchase of up to 6,934,456 Shares until its expiry on March 6, 2019.

- Softwood Lumber Duties
  - Interfor expensed $9.7 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.
  - Cumulative duties of US$60.4 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. With the exception of US$3.3 million recorded as a long-term receivable in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Strategic Capital Plan Update

- Interfor continues to make progress on previously announced Phase I and II strategic capital projects in the U.S. South.
- The Phase I projects total US$65 million at the Meldrim, Georgia and Monticello, Arkansas sawmills, with completion scheduled for Q2'19. The related capital expenditures through Q4'18 total US$34.6 million and expected total costs through completion remain in-line with initial guidance.
- The Phase II projects total US$240 million at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina. These projects are on track for completion in various stages over the period of 2019 to 2021. The related capital expenditures through Q4'18 total US$15.3 million and the projects remain on budget.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term, particularly in the North American repair and renovation, residential and industrial segments, as well as in offshore markets.

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

Financial and Operating Highlights (1)

	Unit	For the three months ended Dec. 31, 2018	Dec. 31, 2017	Sep. 30, 2018	For the year ended Dec. 31 2018	2017	2016
Financial Highlights(2)							
Total sales	$MM	468.5	532.8	570.5	2,186.6	1,990.1	1,792.7
Lumber	$MM	387.7	446.0	480.3	1,841.1	1,679.4	1,458.3
Logs, residual products and other	$MM	80.8	86.8	90.2	345.5	310.7	334.4
Operating earnings (loss)	$MM	(17.0)	47.9	41.3	156.6	149.3	75.9
Net earnings (loss)	$MM	(13.2)	36.2	28.1	111.7	97.2	65.6
Net earnings (loss) per share, basic	$/share	(0.19)	0.52	0.40	1.60	1.39	0.94
Adjusted net earnings (loss)(3)	$MM	(19.8)	45.1	28.2	114.1	116.5	58.7
Adjusted net earnings (loss) per share, basic(3)	$/share	(0.29)	0.64	0.40	1.64	1.66	0.84
Operating cash flow per share (before working capital changes)(3)	$/share	0.10	1.19	1.00	3.95	3.91	2.75
Adjusted EBITDA(3)	$MM	6.2	89.5	69.4	280.4	287.8	199.6
Adjusted EBITDA margin(3)	%	1.3%	16.8%	12.2%	12.8%	14.5%	11.1%
Total assets	$MM	1,529.5	1,353.0	1,539.5	1,529.5	1,353.0	1,301.6
Total debt	$MM	272.8	250.9	258.9	272.8	250.9	308.8
Net debt(3)	$MM	63.8	119.3	3.8	63.8	119.3	289.6
Net debt to invested capital(3)	%	6.1%	12.3%	0.4%	6.1%	12.3%	26.9%
Annualized return on invested capital(3)	%	2.4%	36.4%	27.7%	27.9%	28.1%	17.7%
Operating Highlights							
Lumber production	million fbm	607	655	674	2,635	2,595	2,490
Total lumber sales	million fbm	647	686	685	2,680	2,677	2,561
Lumber sales - Interfor produced	million fbm	639	666	675	2,638	2,594	2,469
Lumber sales - wholesale and commission	million fbm	8	20	10	42	83	92
Lumber - average selling price(4)	$/thousand fbm	599	650	701	687	627	570
Average USD/CAD exchange rate(5)	1 USD in CAD	1.3204	1.2713	1.3070	1.2957	1.2986	1.3248
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.3642	1.2545	1.2945	1.3642	1.2545	1.3427

Notes:

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

Summary of Fourth Quarter 2018 Financial Performance

Sales

Interfor recorded $468.5 million of total sales, down 12.1% from $532.8 million in the fourth quarter of 2017, driven by the sale of 647 million board feet of lumber at an average price of $599 per mfbm. Lumber sales volume decreased 39 million board feet, or 5.7%, while average selling price decreased $51 per mfbm, or 7.8%, as compared to the same quarter of 2017.

The decrease in the average selling price of lumber reflects significantly lower prices across all benchmark products in Q4'18 as compared to Q4'17. The Western SPF Composite decreased by US$121 to US$318 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite decreased US$69 to US$336 per mfbm and US$30 to US$386 per mfbm, respectively. The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the weakening of the Canadian Dollar against the U.S. Dollar by 3.9% on average in Q4'18 as compared to Q4'17.

Sales generated from logs, residual products and other decreased by $6.0 million or 6.9% compared to the same quarter of 2017 due mainly to reduced availability of surplus logs.

Operations

Production costs increased by $13.1 million, or 3.1%, over Q4'17 despite a 5.7% drop in lumber sales volume. This is explained primarily by market driven log cost increases including higher stumpage rates in B.C., higher average conversion costs in part due to the market related downtime and an $8.2 million increase in log and lumber inventory valuation adjustments to reflect lumber prices declines.

Lumber production of 607 million board feet in Q4'18 was 48 million board feet lower than Q4'17.

Production from the Canadian operations declined by 45 million board feet to 174 million board feet in Q4'18, compared to Q4'17, as a result of temporary market driven curtailments in the B.C. Interior sawmills in Q4'18. Production from the Company's U.S. South sawmills totaled 303 million board feet in Q4'18, up 6 million board feet compared to Q4'17, as the Company increased operating schedules at several mills. Production from the Company's U.S. Northwest operations totaled 130 million board feet in Q4'18, down 10 million board feet compared to Q4'17.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $9.7 million for Q4'18, up $7.8 million from Q4'17. This increase is attributable to the fact that CV duties ceased in August 2017, and did not resume again until December 28, 2017.

Depreciation of plant and equipment was $19.3 million, comparable to Q4'17. Depletion and amortization of timber, roads and other was $8.6 million, down $3.3 million from Q4'17, as a result decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $12.1 million, down $1.8 million from Q4'17. The fourth quarter of 2017 included a higher accrual for short term incentive compensation and certain additional IT project and improvement costs.

The $9.2 million long term incentive compensation recovery mostly reflects the impact of a 24.7% decrease in the market price for Interfor Common Shares during the quarter. The Q4'17 long term incentive compensation expense of $3.1 million is due primarily to a 6.8% increase in the market price for Interfor Common Shares during that quarter.

The majority of capital asset write-downs and restructuring costs in Q4'17 and Q4'18 relate to non-cash impairments, primarily on buildings and equipment in the U.S. South that will be replaced in conjunction with the Company's strategic capital projects. Additional charges in both quarters relate to the settlement of various human resource matters.

Finance costs decreased to $2.3 million in Q4'18 from $3.1 million in Q4'17 as a result of lower average levels of debt outstanding and increased interest revenue on short term investments.

Other foreign exchange gains of $3.3 million in Q4'18 result primarily from gains on U.S. Dollar cash held by Canadian operations as the closing Canadian Dollar weakened by 5.4% quarter over quarter and the Company significantly increased its U.S. Dollar cash balances in 2018. Other foreign exchange gains of $0.4 million in Q4'17 are comprised primarily of foreign exchange movements on short term intercompany funding.

Other income of $1.3 million in Q4'18 and Other expense of $1.0 million in Q4'17 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of $1.5 million in Q4'18, comprised of a negligible amount of current income tax and a $1.5 million deferred tax recovery.

Net Earnings

The Company recorded a Net loss of $13.2 million, or $0.19 per share, compared to Net earnings of $36.2 million, or $0.52 per share in the comparable period of 2017. Adjusted net loss was $19.8 million, or $0.29 per share, compared with Adjusted net earnings of $45.1 million, or $0.64 per share in Q4'17.

Summary of 2018 Financial Performance

Sales

Interfor recorded $2.2 billion in total sales, up 9.9% from $2.0 billion in 2017, driven by the sale of 2.7 billion board feet of lumber at an average price of $687 per mfbm. Lumber sales volume was consistent year over year while average selling price increased $60 per mfbm, or 9.6%, as compared to 2017.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in 2018 as compared to 2017. The Western SPF Composite improved by US$50 to US$440 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US$68 to US$459 per mfbm and US$48 to US$457 per mfbm, respectively.

Sales generated from logs, residual products and other increased by $34.9 million, or 11.2% compared to 2017. Most of this increase is related to a 12.7% increase in average log selling price from B.C. operations with a greater proportion of export log sales, and higher chip prices in B.C.

Operations

Production costs increased by $166.9 million or 10.2% as compared to 2017, explained primarily by market driven log cost increases including higher stumpage rates in B.C., higher average conversion costs and a $10.3 million increase in log and lumber inventory valuation adjustments to reflect reduced lumber prices at year-end.

Lumber production of 2.6 billion board feet in 2018 was 40 million board feet higher than in 2017.

Production from the Canadian operations declined by 44 million board feet to 831 million board feet in 2018, compared to 2017, as a result of temporary market driven curtailments in the B.C. Interior sawmills in Q4'18. Production from the Company's U.S. South sawmills totaled 1.2 billion board feet in 2018, up 87 million board feet compared to 2017, as the Company increased operating schedules at several mills. Production from the Company's U.S. Northwest operations totaled 561 million board feet in 2018, down 3 million board feet compared to 2017.

Interfor expensed $53.3 million of CV and AD duty deposits in 2018, representing the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S. Interfor. The increase of $34.7 million over 2017 is attributable to increased shipments and prices somewhat offset by lower rates in 2018. In addition, CV and AD duties were only levied for a portion of 2017, with CV duties only in effect from April 28, 2017 to August 26, 2017 and from December 28, 2017 onward, and AD duties in effect from June 30, 2017 onward.

Depreciation of plant and equipment was $80.3 million, up 3.5% from 2017. This increase is attributable to a full years' depreciation on capital projects completed in 2017 and increased operating hours in 2018.

Depletion and amortization of timber, roads and other was $36.0 million, down 6.7% as compared with 2017, as a result of decreased conventional logging on the B.C. Coast as compared to 2017.

Corporate and Other

Selling and administration expenses were $53.0 million, up $2.2 million from 2017. 2018 included an incremental accrual for short term incentive compensation and certain other costs not reflected in the 2017 comparative.

The $7.8 million long term incentive compensation recovery in 2018 mainly reflects a 31.7% decrease in the market price of Interfor Common Shares over the same period, partially offset by the impact of incentive awards maturing. The $13.0 million long term incentive compensation expense in 2017 resulted from an increase of 40.5% in the market price of Interfor Common Shares over the same period, coupled with the impact of incentive awards maturing.

The majority of capital asset write-downs and restructuring costs in 2017 and 2018 relate to non-cash impairments, primarily on buildings and equipment in the U.S. South that will be replaced in conjunction with the Company's strategic capital projects. Additional charges in both years relate to the settlement of various human resource matters, slightly offset by adjustments to prior period accruals.

Finance costs decreased to $10.4 million in 2018 from $14.0 million in 2017 as a result of lower average levels of debt outstanding and increased interest revenue on short term investments.

Other foreign exchange gains of $3.5 million in 2018 result primarily from gains on U.S. Dollar cash held by Canadian operations as the Canadian Dollar weakened by 8.7% year over year and the Company significantly increased its U.S. Dollar cash balances. Other foreign exchange losses of $2.0 million in 2017 are comprised primarily of foreign exchange movements on short term intercompany funding.

Other income of $1.2 million in 2018 and Other expense of $2.0 million in 2017 result from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax expense of $39.2 million in 2018, comprised of a $3.0 million current tax expense and a $36.2 million deferred tax expense. Current taxes relate mostly to U.S. state income taxes. The 2017 income tax expense of $34.1 million is comprised of a $1.1 million current tax expense and a $33.0 million deferred tax expense.

