INTERFOR

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
**For the three months ended March 31, 2019 and 2018 (unaudited)**

| (thousands of Canadian Dollars except earnings per share) | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| | | (note 3(a)) |
| **Sales (note 12)** | $ 451,163 | $ 527,644 |
| **Costs and expenses:** | | |
| Production | 413,183 | 417,397 |
| Selling and administration | 10,565 | 13,829 |
| Long term incentive compensation expense | 1,983 | 4,858 |
| U.S. countervailing and anti-dumping duty deposits (note 14(a)) | 11,118 | 12,929 |
| Depreciation of plant and equipment (note 8) | 19,722 | 20,021 |
| Depletion and amortization of timber, roads and other (note 8) | 9,737 | 11,764 |
| | 466,308 | 480,798 |
| **Operating earnings (loss) before write-downs and restructuring** | (15,145) | 46,846 |
| Capital asset write-downs and restructuring costs (note 9) | 1,665 | 236 |
| **Operating earnings (loss)** | (16,810) | 46,610 |
| Finance costs (note 10) | (4,176) | (3,411) |
| Other foreign exchange gain | 340 | 111 |
| Other expense | (164) | (178) |
| | (4,000) | (3,478) |
| **Earnings (loss) before income taxes** | (20,810) | 43,132 |
| Income tax expense (recovery): | | |
| Current | 160 | 770 |
| Deferred | (5,668) | 9,697 |
| | (5,508) | 10,467 |
| **Net earnings (loss)** | $ (15,302) | $ 32,665 |
| **Net earnings (loss) per share, basic and diluted (note 11)** | $ (0.23) | $ 0.47 |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
**For the three months ended March 31, 2019 and 2018 (unaudited)**

| (thousands of Canadian Dollars) | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| | | (note 3(a)) |
| **Net earnings (loss)** | $ (15,302) | $ 32,665 |
| **Other comprehensive income (loss):** | | |
| **Items that will not be recycled to Net earnings (loss):** | | |
| Defined benefit plan actuarial gain, net of tax | 572 | 885 |
| **Items that are or may be recycled to Net earnings (loss):** | | |
| Foreign currency translation differences for foreign operations, net of tax | (12,873) | 12,833 |
| **Total other comprehensive income (loss), net of tax** | (12,301) | 13,718 |
| **Comprehensive income (loss)** | $ (27,603) | $ 46,383 |

**See accompanying notes to consolidated financial statements**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the three months ended March 31, 2019 and 2018 (unaudited)**

| (thousands of Canadian Dollars) | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| | | (note 3(a)) |
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| **Net earnings (loss)** | $ (15,302) | $ 32,665 |
| **Items not involving cash:** | | |
| Depreciation of plant and equipment (note 8) | 19,722 | 20,021 |
| Depletion and amortization of timber, roads and other (note 8) | 9,737 | 11,764 |
| Income tax expense | (5,508) | 10,467 |
| Finance costs (note 10) | 4,176 | 3,411 |
| Other assets | 17 | (295) |
| Reforestation liability | 2,507 | 2,289 |
| Provisions and other liabilities | (203) | (2,816) |
| Stock options | 108 | 137 |
| Write-down of plant, equipment and intangibles (note 9) | 1,723 | 219 |
| Unrealized foreign exchange loss (gain) | (56) | 83 |
| Other expense | 164 | 178 |
| | 17,085 | 78,123 |
| **Cash generated from (used in) operating working capital:** | | |
| Trade accounts receivable and other | (14,575) | (10,748) |
| Inventories | (27,170) | (34,037) |
| Prepayments | (2,869) | (4,255) |
| Trade accounts payable and provisions | (30,524) | (7,839) |
| Income taxes paid | (297) | (171) |
| | (58,350) | 21,073 |
| **Investing activities:** | | |
| Additions to property, plant and equipment | (35,926) | (12,039) |
| Additions to roads and bridges | (7,844) | (6,082) |
| Additions to timber licenses and other intangible assets | (52) | 13 |
| Proceeds on disposal of property, plant and equipment | 108 | 109 |
| Net proceeds from (additions to) marketable securities, deposits and other assets | 46,771 | (502) |
| | 3,057 | (18,501) |
| **Financing activities:** | | |
| Issuance of share capital, net of expenses | 63 | 143 |
| Share repurchases | (7,825) | - |
| Interest payments | (2,580) | (3,033) |
| Lease liability payments | (2,986) | (2,189) |
| Debt refinancing costs | (1,019) | (1) |
| Change in operating line components of long term debt (note 6) | - | (1) |
| Additions to long term debt (note 6) | 197,925 | - |
| Repayments of long term debt (note 6) | (197,175) | - |
| | (13,597) | (5,081) |
| **Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency** | (2,748) | 1,725 |
| **Decrease in cash and cash equivalents** | (71,638) | (784) |
| **Cash and cash equivalents, beginning of period** | 166,152 | 131,600 |
| **Cash and cash equivalents, end of period** | $ 94,514 | $ 130,816 |