Net Earnings

The Company recorded Net earnings of $111.7 million, or $1.60 per share, compared to Net earnings of $97.2 million, or $1.39 per share in 2017. Adjusted net earnings was $114.1 million, or $1.64 per share, in 2018 compared with Adjusted net earnings of $116.5 million, or $1.66 per share in 2017.

Summary of Quarterly Results(1)

		2018				2017			
	Unit	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Performance(2)									
Total sales	$MM	468.5	570.5	619.9	527.6	532.8	489.2	511.4	456.8
Lumber	$MM	387.8	480.3	527.0	445.9	446.0	410.2	433.7	389.6
Logs, residual products and other	$MM	80.7	90.2	92.9	81.7	86.8	79.0	77.7	67.2
Operating earnings (loss)	$MM	(17.0)	41.3	85.9	46.5	47.9	28.3	42.7	30.4
Net earnings (loss)	$MM	(13.2)	28.1	63.8	33.0	36.2	16.8	24.5	19.7
Net earnings (loss) per share, basic	$/share	(0.19)	0.40	0.91	0.47	0.52	0.24	0.35	0.28
Adjusted net earnings (loss)(3)	$MM	(19.8)	28.2	68.9	36.8	45.1	20.0	28.7	22.7
Adjusted net earnings (loss) per share, basic(3)	$/share	(0.29)	0.40	0.98	0.52	0.64	0.29	0.41	0.32
Operating cash flow per share (before working capital changes)(3)	$/share	0.10	1.00	1.76	1.08	1.19	0.82	1.05	0.85
Adjusted EBITDA(3)	$MM	6.2	69.4	123.8	81.1	89.5	60.5	77.4	60.3
Adjusted EBITDA margin(3)	%	1.3%	12.2%	20.0%	15.4%	16.8%	12.4%	15.1%	13.2%
Annualized return on invested capital(3)	%	2.4%	27.7%	48.5%	32.4%	36.4%	23.9%	28.9%	22.0%
Shares outstanding - end of period	million	67.8	69.4	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	68.9	69.9	70.0	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	607	674	688	666	655	645	655	640
Total lumber sales	million fbm	647	685	700	648	686	671	675	645
Lumber sales - Interfor produced	million fbm	639	675	689	635	666	650	654	624
Lumber sales - wholesale and commission	million fbm	8	10	11	13	20	21	21	21
Lumber - average selling price(4)	$/thousand fbm	599	701	753	688	650	611	642	604
Average USD/CAD exchange rate(5)	1 USD in CAD	1.3204	1.3070	1.2911	1.2647	1.2713	1.2528	1.3449	1.3238
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.3642	1.2945	1.3168	1.2894	1.2545	1.2480	1.2977	1.3322

Notes:

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

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

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and the first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest in the winter season due to reduced construction and renovation activities.

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'17 and Q1'18 and in the U.S. South in Q3'18. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

The volatility of the Canadian Dollar against the U.S. Dollar also impacted results. A weaker Canadian Dollar increases the lumber sales realizations of Canadian operations, all else equal, and increases net earnings of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Interfor strengthened its financial position throughout 2018, with strong cash flow generated from operations used to fund capital projects, invest in marketable securities and repurchase Shares. Net debt at December 31, 2018 was $63.8 million, or 6.1% of invested capital, representing a decrease of $55.5 million from the level of net debt at December 31, 2017. Net debt was negatively impacted by a weakened Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars; this was partially hedged by the Company's U.S. Dollar cash and marketable securities balances.

	For the three months ended			For the year ended	
Thousands of Dollars	Dec. 31, 2018	Dec. 31, 2017	Sep. 30, 2018	Dec. 31, 2018	Dec. 31, 2017
Net debt					
Net debt, period opening	$3,800	$176,866	$34,415	$119,300	$289,551
Net drawing (repayment) on credit facilities	(1)	(1)	112	110	(40,217)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	13,941	1,301	(4,572)	21,830	(17,704)
Decrease (increase) in cash and cash equivalents	7,286	(59,698)	61,248	(23,968)	(114,789)
Decrease (increase) in marketable securities	49,871	921	(91,011)	(41,140)	-
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	(11,072)	(89)	3,608	(12,307)	2,459
Net debt, period ending	$63,825	$119,300	$3,800	$63,825	$119,300

As at December 31, 2018, the Company had net working capital of $359.2 million and available liquidity of $506.9 million, including cash, marketable securities and borrowing capacity on operating and term line facilities.

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. On August 14, 2018, Interfor completed an agreement to extend US$84 million of its 2021 to 2023 Senior Secured Note maturities to 2027 to 2029. As a result, Interfor's weighted average fixed interest rate on its term debt rose to 4.47%.

These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $275.1 million of cash flow from operations before changes in working capital in 2018, for a $1.2 million increase over 2017. There was a net cash inflow from operations after changes in working capital of $255.2 million in 2018, with $19.9 million of cash invested in operating working capital. Reduced sales in Q4'18 contributed to the $27.4 million inflow related to receivables, while increases in B.C. Interior log inventories to higher seasonal levels contributed to the $33.8 million total inventories outflow. In 2017, $258.2 million of cash was generated from operations with $15.7 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Capital spending included $106.6 million for plant and equipment, timber licenses and other intangibles and $32.2 million for development of roads. Discretionary mill improvements of $78.9 million in 2018 include a number of projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello and Meldrim sawmills, and the installation of an autograder at the sawmill in Perry. Maintenance capital investments excluding roads totaled $27.5 million in 2018, of which the majority was spent on U.S. South operations.

Investing activities totaled $184.8 million in 2018, including capital spending and $48.4 million primarily on marketable securities, net of $2.4 million in proceeds on the disposal of property, plant and equipment.

In 2017, total investing activities of $91.1 million were net of $3.8 million in proceeds on the disposal of property, plant and equipment and investments. Spending included $62.7 million for property, plant and equipment, timber licenses and other intangibles, and $32.2 million for development of roads. Discretionary improvements totaled $25.4 million during 2017, the majority of which was spent in the U.S. South. Maintenance capital investments of $37.3 million in 2017 included a number of projects in the U.S. South, the most significant of which was $5.0 million for completion of the kiln conversion project at the Company's Preston sawmill in Georgia.

Cash Flow from Financing Activities

The net cash outflow of $46.5 million in 2018 resulted from $36.9 million used to purchase shares under the Company's NCIB, and interest payments of $9.7 million, slightly offset by proceeds received on the issuance of shares under the Company's stock option plan.

Activity on the Company's credit facilities included the repayment of US$84 million of its Series A and B Senior Secured Notes with maturities of 2021 to 2023, issuance of US$84 million of Series D and E Senior Secured Notes with maturities of 2027 to 2029, and short-term funding activities under the Revolving Term Line.

Cash used for financing activities totaled $53.3 million in 2017, including net repayments of $40.2 million on credit facilities and interest payments of $12.2 million.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2018, including debt and interest payments and major capital improvements are summarized as follows:

		Payments due by Period			
Thousands of Canadian Dollars	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and 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

Capital Resources

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

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$65,000	$200,000	$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	-	-	2,810	17,668
Unused portion of facility	$50,142	$200,000	$ -	$47,780	297,922
Add:					
Cash and cash equivalents					166,152
Marketable securities					42,863
Available liquidity at December 31, 2018					$506,937

As of December 31, 2018, the Company had commitments for capital expenditures totaling $161.4 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 2018.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At December 31, 2018, such instruments aggregated $64.7 million (December 31, 2017 - $56.2 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

The Company purchases 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 employment of surplus funds are safety of principal and liquidity, with yield a secondary consideration.

In addition, from time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. 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. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time, the risk of credit loss on these instruments is considered low.

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

Borrowings

As at December 31, 2018, Interfor had no floating rate debt on its credit facilities and US$200 million of fixed rate debt through the Senior Secured Notes.

The Company's facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at LIBOR for U.S. Dollar loans, in all cases dependent upon a financial ratio.

The Company's Senior Secured Notes have a weighted average fixed interest rate of 4.47%.

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.

Foreign Currency

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. Unrealized gains and losses arising upon translation of these net foreign currency investment positions, together with any gain or losses arising from hedges of those net investment positions, are recognized in Other comprehensive income, and recorded to the Translation reserve in Equity. Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

As at December 31, 2018, the Company had designated the US$200 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded a $43.7 million after tax unrealized foreign exchange gain on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2018 (2017 - $28.9 million loss).

Outstanding Shares

As of December 31, 2018, Interfor had 67,760,622 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 7,707 Shares in 2018 as a result of share option exercises.

On March 1, 2018, the Company renewed its NCIB through March 6, 2019, whereby it can purchase for cancellation up to 3,500,000 Shares, amended to 6,934,356 Shares on December 18, 2018.

During 2018, Interfor purchased 2,277,540 Shares at a cost of $36.9 million. All Shares repurchased were cancelled.

As at the close of business on February 7, 2019, Interfor had purchased 439,900 Shares at a cost of $6.6 million since December 31, 2018.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2018.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2018, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

The Company's financial statements include critical accounting estimates made by management, as described below. The use of different assumptions could have a material impact on the Company's financial condition and performance.

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

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

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

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

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

Appropriate discount rates are determined by reference to current market conditions, specific company factors and asset specific factors. The inflation rates applied within the cash flow projections represent the published Bank of Canada consumer price index and the published Bureau of Labor Statistics consumer price index.

Interfor assesses the recoverability of Property, Plant and Equipment, Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. The Company assessed the recoverability of goodwill as at December 31, 2018 and concluded that there was no impairment.

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

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

Pension and Other Post-retirement Benefits. The Company sponsors two defined benefit pension plans for those hourly employees not covered by forest industry union plans. It also sponsors two post-retirement medical and life insurance plans and a non-contributory defined benefit pension plan for a former senior executive.

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

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

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

Accounting Policy Changes

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*. Neither of these has had a significant impact on the Company's financial statements, while additional disclosure requirements have been adopted.

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. The classification categories for financial liabilities remained largely unchanged.

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.

IFRS 15, *Revenue from Contracts with Customers*, replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised.

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 the 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
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.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Net debt to invested capital and Operating cash flow per share (before working capital changes) which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's audited consolidated financial statements (unaudited for interim periods) prepared in accordance with IFRS:

Thousands of Canadian Dollars except number of shares and per share amounts	For the three months ended Dec. 31, 2018	Dec. 31, 2017	Sep. 30, 2018	For the year ended Dec. 31, 2018	2017	2016
Adjusted Net Earnings (Loss)						
Net earnings (loss)	$(13,165)	$36,196	$28,092	$111,678	$97,153	$65,643
Add:						
Capital asset write-downs and restructuring costs	4,551	7,422	5,848	15,304	9,203	7,280
Other foreign exchange loss (gain)	(3,330)	(412)	1,847	(3,474)	2,035	(1,468)
Long term incentive compensation expense (recovery)	(9,180)	3,110	(7,503)	(7,829)	12,977	4,551
Other expense (income)	(1,254)	995	(192)	(1,188)	1,987	(14,094)
Post closure wind-down costs and losses (recoveries)	-	5	-	4	(21)	909
Income tax effect of above adjustments	2,530	(2,260)	149	(396)	(6,848)	2,008
Recognition of previously unrecognized deferred tax assets	-	-	-	-	-	(6,171)
Adjusted net earnings (loss)	$(19,848)	$45,056	$28,241	$114,099	$116,486	$58,658
Weighted average number of shares - basic ('000)	68,884	70,030	*69,908*	69,713	70,030	70,030
Adjusted net earnings (loss) per share	$(0.29)	$0.64	$0.40	$1.64	$1.66	$0.84
Adjusted EBITDA						
Net earnings (loss)	$(13,165)	$36,196	$28,092	$111,678	$97,153	$65,643
Add:						
Depreciation of plant and equipment	19,283	19,217	20,071	80,273	77,623	76,092
Depletion and amortization of timber, roads and other	8,566	11,879	9,715	36,048	38,635	34,895
Capital asset write-downs and restructuring costs	4,551	7,422	5,848	15,304	9,203	7,280
Finance costs	2,254	3,139	2,465	10,410	14,030	18,602
Other foreign exchange loss (gain)	(3,330)	(412)	1,847	(3,474)	2,035	(1,468)
Income tax expense (recovery)	(1,518)	7,968	9,044	39,191	34,136	7,207
EBITDA	16,641	85,409	77,082	289,430	272,815	208,251
Add:						
Long term incentive compensation expense (recovery)	(9,180)	3,110	(7,503)	(7,829)	12,977	4,551
Other (income) expense	(1,254)	995	(192)	(1,188)	1,987	(14,094)
Post closure wind-down costs and losses (recoveries)	-	5	-	4	(21)	909
Adjusted EBITDA	$6,207	$89,519	$69,387	$280,417	$287,758	$199,617
Sales	$468,544	$532,781	$570,486	$2,186,567	$1,990,106	$1,792,712
Adjusted EBITDA margin	1.3%	16.8%	12.2%	12.8%	14.5%	11.1%
Net debt to invested capital						
Net debt						
Total debt	$272,840	$250,900	$258,900	$272,840	$250,900	$308,821
Cash and cash equivalents	(166,152)	(131,600)	(165,553)	(166,152)	(131,600)	(19,270)
Marketable securities	(42,863)	-	(89,547)	(42,863)	-	-
Total net debt	$63,825	$119,300	$3,800	$63,825	$119,300	$289,551
Invested capital						
Net debt	$63,825	$119,300	$3,800	$63,825	$119,300	$289,551
Shareholders' equity	974,065	854,188	985,316	974,065	854,188	786,667
Total invested capital	$1,037,890	$973,488	$989,116	$1,037,890	$973,488	$1,076,218
Net debt to invested capital[1]	6.1%	12.3%	0.4%	6.1%	12.3%	26.9%
Operating cash flow per share (before working capital changes)						
Cash provided by operating activities	$18,037	$86,749	$84,956	$255,233	$258,224	$199,272
Cash used in (generated from) operating working capital	(11,303)	(3,332)	(15,223)	19,868	15,696	(6,695)
Operating cash flow (before working capital changes)	$6,734	$83,417	$69,733	$275,101	$273,920	$192,577
Weighted average number of shares - basic ('000)	68,884	70,030	*69,908*	69,713	70,030	70,030
Operating cash flow per share (before working capital changes)	$0.10	$1.19	$1.00	$3.95	$3.91	$2.75

Notes:
(1) Net debt to invested capital as of the period end.

Thousands of Canadian Dollars	For the three months ended Dec. 31, 2018	Dec. 31, 2017	Sep. 30, 2018	For the year ended Dec. 31, 2018	2017	2016
Annualized return on invested capital						
Adjusted EBITDA	$6,207	$89,519	$69,387	$280,417	$287,758	$199,617
Invested capital, beginning of period	$989,116	$994,542	$1,011,709	$973,488	$1,076,218	$1,177,557
Invested capital, end of period	1,037,890	973,488	989,116	1,037,890	973,488	1,076,218
Average invested capital	$1,013,503	$984,015	$1,000,413	$1,005,689	$1,024,853	1,126,888
Adjusted EBITDA divided by average invested capital	0.6%	9.1%	6.9%	27.9%	28.1%	17.7%
Annualization factor	4.0	4.0	4.0	1.0	1.0	1.0
Annualized return on invested capital	2.4%	36.4%	27.7%	27.9%	28.1%	17.7%

Risks and Uncertainties

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

Price Volatility

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

Competition

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

Factors which could affect the Company's competitive position include:(i) its industry-relative costs for logs, labour and other manufacturing inputs; (ii) its ability to access the US and foreign markets, including the existence of duties; (iii) the strength of the U.S. Dollar relative to the Canadian Dollar and certain foreign currencies; (iv) the availability and cost of trucks, railcars and vessels for shipment of lumber; (v) product quality and fit with end-user demand; and (vi) the availability and price of substitute products.

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

Availability and Cost of Log Supply

The log requirements of the Company's sawmills are met using logs harvested from its timber tenures, by long term trade and purchase agreements and by purchases on the open market and through timber sale bids. Logs produced but unsuitable for use in the Company's sawmills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian sawmills generally purchase less than 40% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre through purchase agreements for its U.S. based sawmills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on the Company's business, financial position, results of operations and cash flow. In addition, weather-related issues can restrict timely access to log supply as well as increase cost for available logs.

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

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, the Company must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. The Company also relies on third-party independent contractors to construct roads in areas over which it holds timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase the Company's timber harvesting costs.

The Company expects to fund its ongoing road development with cash generated from operations and through utilization of its existing credit facilities.

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 80% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen. While the Canadian operations also incur some U.S. Dollar–denominated expenses, primarily for ocean freight and other transportation, CV and AD duties, and for equipment operating leases, the majority of expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

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

Government Regulation

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

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

Allowable Annual Cut ("AAC")

The Company holds cutting rights in B.C. that represent an AAC of approximately of 3.39 million cubic metres. Of this amount, 3.34 million cubic metres is in the form of replaceable tenures (4 Tree Farm Licences and 27 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

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

The amount of timber available for harvest in the south-central portion of the B.C. Interior is expected to decline over the next 10 years as the surplus of dead pine stands from the pine beetle epidemic become no longer useable. In 2018 we had a reduction of approximately 4% of our AAC from our interior tenures due to new timber supply determinations in the Kamloops Region. There may be further modest AAC declines in the years ahead to account for various forest management considerations, though a material impact on our internal supply is not expected.

Indigenous Peoples

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

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

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market for approximately 15% of the Company's total lumber production that is manufactured in Canada and exported to the U.S. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

In October 2016, the U.S. industry made a request to the U.S. Government to take trade action involving the imposition of U.S. protective measures such as CV and AD duties leveled against Canadian softwood lumber producers.

In Q2'17, the U.S. Department of Commerce ("DoC") made preliminary duty rate determinations of 19.88% and 6.87% for CV and AD duties, respectively, for a combined total 26.75% applicable to Interfor. In Q4'17, the DoC made a final determination on duties that lowered the combined rate to 20.83%, which it subsequently amended to 20.23%. The U.S. International Trade Commission ruling that the U.S. industry was materially injured by Canada's trade practices has set the stage for ongoing litigation.

The Government of Canada has indicated it will appeal the U.S. findings and defend itself vigorously against all claims of unfair trade practices made by the U.S. As in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process, and remains open to a negotiated settlement at any time.

Cumulative duties of US$60.4 million paid by Interfor since 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$3.3 million recorded as a long term receivable, Interfor has recorded the duty deposits as an expense. Interfor is seeking to recover these deposits following a successful appeal or through settlement.

It is unclear at this time when any duty amounts paid will be recovered or if amounts paid in excess of the amended final rates will be refunded.

Stumpage Fees

The Province of B.C. charges stumpage fees to companies that harvest timber from Crown land. Stumpage payments for a harvesting area are based on a competitive market pricing system ("MPS") that has been established for each of the Coast and Interior regions of B.C.

The stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. MPS uses results and stand characteristics of competitively sold B.C. Timber Sales auctions of timber to develop regression equations that predict the market value of Crown timber harvested, and upon which stumpage rates are based. The regression model in each region is updated annually to reflect actual bid data and any changes required to other operational and administrative factors. Stumpage rates are also adjusted quarterly to reflect changes in log prices on the B.C. Coast, and lumber prices in the B.C. Interior.

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Hammond, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The collective agreement with the USW agreement for the B.C. Coast (Acorn and Hammond sawmills) expires on June 14, 2019, while the Southern Interior USW agreement (Grand Forks and Castlegar sawmills) expired on June 30, 2018, with negotiations ongoing. With the exception of a one day work stoppage at each of the Grand Forks and Castlegar sawmills, employees continue to work under the terms of the expired agreement with no workplace disruptions.

The Company also has 18 employees in the B.C. Interior who are members of the Canadian Marine Service Guild ("CMSG"). The collective agreement with the CMSG expires September 30, 2019.

Workers at the Longview, Washington sawmill are represented by the International Association of Machinist and Aerospace Workers ("IAM"). The IAM collective agreement expires on November 15, 2020.

Information Systems Security

The Company's operations and administration are dependent on both internal and third-party information technology ("IT") systems. The impact of a cyber-security breach or the non-availability of a key Company IT system could be significant, including but not limited to operational delays, financial loss, reputational damage or unauthorized access to confidential or sensitive information.

The Company's Audit Committee, in conjunction with management, is responsible for reviewing cyber-security risks and ensuring that an effective risk management strategy is in place. The Company has implemented controls, processes and practices to reduce its risk of a cyber-security breach and the impact on business continuity. These include staying updated on the latest threats, threat agents and attack vectors, the use of firewall and monitoring software as well as regular system back-up protocols. However, the nature of cyber threats continues to evolve and the Company's exposure to this risk cannot be fully mitigated.

Additional Information

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

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

February 7, 2019

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

To the Shareholders of Interfor Corporation,

Opinion

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

- the consolidated statements of financial position as at December 31, 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 7, 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.

2. Basis of Preparation (continued):

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

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

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

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.

3. Significant accounting policies (continued):

(b) Foreign currency:

(i) Foreign currency transactions:

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

Foreign exchange differences arising on revaluation are recognized in Net earnings. Revaluations related to cash and cash equivalents are adjusted to Other foreign exchange gain (loss), trade and other receivables are adjusted to Sales and trade payables and provisions are adjusted to Production costs in the Statement of Earnings.

(ii) Foreign operations:

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

Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale or substantial liquidation of an investment position. In the case of a partial disposal not resulting in a loss of control, foreign currency translation differences are reclassified from the Translation reserve to the Non-controlling interest in the foreign subsidiary.

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

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

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

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

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

3. Significant accounting policies (continued):

(c) Financial instruments:

(i) Non-derivative financial instruments:

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

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

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

Trade payables and provisions, 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.

3. Significant accounting policies (continued):

(e) Inventories:

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

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

Cost for internally produced log inventories is determined as the weighted average cost of logging on a twelve month rolling average, lagged by one month, for the B.C. Coast and on a three month rolling average, 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.

3. Significant accounting policies (continued):

(h) Intangible assets:

(i) Timber licences:

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

(ii) Goodwill:

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

(iii) Other intangible assets:

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

(i) Impairment of non-financial assets:

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

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

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

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

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

3. Significant accounting policies (continued):

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

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

An impairment loss recorded against goodwill is not reversed.

(j) Reforestation and other decommissioning provisions:

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

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

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

(k) Environmental costs:

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

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

3. Significant accounting policies (continued):

(l) Employee benefits:

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

Plan assets are valued at fair value.

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

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

(m) Cash-settled share based compensation:

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

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

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

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

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

(n) Equity-settled share based compensation:

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

3. Significant accounting policies (continued):

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

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

(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.

3. Significant accounting policies (continued):

(q) Income tax (continued):

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.

(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.

(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):

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

		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.

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

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.

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.

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

4. Changes in accounting policies (continued):

(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.

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			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)

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

19. Income taxes (continued):

Recognized deferred income taxes (continued):

December 31, 2017	Opening Balance	Recognized in Income Tax Expense	Recognized 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)

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.