**See accompanying notes to consolidated financial statements**

INTERFOR

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
**March 31, 2019, December 31, 2018 and January 1, 2018 (unaudited)**

| (thousands of Canadian Dollars) | Mar. 31, 2019 | Dec. 31, 2018 | Jan. 1, 2018 |
|---|---|---|---|
| | | (note 3(a)) | (note 3(a)) |
| **Assets** | | | |
| **Current assets:** | | | |
| Cash and cash equivalents | $ 94,514 | $ 166,152 | $ 131,600 |
| Marketable securities | - | 42,863 | - |
| Trade accounts receivable and other | 104,528 | 90,384 | 112,470 |
| Income tax receivable | 2,938 | 3,008 | 1,289 |
| Inventories (note 5) | 235,231 | 209,178 | 165,156 |
| Prepayments | 19,513 | 16,833 | 12,186 |
| | 456,724 | 528,418 | 422,701 |
| **Employee future benefits** | 1,058 | 303 | 502 |
| **Deposits and other assets** | 11,362 | 16,842 | 6,404 |
| **Right of use assets** | 38,220 | 37,778 | 38,600 |
| **Property, plant and equipment** | 726,778 | 723,773 | 669,165 |
| **Roads and bridges** | 32,776 | 29,829 | 24,092 |
| **Timber licences** | 63,549 | 64,153 | 66,589 |
| **Other intangible assets** | 4,358 | 5,288 | 14,170 |
| **Goodwill** | 155,819 | 158,799 | 147,081 |
| **Deferred income taxes** | 872 | 133 | 253 |
| | $ 1,491,516 | $ 1,565,316 | $ 1,389,557 |
| **Liabilities and Shareholders' Equity** | | | |
| **Current liabilities:** | | | |
| Trade accounts payable and provisions | $ 124,945 | $ 154,869 | $ 152,355 |
| Reforestation liability | 14,212 | 13,947 | 12,873 |
| Lease liability | 10,577 | 10,158 | 8,019 |
| Income taxes payable | 202 | 356 | 224 |
| | 149,936 | 179,330 | 173,471 |
| **Reforestation liability** | 30,879 | 28,235 | 27,535 |
| **Lease liability** | 33,660 | 33,954 | 36,165 |
| **Long term debt (notes 6 and 13)** | 267,260 | 272,840 | 250,900 |
| **Employee future benefits** | 8,880 | 8,687 | 8,249 |
| **Provisions and other liabilities** | 16,252 | 16,421 | 25,808 |
| **Deferred income taxes** | 51,140 | 57,083 | 17,877 |
| **Equity:** | | | |
| Share capital (note 7) | 533,539 | 537,534 | 555,388 |
| Contributed surplus | 3,931 | 3,851 | 8,582 |
| Translation reserve | 71,520 | 84,393 | 40,733 |
| Retained earnings | 324,519 | 342,988 | 244,849 |
| | 933,509 | 968,766 | 849,552 |
| | $ 1,491,516 | $ 1,565,316 | $ 1,389,557 |