20. Commitments and contingencies (continued):

(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%.

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.

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

20. Commitments and contingencies (continued):

(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.

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).

(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.

(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):

(c) Supplementary pension plans (continued):

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.

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)

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

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

(d) Defined benefit plans (continued):

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

	Pension Benefits		Other Post-retirement Benefits	
	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)

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

(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 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.

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.

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

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

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

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

24. Segmented Information (continued):

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.

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:

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

25. Capital management (continued):

	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.

(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.

26. Financial instruments (continued):

(b) Derivative financial instruments (continued):

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.

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).

(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):

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.

(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.

(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 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

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.

26. Financial instruments (continued):

(d) Financial risk management (continued):

(iii) Market risk (continued):

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).

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

(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):

(iii) Market risk (continued):

Currency risk (continued):

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.

Other market risk:

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

ANNUAL INFORMATION FORM

Prepared as of February 7, 2019

In this Annual Information Form, the term "Company", "Interfor", "we" or "our" means Interfor Corporation together with its subsidiaries. The financial results reported herein have been prepared in accordance with International Financial Reporting Standards ("IFRS"). All information in this Annual Information Form is presented as at December 31, 2018, and all amounts are in Canadian Dollars, unless otherwise specified herein.

FORWARD LOOKING INFORMATION

This Annual Information Form contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Recent Developments", "Manufacturing and Timber Supply", "Sales, Marketing and Competitive Position", "Distribution", "Human Resources", "Environment", "Research and Development" and "Risk Factors". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described in Interfor's annual Management's Discussion & Analysis under the heading "Risks and Uncertainties", which is available on www.interfor.com and under Interfor's profile on www.sedar.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; and information systems security.

Unless otherwise indicated, the forward-looking information in this report is based on the Company's expectations at the date of this report. Interfor undertakes no obligation to update such forward-looking information, except as required by law.

DESCRIPTION OF THE BUSINESS

Interfor is a leading global supplier of lumber products. The Company has annual production capacity of approximately 3.1 billion board feet and offers one of the most diverse lines of lumber products to customers in North America, the Asia-Pacific region and Europe.

The Company has sawmilling operations in British Columbia, Washington, Oregon, Georgia, South Carolina and Arkansas. Interfor also owns value-added remanufacturing facilities in Washington and Georgia.

COMPANY HISTORY AND DESCRIPTION

Our business originated in the 1930's with a sawmill in Whonnock, about 48 kilometres east of Vancouver, B.C. Since that time, we have made significant investments to expand, upgrade and diversify our production facilities and timber base through capital programs and the acquisition of manufacturing plants and timber resources.

The Company was incorporated under the *Company Act* (British Columbia) on May 6, 1963 and, on December 1, 1979, was amalgamated with subsidiary Whonnock Forest Products Limited. On January 1, 1988, a change in name from Whonnock Industries Limited to International Forest Products Limited occurred. On February 10, 2006, we transitioned under the *Business Corporations Act* (British Columbia). Effective on May 6, 2014, the Company's name was changed to Interfor Corporation. Our head office and our registered and records offices are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, V7X 1H7.

Our significant indirectly wholly-owned subsidiary, Interfor U.S. Inc., is incorporated in the State of Washington and owns and operates our U.S. sawmills. Interfor Cedarprime Inc. (incorporated in the State of Washington) is also an indirectly wholly owned subsidiary of Interfor. Directly wholly-owned subsidiaries include Interfor U.S. Holdings Inc. (incorporated in Washington), Interfor Sales & Marketing Ltd. (incorporated in British Columbia), Interfor Japan Ltd. (incorporated in British Columbia) and Interfor Insurance Corporation (incorporated in Barbados).

RECENT DEVELOPMENTS

2016

A capital project to upgrade the Company's sawmill in Castlegar, B.C. was substantially complete by the end of 2015 and was operating at its designed productivity level to start 2016.

On February 9, 2016, Interfor renewed and extended its Canadian Operating Line of credit and Revolving Term Line to a new maturity date of May 19, 2019. The commitment amount, security and pricing grid remained unchanged, but the renewal included a number of improved provisions to provide enhanced financial flexibility and liquidity.

On June 15, 2016, the Company extended the maturity of its U.S. Operating Line from May 1, 2017 to May 1, 2018, without significant change to other terms.

On November 30, 2016, Interfor closed the sale of the Tacoma sawmill property for gross proceeds of US$32.4 million. Net cash proceeds from the sale of the property were US$20.4 million after taking into account transaction costs and US$10 million of contingent consideration owed to Simpson Lumber Company, LLC.

2017

In 2017, the U.S. Department of Commerce and the U.S. International Trade Commission determined that the U.S. industry is materially injured by imports of softwood lumber products from Canada and imposed amended final countervailing ("CV") and anti-dumping ("AD") duties of 14.19% and 6.04%, respectively, on Interfor's shipments of softwood lumber from Canada into the U.S. These duties only impact approximately 15% of Interfor's total lumber sales, on average. CV duties were applicable from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were applicable from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards. The U.S. International Trade Commission ruling that the U.S. industry was materially injured by Canada's trade practices has set the stage for ongoing litigation. The

Government of Canada has indicated it will appeal the U.S. findings and defend itself vigorously against all claims of unfair trade practices made by the U.S. As in previous trade cases, the softwood lumber dispute may take years to resolve itself through the legal process, and remains open to a negotiated settlement at any time.

On March 7, 2017, the Company launched a normal course issuer bid ("NCIB") to purchase for cancellation up to 3,500,000 of its common shares, representing approximately 5% of its public float as of March 2, 2017. No shares were purchased under this NCIB in 2017.

On May 17, 2017, the Company extended the maturity of its U.S. Operating Line from May 1, 2018 to May 1, 2019, without significant change to other terms.

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

On November 2, 2017, Interfor announced large scale projects at its Meldrim and Monticello sawmills, which represent a total investment of approximately US$65 million, and are expected to be completed by Q2'19. These two projects are designed to add annual lumber production capacity of approximately 150 million board feet and enhance operating margins at these operations.

The U.S. tax reform enacted in December 2017 reduced the effective tax rate on Interfor's U.S. operations from approximately 37% to 24%.

2018

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 under the NCIB at an average price of $16.21 per share for a total cost of $36,929,000. All Shares repurchased were cancelled.

On March 15, 2018, the Company published its first Corporate Sustainability Report, highlighting Interfor's commitment to corporate social responsibility.

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.

On August 2, 2018, Interfor announced large scale projects at its Thomaston, Eatonton and Georgetown sawmills, which represent a total investment of approximately US$240 million, and are expected to be completed in various phases during 2019 to 2021. These projects are designed to add annual lumber production capacity of approximately 275 million board feet and enhance operating margins at these operations.

On August 14, 2018, Interfor completed an agreement to extend US$84 million of its 2021 to 2023 Senior Secured Note maturities to 2027 to 2029. As a result, Interfor's weighted average fixed interest rate on its term debt increased to 4.47%.

MANUFACTURING AND TIMBER SUPPLY

We operate five sawmills in B.C. and have U.S. operations comprising two sawmills and one remanufacturing plant in Washington, two sawmills in Oregon, one sawmill in South Carolina, one sawmill in Arkansas, and seven sawmills and one remanufacturing plant in Georgia. These operations produce a wide range of products for sale in North American and offshore markets. The products range from commodity structural lumber through to specialty products, such as exterior decking and siding, machine stress rated products, industrial timbers and a wide range of appearance grade items.

The mills are capable of cutting logs of various species and grades ranging in diameter from 4 inches to 80 inches. Many of our manufacturing facilities have recently been upgraded and modified to improve the matching of timber resources with our customers' lumber requirements.

Rated capacity and production of lumber for each region is set out in the following table:

Sawmills	**Present Rated Capacity (1)**	**Production for years ended December 31,**		
		2018	**2017**	**2016**
		(millions of board feet)		
B.C. Coast(2)	320	148	148	159
B.C. Interior	750	683	727	717
U.S. Northwest	640	561	564	570
U.S. South	1,400	1,243	1,156	1,042
Total	3,110	2,635	2,595	2,488

(1) Based on two shifts per day and adjusted for regional operating parameters.
(2) Volumes include lumber custom-cut at third party facilities under the direction of Interfor management amounting to 14, 13 and 10 million board feet in 2016, 2017 and 2018, respectively.

CANADIAN OPERATIONS

B.C. Coast

We own and operate two sawmill operations within the B.C. Coast region. Our Hammond operation is located on the Fraser River in Maple Ridge, B.C. and consists of a three-line sawmill, a planer mill and dry kilns. This facility is focused on western red cedar and supplies siding, decking, fascia and timbers for both offshore and North American markets. Our Acorn operation is located on leased land in Delta, B.C. and consists of a log dewatering and merchandizing system, a sawmill, a planer mill and dry kilns. This sawmill specializes in sizes and grades of lumber for use in Japanese traditional housing made primarily from hemlock and Douglas-fir logs.

B.C. Interior

We own and operate three sawmill operations within the B.C. Interior region with timber tenures having a total AAC of 1.66 million cubic metres. Our Adams Lake operation is located near Kamloops, B.C., while our Castlegar and Grand Forks operations are located in the southern interior of B.C. These mills manufacture kiln-dried lumber for the U.S. and Canadian construction markets as well as for offshore markets, and have the capability to cut Douglas-fir, spruce-pine-fir ("SPF"), fir-larch, western red cedar and hemlock dimension lumber. The Castlegar operation includes a transportation system for transporting logs on Arrow Lake.

B.C. Timber Supply

In the Province of British Columbia, the government or "Crown" owns 95% of the timberlands from which the majority of our timber is harvested. Forest and timber harvesting operations on Crown land in B.C. are regulated under the *Forest and Range Practices Act (British Columbia)* and the *Forest Act (British Columbia)*. The Government of B.C. is responsible for setting the harvest levels, approving forest stewardship plans and cutting permits, determining the stumpage system and managing compliance and enforcement.

The Province provides for the use of Crown forest land through the granting of various forms of timber tenures. These tenure agreements provide timber harvesting rights in exchange for annual rent and stumpage fees payable to the Crown.

Interfor is required to manage forest resources under our tenures in accordance with the requirements of the applicable laws and regulations. Forest management of our tenures is guided by a team of forest professionals that are engaged in a wide array of activities such as resource planning, forest development, road building and harvesting, reforestation, forest protection and environmental certification.

We hold various Forest Licence ("FL"), Tree Farm Licence ("TFL") and Timber Licence tenures that currently provide for an AAC of approximately of 3.39 million cubic meters. The majority of Interfor's tenures are long term (15 and 25 year) renewable agreements that are generally replaced every five to ten years.

Our timber supply needs are met by a combination of logs harvested from our own timber tenures, long term trade and supply agreements, and log purchases on the open market. When operating at normal capacity, our mills in B.C. currently acquire approximately one-third of their log supply from external sources.

On the B.C. Coast, we harvest a variety of species consisting primarily of western hemlock, amabilis fir, western red cedar and Douglas-fir. In the B.C. Interior, the species mix consists of spruce, pine, fir, Douglas-fir, larch and western red cedar. The harvest is derived from both old growth and second growth stands. Whereas one-half of the harvest currently comes from second growth stands on the B.C. Coast, this amount is expected to increase over the next several decades. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures.

The following table shows our AAC under our FL and TFL tenures and other cutting rights and the volume of timber harvested under our FLs and TFLs and other cutting rights for the periods specified. It also presents the volume of log purchases and sales during the period.