**Contingencies (note 14)**

**See accompanying notes to consolidated financial statements**

Approved on behalf of the Board:

*"L. Sauder"*
Director

*"Thomas V. Milroy"*
Director

INTERFOR

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**For the three months ended March 31, 2019 and 2018 (unaudited)**

| (thousands of Canadian Dollars) | Share Capital | Contributed Surplus | Translation Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance at January 1, 2018 (note 3(a))** | $ 555,388 | $ 8,582 | $ 40,733 | $ 244,849 | $ 849,552 |
| **Net earnings:** | - | - | - | 111,058 | 111,058 |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax (note 3(a)) | - | - | 43,660 | - | 43,660 |
| Defined benefit plan actuarial gain, net of tax | - | - | - | 508 | 508 |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 7) | (18,068) | (5,434) | - | (13,427) | (36,929) |
| Share repurchases (note 7) | 214 | (71) | - | - | 143 |
| Stock options (note 7) | - | 774 | - | - | 774 |
| **Balance at December 31, 2018 (note 3(a))** | $ 537,534 | $ 3,851 | $ 84,393 | $ 342,988 | $ 968,766 |
| **Net loss:** | - | - | - | (15,302) | (15,302) |
| **Other comprehensive earnings (loss):** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax | - | - | (12,873) | - | (12,873) |
| Defined benefit plan actuarial gain, net of tax | - | - | - | 572 | 572 |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 7) | 91 | (28) | - | - | 63 |
| Share repurchases (note 7) | (4,086) | - | - | (3,739) | (7,825) |
| Stock options (note 7) | - | 108 | - | - | 108 |
| **Balance at March 31, 2019** | $ 533,539 | $ 3,931 | $ 71,520 | $ 324,519 | $ 933,509 |
| **Balance at January 1, 2018 (note 3(a))** | $ 555,388 | $ 8,582 | $ 40,733 | $ 244,849 | $ 849,552 |
| **Net earnings:** | - | - | - | 32,665 | 32,665 |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax (note 3(a)) | - | - | 12,833 | - | 12,833 |
| Defined benefit plan actuarial gain, net of tax | - | - | - | 885 | 885 |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 7) | 214 | (71) | - | - | 143 |
| Stock options (note 7) | - | 137 | - | - | 137 |
| **Balance at March 31, 2018 (note 3(a))** | $ 555,602 | $ 8,648 | $ 53,566 | $ 278,399 | $ 896,215 |

**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 unaudited condensed consolidated interim financial statements ("financial statements") as at March 31, 2019, December 31, 2018 and January 1, 2018, and for the three months ended March 31, 2019 and 2018 comprise the accounts of Interfor Corporation and its subsidiaries.

## 2. Basis of Preparation:

### (a) Statement of compliance:

These interim financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements do not include all information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018.

This is the first set of financial statements in which IFRS 16, *Leases*, has been applied. Changes in significant accounting polices are described in note 3(a).

These interim financial statements were approved by Interfor's Board of Directors on May 2, 2019.

### (b) Basis of measurement:

These financial statements are 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 the 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 benefit obligations on a plan by plan basis; and

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

The functional and presentation currency of the parent company is the Canadian Dollar.

## 3. Significant accounting policies:

Except as described below, these interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2018 annual consolidated financial statements, which are available on www.sedar.com.

### (a) Changes in significant accounting policies:

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

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

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

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

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

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

**3. Significant accounting policies (continued):**

**(a) Changes in significant accounting policies (continued):**

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

Interfor used certain practical expedients and applied exemptions for short term and low value leases, which are expensed over the lease term.