B.C. Timber Supply	Years ended December 31 2018	2017	2016
Allowable Annual Cut (1)			
— Forest Licences	2,566	2,775	2,775
— Tree Farm Licences	840	875	875
— Discretionary Annual Harvest Levels(2)	50	50	50
Total AAC	3,456	3,700	3,700
Log Production			
— Coast(3)	1,064	1,296	1,308
— Interior	1,642	1,725	1,657
Total Log Production	2,706	3,021	2,965
Log Purchases	1,564	1,271	1,199
Log Sales	1,157	1,203	1,296

(1) AAC status at the beginning of each year (includes a provision for non-recoverable fibre).
(2) Includes Timber Licence tenures.
(3) 2018 volumes include production volume of 17,000 cubic metres of third party timber sales managed by Interfor (2017 – 25,000 cubic metres, 2016 – 16,000 cubic metres).

Forest Health

The Mountain Pine Beetle ("MPB") infestation has resulted in the mortality of a significant portion of the mature pine trees in the B.C. Interior. The greatest impact has been in the central interior region where there is a high percentage (over 60%) of pine in the forest. Interfor operations are in the southern interior which have a much lower percentage of pine (less than 30%) and are less affected by the MPB. The longer term timber supply effects of the MPB are not expected to have a significant impact on the Company's operating areas.

Indigenous Peoples

Indigenous peoples have claimed title and rights over substantial portions of B.C. The Governments (Federal and Provincial) have been seeking to negotiate settlements with Indigenous peoples to address these claims. In addition, the Government has a duty to consult and, where appropriate, accommodate Indigenous peoples interests as this process continues.

Interfor tenures overlap with the traditional territories of over 60 different First Nations, and the Company has numerous agreements and initiatives in place to develop economic opportunities of mutual benefit. The Company is committed to working with Indigenous peoples and each relevant Indigenous group is notified prior to development activities as part of the Forest Stewardship Planning process.

U.S. OPERATIONS

U.S. Northwest

We own and operate four sawmill operations in the U.S. Northwest ("NW"). Three of these operations, located in Port Angeles, Washington, Longview, Washington and Molalla, Oregon, produce stud lumber for the U.S. construction market. Both the Port Angeles and Molalla sawmills produce kiln-dried stud lumber from Hemlock and Douglas-fir logs while the Longview sawmill produces green Douglas-fir stud lumber with a focus on servicing home centers. Port Angeles also produces lumber in 12 foot lengths for the U.S. market and is capable of producing metric sizes for export.

Our Gilchrist sawmill located in Gilchrist, Oregon, processes Lodgepole and Ponderosa pine logs to produce a wide range of specialty and industrial lumber products. This sawmill has an onsite cogeneration plant to produce electricity for its own use as well as steam for its dry kilns. At this location, we own and operate a short line railroad to connect to a mainline for shipment of lumber.

We also own and operate a value-added cedar remanufacturing facility in Sumas, Washington.

U.S. South

We own and operate nine sawmill operations in the U.S. South. Seven of these sawmills are located in Georgia (Baxley, Eatonton, Swainsboro, Thomaston, Preston, Perry and Meldrim), one is located in Georgetown, South Carolina and another in Monticello, Arkansas. These sawmills produce southern yellow pine lumber in a range of dimensions from 2x4 through 2x12 products, with 4x4 products also produced at certain mills.

We also own and operate a value-added southern yellow pine remanufacturing facility in Perry, Georgia.

U.S. Timber Supply

U.S. Northwest

Timber supply in the NW is sourced from a broad distribution of forest land ownership (forest industrial lands, small private landowners and State and Federal lands). These sources represent a long term supply base from which mills purchase their timber supply. In 2018, approximately 60% of the log supply in the NW came from land that is owned by industrial and small private landowners, while the remainder was sourced from State, Federal and tribal lands.

Our timber supply requirements at the Port Angeles sawmill are weighted almost even to western hemlock and Douglas-fir. At our Longview location, we only purchase Douglas-fir. Douglas-fir is the prominent species, with smaller volumes of western hemlock and white fir at the Molalla sawmill. All three of our western Oregon and Washington sawmills depend on private industrial landowners and small private landowners for the majority of their supply. The remainder of their supply is comprised of timber from State, Federal, and tribal lands.

At the Gilchrist sawmill, log purchases consist primarily of Lodgepole pine and Ponderosa pine that are harvested from second growth forests and the thinning of young stands from surrounding National Forests. This volume is supplemented with purchases from industrial and non-industrial private lands.

U.S. South

Timber in the U.S. South is sourced primarily from privately held timberlands with only minor volumes coming from publicly owned timberlands. Private timberland ownership includes non-industrial private owners, timber real estate investment trusts ("timber REITs") and various institutional investors such as pension funds, who are typically represented by a timberland investment management organization ("TIMO"). Both timber REITs and TIMOs are considered industrial timberland owners. Interfor's sawmills in the U.S. South purchase timber comprised exclusively of southern yellow pine, originating from each of these sources.

The total 2018 log supply requirement for the mills in the U.S. was supplied from the following sources:

Sources of Timber 2018	U.S. Northwest	U.S. South
State, Federal and tribal lands	40%	1%
Industrial lands	46%	27%
Private lands	14%	72%
	100%	100%

SALES, MARKETING AND COMPETITIVE POSITION

The global markets for the Company's products are highly competitive and producers compete primarily on the basis of price. In addition, a majority of Interfor's lumber production is sold into markets where competitors have the same or larger capacity and may be lower cost producers.

The following table shows our lumber sales by geographic area and total sales by product line for the past three years:

	Years ended December 31,		
	2018	**2017**	**2016**
	(thousands of dollars)		
Lumber			
— U.S.A.	$1,430,579	$ 1,231,279	$ 1,098,106
— Japan	102,949	130,817	123,878
— Canada	144,468	128,437	92,248
— China	62,838	81,146	59,102
— Other export	78,728	77,593	60,179
Offshore transportation and handling	21,538	30,156	24,783
	1,841,100	1,679,428	1,458,296
Logs	167,852	157,641	179,275
Wood chips and other residuals	165,855	146,452	145,608
Ocean freight, contract services and other	11,760	6,585	9,533
Total sales	$2,186,567	$1,990,106	$1,792,712

Lumber Sales

Like other commodities, the demand for lumber is cyclical. It is affected by factors such as interest rates, foreign currency exchange rates, freight rates, government tariffs and import policies, and weather.

In order to diminish the impact of rapid cyclical changes in any one market, we strategically target worldwide markets and offer a diverse range of products. Interfor also has a specific customer and product base in various countries, providing a diversified sales profile. Many of our operations are strategically located close to ports which allow us to fully realize on the opportunities that are available to us in our overseas markets.

Product and market diversification is particularly important as the variability inherent in the log resource produces a much wider spectrum of product sizes and quality. A continuing priority for our Company is to develop products and markets that more fully realize the opportunity for higher grades, special dimensions and value-added items.

Lumber sales and marketing activities are organized into two sales groups to leverage global expertise: Export and North America. Interfor Japan Ltd., with an office in Tokyo, has developed niche markets and has increased sales directly to end-users in the Japan market. We have an office in France to serve Continental Europe and Middle Eastern markets, and also an office in China to support that country's growing demand for wood.

The primary market for our cedar product line continues to be North America where markets are serviced through a combination of regional wholesale distributors and direct retail sales. Gains have been made, however, in diversifying cedar sales into offshore markets in Europe, China, Japan and Australia.

In North America, we currently service our customer base from two sales locations. Our products produced by our sawmills in Canada and the U.S. Northwest are sold out of our office in Burnaby, B.C. Products produced by our sawmills in the U.S. South are sold out of our office in Peachtree City, Georgia.

Log Sales

We purchase and sell logs in order to obtain the appropriate size, grade and species of log to suit market conditions and each mill's cutting profile. We buy or trade logs through agreements and open market transactions and sell logs that are either unsuitable for cutting or in excess of our manufacturing requirements.

Wood Chips and Other Residuals Sales

Our sawmills produce wood chips and other residuals as by-products of lumber production. Essentially all of our wood chips produced in B.C. are sold under short and long term contracts to pulp producers. In general, wood chips produced on the B.C. Coast are sold at prices related to current Northern Bleached Softwood Kraft ("NBSK") pulp prices, while the wood chips produced in the B.C. Interior are sold at current market prices for chips. Chips from our U.S. Northwest and U.S. South operations are sold to pulp and paper producers or fibre board manufacturers under short term arrangements, with the exception of the Baxley, Georgetown, Meldrim, Gilchrist and Longview sawmills which each have a long term contract with a pulp and paper producer.

Sawmill residuals in the U.S. South are sold to a variety of customers utilizing our by-products as fundamental inputs to a product, process or service. The majority of U.S. South residual chips are sold under multi-year arrangements with our regional pulp & paper and container/fibre board manufacturers while the remainder is sold strategically through quarterly or semi-annual fibre supply agreements. Other markets for our sawmill bark, sawdust and shavings residuals include: mulch and garden products, biomass fibre fuel for heat and power, and growing feedstock requirements for the export wood pellet industry.

In total, one quarter of our sawmill residuals are sold in support of renewable fuel users and manufactures as well as green power producers.

DISTRIBUTION

We use various modes of surface transportation to deliver our lumber products. Shipments to export markets are done by container and break-bulk vessels while shipments of lumber within North America are done by truck and rail. In 2018, break-bulk shipments were transported under contract with an independent ocean carrier and this same arrangement is in place for 2019. Chips and logs are normally delivered by tug and barge or by truck. In Gilchrist, Oregon, and in Grand Forks, B.C. we own short line railroads that connect to Class 1 railroads for shipping lumber.

HUMAN RESOURCES

In B.C., we directly employ approximately 1,142 people in our logging and manufacturing operations and corporate offices. The Canadian United Steel Workers ("USW") is the certified bargaining agent for approximately 485 of these people. The agreement with the USW for the B.C. Coast has an expiry date of June 14, 2019, while the Southern Interior USW agreement expired on June 30, 2018, with negotiations ongoing. The Canadian Marine Service Guild ("CMSG") represents 18 employees, and their collective agreement expires September 30, 2019.

In the U.S., we employ approximately 2,065 employees in our sawmill and remanufacturing operations in Washington, Oregon, Georgia, Arkansas, South Carolina and in our offices located in Bellingham, Washington and Peachtree City, Georgia. The International Association of Machinists ("IAM") is the certified bargaining agent for approximately 82 of these people employed in the Longview, Washington sawmill. The IAM collective agreement expires on November 15, 2020.

ENVIRONMENT

Interfor is committed to responsible stewardship of the environment. We maintain an Environmental Management System ("EMS") for all of our woodlands and manufacturing facilities. The EMS provides a structure for identifying, addressing and managing environmental issues. Audits are performed regularly in both the woodlands and manufacturing operations to verify its effectiveness.

Regulatory Compliance

Extensive provincial, state, federal or other laws and regulations apply to most aspects of our business activities. Interfor has incurred and will continue to incur, capital expenditures and operating costs to comply with environmental laws and regulations, including U.S. Maximum Achievable Control Technology ("MACT") and continuous monitoring requirements applicable to certain of our boilers. These costs have not and are not expected to have a material financial or operational effect on the Company or its competitive position.

Forest Management Certification

Interfor has achieved the internationally recognized Sustainable Forestry Initiative ("SFI") forest management certification for all of our B.C. woodlands operations. Independent third party certification audits are conducted by KPMG Performance Registrar Inc.

Chain of Custody and Responsible Purchasing

Interfor maintains SFI Chain-of-Custody certifications at certain mills that track logs coming from sustainably managed forests through the manufacturing process. In the US South, the mills are enrolled in the SFI Fibre Sourcing certification that promotes responsible forest practices from our log suppliers.