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements:

| | As previously reported | Adjustment | As adjusted |
|---|---|---|---|
| **Consolidated Statement of Earnings for the three months ended March 31, 2018:** | | | |
| Sales | $ 527,644 | $ - | $ 527,644 |
| Costs and expenses | | | |
| Production | 419,582 | (2,185) | 417,397 |
| Selling and administration | 14,073 | (244) | 13,829 |
| Long term incentive compensation | 4,858 | - | 4,858 |
| U.S. countervailing and anti-dumping duty deposits | 12,929 | - | 12,929 |
| Depreciation of plant and equipment | 20,068 | (47) | 20,021 |
| Depletion and amortization of timber, roads and other | 9,417 | 2,347 | 11,764 |
| | 480,927 | (129) | 480,798 |
| Operating earnings before write downs and restructuring | 46,717 | 129 | 46,846 |
| Capital assets write-downs and restructuring costs | 236 | - | 236 |
| Operating earnings | 46,481 | 129 | 46,610 |
| Finance costs | (2,905) | (506) | (3,411) |
| Other foreign exchange gain | 111 | - | 111 |
| Other expense | (178) | - | (178) |
| | (2,972) | (506) | (3,478) |
| Earnings before income taxes | 43,509 | (377) | 43,132 |
| Income tax expense | | | |
| Current | 770 | - | 770 |
| Deferred | 9,763 | (66) | 9,697 |
| | 10,533 | (66) | 10,467 |
| Net earnings | $ 32,976 | $ (311) | $ 32,665 |
| Net earnings per share, basic and diluted | $ (0.47) | $ (0.00) | $ (0.47) |
| **Consolidated Statement of Comprehensive Income for the three months ended March 31, 2018:** | | | |
| Net earnings | $ 32,976 | $ (311) | $ 32,665 |
| Other comprehensive income: | | | |
| Items that will not be recycled to Net earnings: | | | |
| Defined benefit plan actuarial gain, net of tax | 885 | - | 885 |
| Items that are or may be recycled to Net earnings: | | | |
| Foreign currency translation differences for foreign operations, net of tax | 12,847 | (14) | 12,833 |
| Total other comprehensive income, net of tax | 13,732 | (14) | 13,718 |
| Comprehensive income | $ 46,708 | $ (325) | $ 46,383 |

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

## 3. Significant accounting policies (continued):

### (a) Changes in significant accounting policies (continued):

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements (continued):

| | | | |
|---|---|---|---|
| **Consolidated Statement of Cash Flows for the three months ended March 31, 2018:** | | | |
| Cash provided by (used in): | | | |
| Operating activities: | | | |
| Net earnings | $ 32,976 | $ (311) | $ 32,665 |
| Depreciation of plant and equipment | 20,068 | (47) | 20,021 |
| Depletion and amortization of timber, roads and other | 9,417 | 2,347 | 11,764 |
| Income tax expense | 10,533 | (66) | 10,467 |
| Finance costs | 2,905 | 506 | 3,411 |
| Provisions and other liabilities | (2,842) | 26 | (2,816) |
| Unrealized foreign exchange loss (gain) | (101) | 184 | 83 |
| Cash generated by operations before working capital changes | 75,484 | 2,639 | 78,123 |
| Trade accounts receivable and other | (10,896) | 148 | (10,748) |
| Prepayments | (4,325) | 70 | (4,255) |
| Trade accounts payable and provisions | (7,544) | (295) | (7,839) |
| Cash generated by operating activities | 18,511 | 2,562 | 21,073 |
| Investing activities: | | | |
| Net additions to marketable securities, deposits and other assets | (486) | (16) | (502) |
| Cash used in investing activities | (18,485) | (16) | (18,501) |
| Financing activities: | | | |
| Interest payments | (2,676) | (357) | (3,033) |
| Payment of lease liabilities | - | (2,189) | (2,189) |
| Cash used in financing activities | (2,535) | (2,546) | (5,081) |