Coast Forest Conservation Initiative

Interfor is a member of the Coast Forest Conservation Initiative ("CFCI") – a collaborative effort of five B.C. forest product businesses committed to finding new approaches to forest conservation and management in B.C.'s Central and North Coast. CFCI collaborates with the Rainforest Solution Project (a group of environmental organizations) in a forum known as the Joint Solutions Project ("JSP"). The joint work done by JSP was a major part of the landmark Great Bear Rainforest agreement announced by the province in 2016.

Reforestation and Other Forestry-related Liabilities.

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

The Company also has a legal obligation to deactivate certain roads constructed for access to timber, once that access is no longer required. Accordingly, Interfor accrues the cost of road deactivation as related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by professional foresters and engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liabilities are reviewed annually or more frequently if required, and can be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a charge against operating earnings.

Continual Improvement

Each year a formal management review of the Company's sustainable forest management program and performance is completed as part of the process of continual improvement.

Additional information about our environmental work and third party certification is available on our website at www.interfor.com and in our sustainability report report at www.interfor-sustainability.com.

RESEARCH AND DEVELOPMENT

We contribute to and participate in industry research organizations that have made numerous technical developments beneficial to us in areas such as sawing technology, drying techniques and anti-sap stain applications. We are committed to applied research and development in the areas of environment, health and safety, forest management, and product and market development. We also conduct product and market research on our own in Canada and the U.S.

RISK FACTORS

Discussion of risk factors relating to the Company and its operations is included under the heading Risks and Uncertainties within Interfor's 2018 annual Management's Discussion and Analysis prepared as of February 7, 2019, which is incorporated by reference herein and available on SEDAR at www.sedar.com.

CAPITAL STRUCTURE

The authorized share structure of the Company consists of:

- 150,000,000 Common Shares without Par Value with Special Rights and Restrictions ("Common Shares"); and
- 5,000,000 Preference Shares without Par Value with Special Rights and Restrictions ("Preference Shares").

As at February 7, 2019, there were 67,323,715 Common Shares outstanding. There were no Preference Shares outstanding.

Common Shares

Each holder of a Common Share is entitled to receive notice of and to attend and vote in person or by proxy at all meetings of the shareholders of the Company and is entitled to one vote for each such share held.

Each holder of a Common Share is entitled to receive such dividends as the directors may in their sole discretion declare from time to time. No holder of a Common Share will be entitled to any dividend other than or in excess of the dividends declared by the directors. Subject to any special rights or restrictions as to dividends attached to any Preference Shares issued and outstanding from time to time, the directors have the discretion to declare dividends on the Common Shares.

In the event of the liquidation, dissolution or winding-up of the Company or other distribution of its assets for the purpose of winding up its affairs, holders of the Common Shares will not receive any amount, property or asset, until the holders of the Preference Shares and any other class or series of shares entitled to receive assets of the Company in priority to the holders of the Common Shares, have first received the amount to which they are entitled. Thereafter, the holders of the Common Shares will be entitled to all remaining property and assets of the Company on a share for share basis.

Preference Shares

The Preference Shares may be issued in one or more series. The directors may by resolution fix the number of Preference Shares in each series, determine the designation of the Preference Shares of each series, and attach special rights and restrictions to the Preference Shares of each series.

The Preference Shares rank in priority over the Common Shares and any other shares ranking junior to the Preference Shares with respect to the payment of dividends and the distribution of assets of the Company in the event of the liquidation, dissolution or winding-up of the Company.

The registered holders of the Preference Shares shall not be entitled as a class to receive notice of or to attend or to vote at any meeting of shareholders of the Company, except in the event of matters affecting the priority rights or any other rights or restrictions attaching to the Preference Shares.

MARKET FOR SECURITIES OF THE COMPANY

The Common Shares are listed on the Toronto Stock Exchange ("TSX") under the symbol IFP. The following table sets out the market price range and trading volumes of the Common Shares on the TSX for the periods indicated:

Toronto Stock Exchange (TSX) 2018 Trading Volumes Ticker: IFP			
Month	**$ Low**	**$ High**	**Volume**
January	21.21	23.61	4,529,883
February	22.32	25.84	8,619,394
March	22.46	26.50	6,449,253
April	22.04	25.66	6,095,399
May	23.41	26.56	5,763,291
June	23.32	27.27	6,671,868
July	20.16	26.06	6,865,624
August	19.68	24.10	10,989,326
September	18.67	23.20	8,041,350
October	13.82	19.44	14,046,642
November	13.64	17.98	12,657,276
December	13.26	16.07	7,992,664

TRANSFER AGENT

The transfer agent for our Common Shares is Computershare Investor Services Inc. at its principal offices in Vancouver, British Columbia.

MATERIAL CONTRACTS

The following material contracts were entered into by the Company during or after 2018, or before 2018 but are still in effect:

1. Interfor September 2016 Amended and Restated Credit Agreement, dated for reference September 22, 2016, between the Company, each of the lenders named therein and Royal Bank of Canada in its capacity as the arranger and agent, as amended on September 15, 2017 to extend the maturity of the Company's Canadian operating line of credit and revolving term line from May 19, 2019 to September 15, 2021.

2. Second Amended and Restated Note Purchase Agreement dated as of August 14, 2018, between the Company and the purchasers named therein, pursuant to which the Company repaid US$45,550,000 and US$38,200,000 of its Series A and Series B Senior Secured Notes, respectively, and 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. The notes currently issued under this agreement are a Series A Senior Secured Note (US$4,450,000), a Series B Senior Secured Note (US$11,800,000), Series C Senior Secured Notes (US$100 million), Series D Senior Secured Notes (US$45,550,000) and Series E Senior Secured Notes (US$38,200,000). The senior secured notes issued under this agreement have a weighted average fixed interest rate of 4.47% and maturities from June 26, 2021 to August 14, 2029.

3. First Amendment to Amended and Restated Credit Agreement dated as of June 15, 2018, between the Company and Wells Fargo Bank, National Association, to extend the maturity of the Company's U.S. operating line of credit by two years until June 15, 2021, with no other significant changes.

All of these contracts are available on www.sedar.com.

DIRECTORS AND OFFICERS

Directors of the Company

As of February 7, 2019, the directors of Interfor are as follows:

Name and Municipality of Residence	Director Since	Positions Held and Principal Occupations during the Past 5 Years	From	To [1]
DUNCAN K. DAVIES Vancouver, BC, Canada	November 1998	President and Chief Executive Officer Interfor Corporation	2000	Present
JEANE HULL[2][3][4] Sheridan, WY, USA	May 2014	Director Epiroc AB (STO: EPI-A)	2017	Present
		Director Cloud Peak Energy Inc. (NYSE: CLD)	2016	Present
		Executive Vice President and Chief Technical Officer Peabody Energy Corporation, a private-sector coal company	2011	2015
GORDON. H. MacDOUGALL[3][4] West Vancouver, BC, Canada	February 2007	Director Connor, Clark & Lunn Financial Group, an asset management company.	2014	Present
		Vice Chair Connor, Clark & Lunn Investment Management Ltd.	2006	2014
		Partner Connor, Clark & Lunn Investment Management Partnership	1986	2014
J. EDDIE McMILLAN[5][6] Pensacola, FL, USA	October 2006	Independent Business Consultant	2002	Present
THOMAS V. MILROY[4][5] Toronto, ON, Canada	February 2016	Director J2 Acquisition Limited (LSE: JTWO)	2017	Present
		Senior Advisor Generation Capital Limited, a private investment company	2015	Present
		Director Restaurant Brands International Inc. (TSX/NYSE: QSR, TSX: QSP)	2014	2018
		Director Tim Hortons Inc.	2013	2014
		Chief Executive Officer BMO Capital Markets	2008	2014

GILLIAN PLATT(4)(6) Kelowna, BC, Canada	October 2016	Director CRH plc (LSE: CRH, ISE: CRG, NYSE: CRH), an Irish based building materials group	2017	Present
		Executive Vice President and Chief Human Resources Officer Finning International Inc., a distributor of Caterpillar products and support services	2014	2016
		Principal Gillian Platt & Associates, executive advisory and coaching practice	2013	2014
E. LAWRENCE SAUDER(3)(6)(7) Vancouver, BC, Canada	April 1984	Director Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of interior finishings	2010	Present
		Chair Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of interior finishings	2010	2018
		Chief Executive Officer Metrie Canada Ltd. (formerly Sauder Industries Limited), a manufacturer and distributor of building products	2010	2014
		Director Hardwoods Distribution Inc. (TSX: HWD), a distributor of wood products	2008	Present
		Chair Hardwoods Distribution Inc. (TSX: HWD), a distributor of wood products	2008	2018
CURTIS M. STEVENS(3)(5) Brentwood, TN, USA	May 2018	Director Quanex Building Products Corporation (NYSE: NX)	2010	Present
		CEO and Director Louisiana-Pacific Corporation, a building material manufacturer	2012	2017
DOUGLAS W.G. WHITEHEAD(5)(6) West Vancouver, BC, Canada	April 2007	Director Belkorp Industries Inc.	2000	Present
		Director Kal Tire	2012	Present
		Chair and Director Finning International Inc. (TSX: FTT), a distributor of Caterpillar products and support services	2008	2019

(1) The directors of the Company are elected each year at the annual general meeting of the Company and hold office until the close of the next annual general meeting, or until their successors are elected or appointed.

(2) Ms. Hull was the Executive Vice President and Chief Technical Officer of Peabody Energy Corporation ("Peabody") from April 2011 to July 31, 2015. Peabody filed for Chapter 11 bankruptcy protection on April 13, 2016 and emerged from Chapter 11 protection on April 3, 2017.

(3) Member, Environment & Safety Committee

(4) Member, Corporate Governance & Nominating Committee

(5) Member, Audit Committee

(6) Member, Management Resources & Compensation Committee

(7) Chair of Board

Officers of the Company

As of February 7, 2019, the officers of Interfor are as follows:

Name and Municipality of Residence	**Positions Held and Principal Occupations During the Past 5 Years**	**From**	**To**
DUNCAN K. DAVIES Vancouver, BC, Canada	President & Chief Executive Officer Interfor Corporation	2000	Present
MARTIN L. JURAVSKY Toronto, ON, Canada	Senior Vice President & Chief Financial Officer Interfor Corporation	2018	Present
	Senior Vice President, Corporate Development and Strategy Interfor Corporation	2014	2018
	Vice President, Corporate Development and Strategy Interfor Corporation	2013	2014
IAN M. FILLINGER Kamloops, BC, Canada	Senior Vice President & Chief Operating Officer Interfor Corporation	2018	Present
	Senior Vice President, Head of Operations Interfor Corporation	2015	2018
	Senior Vice President, Canadian Operations Interfor Corporation	2014	2015
	Vice President, Canadian Operations Interfor Corporation	2013	2014
MARK W. STOCK North Vancouver, BC, Canada	Senior Vice President, Human Resources & IT Interfor Corporation	2018	Present
	Senior Vice President, Human Resources Interfor Corporation	2014	2018
	Vice President, Human Resources Interfor Corporation	2012	2014
BART BENDER West Vancouver, BC, Canada	Senior Vice President, Sales & Marketing Interfor Corporation	2015	Present
	Senior Vice President, Operations Ainsworth Lumber Co.	2014	2015
	Vice President, Sales Ainsworth Lumber Co.	2012	2014
XENIA KRITSOS Vancouver, BC, Canada	General Counsel & Corporate Secretary Interfor Corporation	2015	Present
	General Counsel & Corporate Secretary Coalspur Mines Limited	2013	2015

As at February 7, 2019, the directors and officers of the Company as a group owned, directly or indirectly, or exercised control of or direction over 717,830 Common Shares representing approximately 1.07% of the outstanding Common Shares[1].

INTEREST OF MANAGEMENT AND OTHERS IN MATERIAL TRANSACTIONS

Since the commencement of our current financial year, and for the three most recently completed financial years, no director or executive officer of the Company, no person or company that is the direct or indirect beneficial owner of, or who exercises control or direction over, more than 10% of the Company's voting securities or any associate or affiliate of such persons, has had any material interest in any transaction involving the Company.

LEGAL PROCEEDINGS

We are not a party to, and our property is not the subject of, any material legal proceedings that took place in 2018, are currently underway, or which we know to be contemplated. See "Recent Developments – 2017" for a description of developments related to the softwood lumber dispute.

INTEREST OF EXPERTS

KPMG LLP is the external auditor of the Company and has confirmed that they are independent with respect to the Company within the meaning of the Rules of Professional Conduct of Institute of Chartered Professional Accountants of British Columbia and the applicable rules and regulations thereunder.

AUDIT COMMITTEE INFORMATION

The Company's Audit Committee (the "Committee") is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board's objectives. The Committee's functions include:

- reviewing and, if appropriate, recommending approval by the Board of the Company's annual and quarterly financial statements, management's discussion and analysis and earnings press releases;
- reviewing and approving disclosures required to be included in the Company's Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees;
- reviewing the process for certification, and the certification, of the interim and annual financial statements by the Chief Executive Officer and Chief Financial Officer;
- reviewing all public disclosure containing financial results or financial information;
- reviewing matters related to internal controls over financial reporting of the Company and ensuring the Company has adequate internal controls procedures in place;
- reviewing the principal risks of the Company, other than the risks associated with the Company's compensation policies and practices, and ensuring that an effective risk management strategy is in place;

[1] Based on Insider Reports filed on SEDI and holdings through the Interfor Employee Share Purchase.

- reviewing the Company's derivatives policies and activities, including details of exposures to banks and other counterparties;
- overseeing the activities of and directly communicating with the Company's external auditor;
- satisfying itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assessing the adequacy of those procedures;
- establishing and periodically reviewing the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters;
- reviewing and approving the Company's hiring policies regarding partners, employees and former partners and employees of the former and present external auditor; and
- reviewing the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and making recommendations for their renewal or replacement.

The Committee's Terms of Reference, attached as Appendix "A" to this Annual Information Form, sets out its duties and responsibilities.

The Committee met four times in 2018, in conjunction with regularly scheduled Board meetings.

Members' Financial Literacy, Expertise and Simultaneous Service

The Board of Directors has determined that the members of the Audit Committee during 2018 were, and all current members of the Audit Committee are, financially literate and independent as defined in *National Instrument 52-110 – Audit Committees*. The table below indicates the relevant education and experience of each member of the Audit Committee:

Relevant Education and Experience

Director	Past Occupation
Thomas V. Milroy Chair of the Audit Committee since May 2018	Mr. Milroy is a director of J2 Acquisition Limited (LSE: JTWO) and has served on that board since 2017. He is also Senior Advisor to Generation Capital Limited, a private investment company. Prior to that, Mr. Milroy served on the board of Restaurant Brands International Inc. (TSX/NYSE: QSR, TSX: QSP) and one of its predecessor as Chief Executive Officer of BMO Capital Markets from 2008 to 2014, where he was responsible for all of BMO's business involving corporate, institutional and government clients globally. Mr. Milroy holds a Bachelor of Law and Master of Law from Cambridge University, an LLB from Dalhousie University, and a Bachelor of Arts from McGill University. He has also completed the Advanced Management Program at the Harvard Business School. Mr. Milroy is a member of the Law Society of Upper Canada.
Eddie McMillan Member since April 2016	Mr. McMillan is an independent business consultant. From 1998 until his retirement in 2002, he was Executive Vice President – Wood Products Group of Willamette Industries Inc., a forest products company. Prior to 1998, Mr. McMillan held various management positions with Willamette Industries Inc. Over the years, he has served as a director of Forest Express, Inc. and has been associated with numerous industry association boards, including the American Plywood Association, National Particleboard Association, Particleboard and MDF Institute, Southern Forest Products Association, Western Wood Products Association, National Association of Lumber Wholesalers and the American Forest and Paper Association. He holds a Bachelor of Science (Accounting/Business Administration) from Louisiana Tech University.

Curtis M. Stevens Member since May 2018	Mr. Stevens is a director of Quanex Building Products Corporation (NYSE: NX) and has served on that board since 2010. He served as the CEO and a director of Louisiana-Pacific Corporation (NYSE: LPX), a building materials manufacturer, from 2012 until his retirement in June 2017. Mr. Stevens served as Louisiana-Pacific's Chief Operating Officer and Executive Vice President (2011 to 2012), Chief Financial Officer (1997 to 2011) and Executive Vice President, Administration (2002 to 2011). Mr. Stevens served as Chair of the Forest Products Association of Canada (2015 to 2017) and as a board member of the Nashville Area Chamber of Commerce (2014 to 2017). Mr. Stevens holds a B.A. in Economics and an M.B.A. with a concentration in Finance from the University of California at Los Angeles.
Douglas W.G. Whitehead Member since April 2009	Mr. Whitehead is a director of Belkorp Industries Inc. and Kal Tire. From 2008 to 2019 Mr. Whitehead was Board Chair and a director, and from 2000 to 2008 he was the President and Chief Executive Officer, of Finning International Inc. (TSX: FTT) ("Finning"). Prior to joining Finning, Mr. Whitehead held a number of senior executive positions with Fletcher Challenge Canada, including President and Chief Executive Officer, Senior Vice President and Chief Operating Officer and Vice President of the Crown Packaging Division. Previously, he served as director of Inmet Mining Corporation, Ballard Power Systems Inc., Terasen Inc., Fletcher Challenge Canada, Finlay Forest Industries and Timberwest Forest Limited. Mr. Whitehead holds a Bachelor of Applied Science (Engineering) from the University of British Columbia and a Master of Business Administration from the University of Western Ontario.

AUDIT FEES

The Committee annually recommends the appointment of the Company's external auditors and approves the annual audit plan and compensation of the external auditors for all audit, audit related and non-audit services. In the case of non-audit services, the services and compensation are approved by the Committee before the services commence.

KPMG LLP, Chartered Professional Accountants, Vancouver, are the independent auditors of the Company. Fees paid or accrued to KPMG LLP for audit and other services for the years ended December 31, 2017 and 2018, were as follows:

	2018	2017
Audit fees Fees billed for professional services rendered.	$594,600	$555,900
Audit-related fees Audit-related fees consist principally of fees for professional services rendered with respect to audits of a defined benefit pension plan and subsidiary companies.	48,300	47,700
Tax fees Tax fees consist of fees for tax compliance services, planning and related services, personal tax (foreign and domestic) compliance and planning advice, indirect tax recovery audit contingency fees which are based on percentage of recoveries.	42,649	98,059
All Other fees Forestry certification.	65,450	68,850
TOTAL	$750,999	$770,509

CODE OF ETHICS

We have adopted a code of ethics that applies to our directors, officers and employees. A copy of the code, entitled "Code of Conduct & Ethics", can be found on our website at www.interfor.com.

ADDITIONAL INFORMATION

Additional information relating to the Company, including directors' and officers' remuneration and indebtedness, principal holders of the Company's securities and securities authorized for issuance under equity compensation plans, is contained in the Company's Information Circular for its most recent annual meeting of shareholders that involved the election of directors.

Additional financial information about the Company is provided in the Company's audited consolidated financial statements and Management's Discussion and Analysis for the year ended December 31, 2018.

Copies of the documents referred to above and additional information relating to the Company are available on SEDAR at www.sedar.com, on the Company's website www.interfor.com and may also be obtained upon request from:

Interfor Corporation
General Counsel & Corporate Secretary
3500-1055 Dunsmuir Street
Vancouver, British Columbia
Canada, V7X 1H7
Telephone: 604 689 6800
Facsimile: 604 689 6825
E-mail: corporatesecretary@interfor.com

Appendix “A”

AUDIT COMMITTEE
Terms of Reference

PURPOSE

The Audit Committee has been established by the Board and under powers delegated to it by the Board is mandated to oversee the accounting and financial reporting processes of the Company and audits of its financial statements in accordance with the Board Objective.

COMPOSITION AND TERM OF OFFICE

1. The Audit Committee shall consist of four or more Directors.

2. All members of the Audit Committee shall be independent within the meaning of *National Instrument 52-110 (“***NI 52-110***”).*

3. All members must be financially literate within the meaning of NI 52-110 or become financially literate within a reasonable period following appointment and at least one member should have accounting or related expertise.

4. The Chair of the Audit Committee along with other Audit Committee members will be appointed annually by the Board following the AGM to hold office until the next AGM, unless any member becomes unable to serve or is removed by the Board. A casual vacancy may be filled and additional members may be appointed at any time by the Board to hold office until the next AGM.

5. A quorum shall consist of a simple majority.

DUTIES AND RESPONSIBILITIES

The Audit Committee shall perform the following functions, as well as any other functions specifically authorized by the Board:

Financial Disclosure, Risk Management and Internal Controls

1. Review the following documents before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board of the Company’s:

    a. annual and quarterly financial statements;

    b. Management’s Discussion and Analysis; and

    c. annual and interim earnings press releases.

    The review will involve direct discussions with Management and the Company’s external auditor (the “**Auditor**”), including an opportunity for an in-camera meeting with the Auditor independent of Management.

2. Review and approve the disclosures required by applicable securities laws to be included in the Company’s Annual Information Form and Management Information Circular relating to the Audit Committee and audit and non-audit services and fees.

3. Review the process for certification of the interim and annual financial statements by the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**") and the certifications made by the CEO and CFO.

4. Review all news releases announcing financial results, containing financial information based on unreleased financial results or non-GAAP financial measures or providing earnings guidance, forward-looking financial information and future-oriented financial information or financial outlooks before the public disclosure of same by the Company.

5. Review financial information contained in any prospectus, take-over bid circular, issuer bid circular, rights offering circular and any other document that the Audit Committee is to review before the public disclosure of same by the Company, and, if appropriate, recommend approval by the Board.

6. Review matters related to internal controls over financial reporting of the Company and ensure the Company has adequate procedures in place in respect thereof. Ensure that the necessary measures are taken to follow up suggestions from the Auditor's reports.

7. Review the principal risks of the Company, other than the risks associated with the Company's compensation policies and practices, and ensure that an effective risk management strategy is in place.

8. Review the Company's derivatives policies and activities, including details of exposures to banks and other counterparties.

External Auditor

9. Review and recommend to the Board the appointment of the Auditor to be nominated for the purposes of preparing or issuing an Auditor's report and performing other audit, review or attest services for the Company.

10. Establish the mandate of the Auditor, including the annual engagement, audit plan, audit scope and compensation for the audit services, subject to shareholder approval.

11. Oversee the activities of the Auditor. The Auditor shall report directly to the Audit Committee.

12. Directly communicate and meet with the Auditor, with and without Management present, to discuss the results of their examinations.

13. Review the independence of the Auditor, any rotation of the partners assigned to the audit in accordance with applicable laws and professional standards, the internal quality control findings of the Auditor's firm and peer reviews.

14. Review the performance of the Auditor, including the relationship between the Auditor and Management and the evaluation of the lead partner of the Auditor.