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

**3. Significant accounting policies (continued):**

**(a) Changes in significant accounting policies (continued):**

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements (continued):

| | As previously Reported | Adjustment | As adjusted | As previously Reported | Adjustment | As adjusted |
|---|---|---|---|---|---|---|
| **Consolidated Statement of Financial Position:** | **As at January 1, 2018:** | | | **As at December 31, 2018:** | | |
| Prepayments and other | $ 12,562 | $ (376) | $ 12,186 | $ 17,307 | $ (474) | $ 16,833 |
| Total current assets | 423,077 | (376) | 422,701 | 528,892 | (474) | 528,418 |
| Right of use assets | - | 38,600 | 38,600 | - | 37,778 | 37,778 |
| Property, plant and equipment | 670,830 | (1,665) | 669,165 | 725,266 | (1,493) | 723,773 |
| Deferred income tax asset | 251 | 2 | 253 | 132 | 1 | 133 |
| Total assets | $ 1,352,996 | $ 36,561 | $ 1,389,557 | $ 1,529,504 | $ 35,812 | $ 1,565,316 |
| Trade accounts payable and provisions | $ 152,854 | $ (499) | $ 152,355 | $ 155,434 | $ (565) | $ 154,869 |
| Lease liability | - | 8,019 | 8,019 | - | 10,158 | 10,158 |
| Total current liabilities | 165,951 | 7,520 | 173,471 | 169,737 | 9,593 | 179,330 |
| Long term lease liability | - | 36,165 | 36,165 | - | 33,954 | 33,954 |
| Provisions and other liabilities | 26,976 | (1,168) | 25,808 | 17,413 | (992) | 16,421 |
| Deferred income tax payable | 19,197 | (1,320) | 17,877 | 58,527 | (1,444) | 57,083 |
| Translation reserve | 40,720 | 13 | 40,733 | 84,423 | (30) | 84,393 |
| Retained earnings | 249,498 | (4,649) | 244,849 | 348,257 | (5,269) | 342,988 |
| Total equity | 854,188 | (4,636) | 849,552 | 974,065 | (5,299) | 968,766 |
| Total liabilities and shareholders' equity | $ 1,352,996 | $ 36,561 | $ 1,389,557 | $ 1,529,504 | $ 35,812 | $ 1,565,316 |
| **Consolidated Statements of Changes in Equity:** | **As at March 31, 2018:** | | | **As at December 31, 2018:** | | |
| Balance at January 1, 2018 | | | | | | |
| Translation reserve | $ 40,720 | $ 13 | $ 40,733 | $ 40,720 | $ 13 | $ 40,733 |
| Retained earnings | 249,498 | (4,649) | 244,849 | 249,498 | (4,649) | 244,849 |
| Total equity | 854,188 | (4,636) | 849,552 | 854,188 | (4,636) | 849,552 |
| Net earnings | 32,976 | (311) | 32,665 | 111,678 | (620) | 111,058 |
| Foreign currency translation differences for foreign operations, net of tax | 12,847 | (14) | 12,833 | 43,703 | (43) | 43,660 |
| Balance at end of period | | | | | | |
| Translation reserve | 53,567 | (1) | 53,566 | 84,423 | (30) | 84,393 |
| Retained earnings | 283,359 | (4,960) | 278,399 | 348,257 | (5,269) | 342,988 |
| Total equity | 901,176 | (4,961) | 896,215 | 974,065 | (5,299) | 968,766 |

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

**3. Significant accounting policies (continued):**

**(a) Changes in significant accounting policies (continued):**

The Company leases property, facilities, mobile equipment and foreshore and other rights, which represent ROU assets. Information about leases for which the Company is a lessee is presented below.

***Right of use assets:***

| Cost | Property | Facilities | Mobile Equipment | Foreshore and Other Rights | Total |
|---|---|---|---|---|---|
| Balance at December 31, 2017 | $ 21,414 | $ 11,430 | $ 21,090 | $ 5,207 | $ 59,141 |
| Additions | 134 | 241 | 7,531 | 557 | 8,463 |
| Disposals | - | (32) | (1,831) | (41) | (1,904) |
| Revaluations | 7 | 337 | 1,174 | - | 1,518 |
| Balance at December 31, 2018 | $ 21,555 | $ 11,976 | $ 27,964 | $ 5,723 | $ 67,218 |
| **Accumulated Depreciation** | **Property** | **Facilities** | **Mobile Equipment** | **Foreshore and Other Rights** | **Total** |
| Balance at December 31, 2017 | $ 6,701 | $ 3,174 | $ 8,206 | $ 2,460 | $ 20,541 |
| Depreciation | 1,162 | 1,457 | 6,964 | 517 | 10,100 |
| Disposals | - | (32) | (1,831) | (41) | (1,904) |
| Revaluations | 1 | 111 | 591 | - | 703 |
| Balance at December 31, 2018 | $ 7,864 | $ 4,710 | $ 13,930 | $ 2,936 | $ 29,440 |
| Net book value at December 31, 2018 | $ 13,691 | $ 7,266 | $ 14,034 | $ 2,787 | $ 37,778 |

***Lease liabilities:***

| Maturity analysis - contractual undiscounted cash flows: | Dec. 31, 2018 |
|---|---|
| Due within one year | $ 11,168 |
| One to five years | 19,758 |
| More than five years | 14,225 |
| Total undiscounted lease liabilities | $ 45,151 |
| Current | $ 10,158 |
| Non-current | 33,954 |
| Lease liabilities in Statement of Financial Position | $ 44,112 |

***Amounts recognised in Statement of Earnings before income tax:***

| | Year ended Dec. 31, 2018 |
|---|---|
| Depreciation on ROU assets | $ 10,100 |
| Interest on lease liabilities | 2,042 |
| Expenses relating to short-term leases | 4,639 |
| Expenses relating to leases of low-value assets | 254 |
| | $ 17,035 |

***Amounts recognised in the Statement of Cash Flows:***

| | Year ended Dec. 31, 2018 |
|---|---|
| Cash payments for short-term and low-value leases | $ 4,893 |
| Lease liability payments | 9,936 |
| Interest payments | 2,042 |
| Total cash outflow for leases | $ 16,871 |

**(b) New standard and interpretations not yet adopted:**

Several new standards and amendments to standards and interpretations are not yet effective for the quarter ended March 31, 2019 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

**4. Seasonality of operating results:**

Quarterly operating results of the Company reflect the seasonality of its operations and markets. 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.

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

## 5. Inventories:

| | Mar. 31, 2019 | Dec. 31, 2018 |
|---|---|---|
| Lumber | $ 113,209 | $ 95,563 |
| Logs | 104,848 | 98,018 |
| Other | 17,174 | 15,597 |
| | $ 235,231 | $ 209,178 |

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at March 31, 2019 was $15,534,000 (December 31, 2018 - $19,631,000).

## 6. Borrowings:

| March 31, 2019 | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit | $ 350,000 | $ 267,260 | $ 617,260 |
| Maximum borrowing available | 350,000 | 267,260 | 617,260 |
| Drawings | - | 267,260 | 267,260 |
| Outstanding letters of credit included in line utilization | 19,249 | - | 19,249 |
| Unused portion of line | $ 330,751 | $ - | $ 330,751 |

| December 31, 2018 | U.S. Operating Line | Operating Line | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|---|---|
| Available line of credit | $ 68,210 | $ 65,000 | $ 200,000 | $ 272,840 | $ 606,050 |
| Maximum borrowing available | 50,590 | 65,000 | 200,000 | 272,840 | 588,430 |
| Drawings | - | - | - | 272,840 | 272,840 |
| Outstanding letters of credit included in line utilization | 2,810 | 14,858 | - | - | 17,668 |
| Unused portion of line | $ 47,780 | $ 50,142 | $ 200,000 | $ - | $ 297,922 |

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

| | |
|---|---|
| Twelve months ending | |
| March 31, 2020 | $ - |
| March 31, 2021 | 7,238 |
| March 31, 2022 | 7,238 |
| March 31, 2023 | 7,239 |
| March 31, 2024 | 44,543 |
| Thereafter | 201,002 |
| | $ 267,260 |

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

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| Drawings at December 31 | $ 272,840 | $ 250,900 |
| Operating line net drawings (repayments) | - | (1) |
| Additions to long term debt | 197,925 | - |
| Repayments of long term debt | (197,175) | - |
| Effect of changes in foreign exchange rates | (6,330) | 6,981 |
| Drawings at March 31 | $ 267,260 | $ 257,880 |

### (a) Revolving Term Line and Operating Line:

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

The Line may be drawn in either CAD$ or US$ advances, and bears interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of net debt to invested capital.