15. Resolve disagreements between Management and the Auditor regarding financial reporting.

16. Review material written communications between the Auditor and Management.

Non-Audit Services

17. Pre-approve non-audit services. The Audit Committee may delegate to one or more of its members the authority to pre-approve non-audit services. The pre-approval of non-audit services by any member to whom authority has been delegated shall be presented to the Committee at its first scheduled meeting following such pre-approval.

Company Policies

18. Satisfy itself that adequate procedures are in place for the review of the public disclosure of financial information extracted or derived from the Company's financial statements and periodically assess the adequacy of those procedures.

19. Establish and periodically review the policies and procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submissions by the employees of the Company regarding questionable accounting or auditing matters.

20. Review and approve the Company's hiring policies regarding partners, employees and former partners and employees of the former and present Auditor.

Insurance

21. Review the Company's insurance programs, including the Company's directors' and officers' insurance coverage, and make recommendations for their renewal or replacement.

MEETINGS AND PROCEDURES

1. The Audit Committee shall meet a minimum of four (4) times per year and, subject to these Terms of Reference and applicable law, otherwise establish its procedures and govern itself as the members of the Audit Committee may see fit in order to carry out and fulfill its duties and responsibilities hereunder. Extraordinary meetings of the Audit Committee may be called at the request of a member on the Audit Committee or the Chair of the Board to be held at such times and places as the person calling such meeting may determine.

2. A majority of members of the Audit Committee will constitute a quorum (provided that a quorum shall not be less than two (2) members). Decisions of the Audit Committee will be by an affirmative vote of the majority of those members of the Audit Committee voting at a meeting. In the event of an equality of votes, the Chair will not have a casting or deciding vote. The Audit Committee may also act by resolution in writing signed by all the members of the Audit Committee.

3. The Audit Committee shall appoint a Secretary who shall keep minutes or other records of its meetings and proceedings.

4. The Chair of the Audit Committee shall report to the Board at its next regular meeting the Audit Committee's deliberations and recommendations, if any, requiring the Board's approval.

OTHER MATTERS

1. The Audit Committee is authorized to engage any outside advisor it deems necessary to carry out its duties and responsibilities and to arrange payment of the advisor's compensation by the Company.

2. The Audit Committee may, at the request of the Board or at its own initiative, investigate such other matters as it considers appropriate in furtherance of the Audit Committee's purpose.

GLOSSARY

Unless otherwise noted, all financial references in this Annual Report are in Canadian Dollars.

"Adjusted EBITDA" EBITDA excluding long term incentive compensation, other income (expense), and post-closure wind-down costs and losses (recoveries).

"Adjusted EBITDA margin" Adjusted EBITDA divided by total sales.

"Adjusted net earnings" Net earnings (loss) before capital asset write-downs and restructuring costs, other foreign exchange gains (losses), long term incentive compensation, other income (expense), post-closure wind-down costs and losses (recoveries), the income tax effect of the aforementioned adjustments, and recognition of previously unrecognized deferred tax assets.

"Allowable Annual Cut (AAC)" The average annual volume of timber which the holder of a licence from the Province of British Columbia may harvest on Crown land under the licence in a five-year control period.

"Cash flow from operations" Cash flow provided by operating activities before considering changes in operating working capital.

"Custom cutting" An arrangement under which a mill contracts to cut logs owned by a customer into products of specifications defined by the customer.

"Crown" Administrative agency of the provincial government of British Columbia.

"**EBITDA"** Net earnings (loss) before finance costs, income taxes, depreciation, depletion, amortization, capital asset write-downs and restructuring costs, and other foreign exchange gains (losses).

"Forest Licence" Replaceable, volume-based timber cutting rights for a specific volume of Crown timber within a Timber Supply area.

"**Invested capital"** The total of net debt and shareholders' equity.

"**m³"** A measure of one cubic metre of solid wood, British Columbia metric scale, as determined under the *Forest Act*, equal to 35.3 cubic feet of solid wood.

"Mfbm" or **"Mbf"** One thousand foot board measure equal to one thousand square feet of lumber, one inch thick. **MMfbm** means one million board feet.

"Net debt" The total of long term debt and bank indebtedness, less cash and cash equivalents and marketable securities.

"Return on invested capital" Adjusted EBITDA divided by average invested capital.

"Silviculture" The art and science of controlling the establishment, growth, composition, health and quality of forests.

"Stumpage" A charge assessed by the provincial government on all Crown timber harvested.

"Sustainable forest management" Management of yield that a forest area can produce on an ongoing basis to ensure no impairment of the long-term productivity of the land.

"Timber Licence" Non-replaceable, area based, Crown timber cutting rights.

"Tree Farm Licence" A renewable 25-year licence to manage a forest area to yield an annual harvest on a sustainable basis.

"Value-added product" A commodity or other product that has been further processed to increase financial value.

"Whitewood" Includes coastal species Hemlock, Balsam Fir, Douglas-Fir and Spruce; the term whitewood is used on the British Columbia Coast to differentiate the above species from Western Red Cedar and Yellow Cedar.

DIRECTORS

As of March 27, 2019

Duncan K. Davies
Vancouver, BC, Canada

Jeane Hull
Sheridan, WY, US

Gordon H. MacDougall
West Vancouver, BC, Canada

J. Eddie McMillan
Pensacola, FL, US

Thomas V. Milroy
Toronto, ON, Canada

Gillian Platt
Kelowna, BC, Canada

E. Lawrence Sauder
Vancouver, BC, Canada

Curtis M. Stevens
Nashville, TN, US

Douglas W.G. Whitehead
West Vancouver, BC, Canada

OFFICERS

As of March 27, 2019

E. Lawrence Sauder
Chair

Martin L. Juravsky
Senior Vice President & Chief Financial Officer

Mark W. Stock
Senior Vice President, Human Resources & IT

Xenia Kritsos
General Counsel & Corporate Secretary

Duncan K. Davies
President & Chief Executive Officer

Ian M. Fillinger
Senior Vice President & Chief Operating Officer

Bart Bender
Senior Vice President, Sales & Marketing

CORPORATE INFORMATION

Stock Exchange Common Shares listed on The Toronto Stock Exchange Symbol: IFP	**Auditors** KPMG LLP, Vancouver, BC	**Transfer Agent** Computershare Investor Services Inc. Vancouver, BC and Toronto, ON
Investor Contact Martin Juravsky Senior Vice President & Chief Financial Officer Tel: (604) 689-6873 martin.juravsky@interfor.com		

CORPORATE OFFICES

Vancouver **Head Office** Tel: (604) 689-6800 Fax: (604) 688-0313 P.O. Box 49114 3500-1055 Dunsmuir Street Vancouver, BC, Canada V7X 1H7	**Metrotown** **Corporate Office** Tel: (604) 422-3400 Fax: (604) 422-3452 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	**Peachtree City** **Corporate Office** Tel: (770) 282-3260 Fax: (770) 486-6837 700 Westpark Drive, Suite 100 Peachtree City, GA, US 30269

SALES AND MARKETING

North America – Specialty Tel: (604) 422-3400 Fax: (604) 422-3244 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	**North America – Southern Yellow Pine** Tel: (770) 282-3250 Fax: (770) 486-6837 700 Westpark Drive, Suite 100 Peachtree City, GA, US 30269	**North America – Western Commodity Lumber** Tel: 1-844-702-2860 Fax: (604) 422-3232 1600 - 4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2
Export – All Species/Inquiries Tel: (604) 422-3468 Fax: (604) 422-3250 1600-4720 Kingsway Metrotower II Burnaby, BC, Canada V5H 4N2	**China** Tel: +86-150-0198-8187 Room 710, 7th Floor Guangbao Technology Building T8, Sincere Center No. 3, Lane 187, Xinghong Road Huacao Town, Minhang District Shanghai 201107	**Japan** Tel: +03-5641-2351 Fax: +03-5641-2383 Kasahara Bldg. 6F, 1-7-7 Nihonbashi, Ningyocho, Chuo-ku Tokyo, Japan 103 - 0013
Europe Tel: +33-2-40-32-05-25 Fax: +33-2-40-32-02-25 ZI Cheviré 7 rue de l'Houmaille 44340 BOUGUENAIS, France		

OPERATIONS AND LOCATIONS

Acorn Division **(Sawmill)** Tel: (604) 581-0494 Fax: (604) 581-5757 9355 Alaska Way Delta, BC V4C 4R7	**Adams Lake Division** **(Sawmill and Woodlands)** Tel: (250) 679-3234 Fax: (250) 679-3545 9200 Holding Road Chase, BC V0E 1M2	**Baxley Division** **(Sawmill)** Tel: (912) 367-3671 Fax: (912) 367-1500 1830 Golden Isles East Baxley, GA 31513
Castlegar Division **(Sawmill and Woodlands)** Tel: (250) 365-4400 Fax: (604) 422-3252 P.O. Box 3728 2705 Arrow Lakes Drive Castlegar, BC V1N 3W4	**Cedarprime** **(Remanufacturing)** **Interfor Cedarprime Inc.** Tel: (360) 988-2120 Fax: (360) 988-2126 601C West Front Street Sumas, WA 98295	**Coastal Woodlands Division** **(Woodlands)** Tel: (250) 286-1881 Fax: (250) 286-3412 1250A Ironwood Street Campbell River, BC V9W 6H5
Eatonton Division **(Sawmill)** Tel: (706) 485-4271 Fax: (706) 485-3879 370 Dennis Station Road SW Eatonton, GA 31024	**Georgetown Division** **(Sawmill)** Tel: (843) 546-6138 Fax: (843) 527-4033 2701 Indian Hut Road Georgetown, SC 29440-9146	**Gilchrist Division** **(Sawmill)** Tel: (541) 433-2222 Fax: (541) 433-9581 P.O. Box 638 #1 Sawmill Road Gilchrist, OR 97737
Grand Forks Division **(Sawmill and Woodlands)** Tel: (250) 443-2400 Fax: (604) 422-3253 P.O. Box 39 570 68th Ave. Grand Forks, BC V0H 1H0	**Hammond Division** **(Sawmill)** Tel: (604) 465-5401 Fax: (604) 422-3221 20580 Maple Crescent Maple Ridge, BC V2X 1B1	**Longview Division** **(Sawmill)** Tel: (360) 575-3600 Fax: (360) 575-3628 540 3rd Ave. Longview, WA 98632
Meldrim Division **(Sawmill)** Tel: (912) 748-7310 Fax: (912) 584-7099 P.O. Box Drawer A Meldrim, GA 31318 (mailing address) 911 Old River Road Bloomingdale, GA 31302	**Molalla Division** **(Sawmill)** Tel: (503) 829-9131 Fax: (503) 829-5481 15555 S. Hwy. 211 Molalla, OR 97038	**Monticello Division** **(Sawmill)** Tel: (870) 224-7200 Fax: (870) 367-7924 211 Old Troy Road Monticello, AR 71655
Perry Division **(Sawmill & Remanufacturing)** Tel: (478) 987-2105 Fax: (478) 987-5773 903 Jernigan Street Perry, GA 31069-3435	**Port Angeles Division** **(Sawmill)** Tel: (360) 457-6266 Fax: (360) 457-1486 243701 Highway 101 West Port Angeles, WA 98363	**Preston Division** **(Sawmill)** Tel: (229) 828-3555 Fax: (229) 828-4370 378 Tolleson Road Preston, GA 31824
Swainsboro Division **(Sawmill)** Tel: (912) 562-4441 Fax: (912) 562-3621 8796 Highway 297 Swainsboro, GA 30401	**Thomaston Division** **(Sawmill)** Tel: (706) 648-4900 Fax: (706) 646-3534 75 Ben Hill Road Thomaston, GA 30286	

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