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

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

As at March 31, 2019, including outstanding letters of credit, the Line was drawn by $16,304,000 (December 31, 2018 – $14,771,000) and US$2,204,000 (December 31, 2018 - US$64,000) revalued at the quarter-end exchange rate to $2,945,000 (December 31, 2018 - $87,000) for total borrowings of $19,249,000 (December 31, 2018 - $14,858,000).

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

**6. Borrowings (continued):**

**(a) Revolving Term Line and Operating Line (continued):**

As at March 31, 2019, $330,751,000 of the Line was unused (December 31, 2018 - $250,142,000). As U.S. Dollar drawings under the Line have been designated as a hedge against the Company's investment in its U.S. operations, the Company recognized a foreign exchange gain of $750,000 (Quarter 1, 2018 - $1,000 loss) in Foreign currency translation differences in Other comprehensive income for the first quarter, 2019.

**(b) Senior Secured Notes:**

As at March 31, 2019, the Company's Senior Secured Notes consisted of the following:

| | Mar. 31, 2019 | Dec. 31, 2018 |
|---|---|---|
| Series A (US$4,450,000) | $ 5,947 | $ 6,071 |
| Series B (US$11,800,000) | 15,768 | 16,098 |
| Series C (US$100,000,000) | 133,630 | 136,420 |
| Series D (US$45,550,000) | 60,868 | 52,112 |
| Series E (US$38,200,000) | 51,047 | 62,139 |
| | $ 267,260 | $ 272,840 |

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. On March 29, 2019, the Company amended the financing agreement to reduce the security requirements, financial covenants and certain other restrictions.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $5,580,000 in the first quarter, 2019 (Quarter 1, 2018 - $6,980,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

**(c) U.S. Operating Line:**

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

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

**7. Share capital:**

The transactions in share capital are described below:

| | Number | Amount |
|---|---|---|
| Balance, December 31, 2017 | 70,030,455 | $ 555,388 |
| Exercise of stock options | 7,707 | 214 |
| Repurchase of common shares | (2,277,540) | (18,068) |
| Balance, December 31, 2018 | 67,760,622 | $ 537,534 |
| Exercise of stock options in first quarter, 2019 | 5,965 | 91 |
| Repurchase of common shares in first quarter, 2019 | (515,100) | (4,086) |
| Balance, March 31, 2019 | 67,251,487 | $ 533,539 |

On March 4, 2019, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 6,652,006 common shares, representing approximately 10% of its common shares issued and outstanding as at March 4, 2019. This NCIB began on March 7, 2019 and expires on March 6, 2020. During the first three months of 2019, Interfor purchased and cancelled 515,100 common shares (Quarter 1, 2018 – no share repurchases) at an average price of $15.19 for a cost of $7,825,000.

**8. Depreciation, depletion and amortization:**

Depreciation, depletion and amortization by function are as follows:

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| Production | $ 27,622 | $ 29,735 |
| Selling and administration | 1,837 | 2,050 |
| | $ 29,459 | $ 31,785 |

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

## 9. Capital asset write-downs and restructuring costs:

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| Write-down of equipment and intangibles | $ 1,723 | $ 219 |
| Severance and legal (recovery) | (53) | 17 |
| Site closure costs (recovery) | (5) | - |
| | $ 1,665 | $ 236 |

The Company recorded asset write-downs primarily equipment to be replaced in conjunction with capital projects to rebuild and modernize certain of its sawmills in the U.S. in the first quarter of 2019. The asset write-down in the first quarter of 2018 related to impairment of certain software costs.

## 10. Finance costs:

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| Interest expense on: | | |
| Borrowings | $ 2,912 | $ 2,938 |
| Lease liabilities | 520 | 506 |
| Defined benefit obligations | 724 | 563 |
| Interest revenue from: | | |
| Marketable securities and other | (551) | (460) |
| Defined benefit assets | (492) | (454) |
| Unwind of discount on provisions | 161 | 163 |
| Amortization of deferred finance costs | 902 | 155 |
| | $ 4,176 | $ 3,411 |

## 11. Net earnings (loss) per share:

Net earnings (loss) per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

| | Three Months Mar. 31, 2019 | | | Three Months Mar. 31, 2018 | | |
|---|---|---|---|---|---|---|
| | Net loss | Weighted Average Number of Shares | Per share | Net earnings | Weighted Average Number of Shares | Per share |
| Issued shares at December 31 | | 67,760,622 | | | 70,030,455 | |
| Effect of shares issued in first three months | | 3,188 | | | 2,669 | |
| Effect of shares repurchased in first three months | | (415,393) | | | - | |
| Basic earnings (loss) per share | $ (15,302) | 67,348,417 | $ (0.23) | $ 32,665 | 70,033,124 | $ 0.47 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 30,135 | | | 88,371 | |
| Diluted earnings (loss) per share | $ (15,302) | 67,348,417* | $ (0.23) | $ 32,665 | 70,121,495 | $ 0.47 |

* Where the addition of stock options to the total shares outstanding has an anti-dilutive income on the diluted earnings (loss) per share calculation, those stock options have not been included in the total shares outstanding for purposes of the calculation of diluted earnings (loss) per share.

## 12. Segmented information:

The Company manages its business as a single operating segment, being 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 Southeast regions of the U.S.

Sales to both foreign and domestic markets are as follows:

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| United States | $ 322,872 | $ 377,819 |
| Canada | 61,750 | 71,145 |
| Japan | 26,350 | 29,959 |
| China/Taiwan | 11,579 | 24,092 |
| Other export | 28,612 | 24,629 |
| | $ 451,163 | $ 527,644 |

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

**12. Segmented information (continued):**

Sales by product line are as follows:

| | Three Months Mar. 31, 2019 | Three Months Mar. 31, 2018 |
|---|---|---|
| Lumber | $ 380,525 | $ 445,891 |
| Logs | 24,281 | 39,799 |
| Wood chips and other by-products | 42,194 | 40,176 |
| Freight and other | 4,163 | 1,778 |
| | $ 451,163 | $ 527,644 |

**13. Financial instruments:**

At March 31, 2019, the fair value of the Company's Long term debt exceeded its carrying values by $7,576,000 (December 31, 2018 - $1,639,000) measured based on the level 2 of the fair value hierarchy.

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

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 on the Statements of Financial Position.

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 did not trade any foreign exchange contracts or lumber futures in the first quarter of 2019 or 2018.

**14. Contingencies:**

**(a) 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 calculated at 19.88%, and subsequently retroactively amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially calculated at 6.87%, and subsequently retroactively amended to 6.04%. As a result, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at March 31, 2019 (December 31, 2018 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,258,000 (December 31, 2018 - $4,347,000).

Cumulative duties of US$68,713,000 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. Except for US$3,265,000 (December 31, 2018 – 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.

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

**(b) Timber licences:**

Three timber licences held by Interfor for harvesting within the B.C. Coast region (the “Licences”) were cancelled 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 based upon the value of harvesting rights under the Licences and initiated arbitration proceedings in 2017. The Company has negotiated a settlement for the Licences, but has not yet recognized a gain as the settlement is conditional upon final approval by the Government.

Interfor Corporation
P.O. Box 49114, Four Bentall Centre
3500 – 1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1H7
Telephone: (604) 689-6800 Fax: (604) 688-0313

Contact: Martin L. Juravsky, Senior Vice President and Chief Financial Officer

Web Site: www.interfor.com