2019

FINANCIAL STATEMENTS

CANFOR CORPORATION

MANAGEMENT'S RESPONSIBILITY

The information and representations in these consolidated financial statements are the responsibility of management and have been approved by the Board of Directors. The consolidated financial statements were prepared by management in accordance with International Financial Reporting Standards and, where necessary, reflect management's best estimates and judgments at this time. It is reasonably possible that circumstances may arise which cause actual results to differ.

Canfor Corporation maintains systems of internal controls over financial reporting, policies and procedures to provide reasonable assurance as to the reliability of the financial records and the safeguarding of its assets.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the financial statements. The Board carries out these activities primarily through its Audit Committee.

The Audit Committee is comprised of four Directors who are not employees of the Company. The Audit Committee meets periodically throughout the year with management, external auditors and internal auditors to review their respective responsibilities, results of the reviews of internal controls over financial reporting, policies and procedures and financial reporting matters. The external and internal auditors meet separately with the Audit Committee.

The consolidated financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The consolidated financial statements have been audited by KPMG LLP, the external auditors, whose report follows.

February 20, 2020

"*Don B. Kayne*"

Don B. Kayne
President and Chief Executive Officer

"*Alan Nicholl*"

Alan Nicholl
Chief Financial Officer

KPMG LLP
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada
Telephone (604) 691-3000
Fax (604) 691-3031

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Canfor Corporation

Opinion

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

– the consolidated balance sheets as at December 31, 2019 and December 31, 2018;

– the consolidated statements of income (loss) for the years then ended;

– the consolidated statements of other comprehensive income (loss) 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, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

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:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.
- the information, other than the financial statements and the auditors' report thereon, included in a document likely to be entitled "2019 Canfor Corporation 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, or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

The 2019 Canfor Corporation 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 for the financial statements.

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 for the financial statements 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 an 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 judgment 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 presentation.

– Communicate with those charged with governance for the financial statements 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 for the financial statements 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.

– Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company (which is the group entity) to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

KPMG LLP

Chartered Professional Accountants

The engagement partner on the audit resulting in this auditors' report is John Desjardins.

Vancouver, Canada
February 20, 2020

Canfor Corporation
Consolidated Balance Sheets

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
ASSETS				
Current assets				
Cash and cash equivalents	**$**	**60.1**	$	252.7
Accounts receivable - Trade		**259.7**		182.1
- Other		**41.3**		52.4
Income taxes receivable		**112.5**		32.5
Inventories (Note 5)		**803.9**		762.5
Prepaid expenses and other		**64.0**		67.1
Assets held for sale (Note 17)		**69.0**		-
Total current assets		**1,410.5**		1,349.3
Property, plant and equipment (Note 6)		**1,974.5**		1,607.2
Right-of-use assets (Note 7(a))		**68.5**		-
Timber licenses (Note 8)		**445.7**		504.1
Goodwill and other intangible assets (Note 9)		**447.3**		268.3
Long-term investments and other (Note 10)		**173.7**		110.4
Retirement benefit surplus (Note 14)		**5.9**		4.9
Deferred income taxes, net (Note 22)		**0.9**		0.9
Total assets	**$**	**4,527.0**	$	3,845.1
LIABILITIES				
Current liabilities				
Accounts payable and accrued liabilities (Note 11)	**$**	**478.4**	$	458.9
Operating loans (Note 12)		**382.0**		-
Current portion of deferred reforestation obligations (Note 15)		**51.0**		52.9
Current portion of long-term debt (Note 13)		**13.0**		0.4
Other current liability (Note 29(a))		**13.0**		-
Current portion of lease obligations (Note 7(b))		**21.3**		-
Income taxes payable		**5.5**		-
Liabilities held for sale (Note 17)		**3.3**		-
Total current liabilities		**967.5**		512.2
Long-term debt (Note 13)		**681.7**		408.0
Retirement benefit obligations (Note 14)		**237.0**		254.7
Lease obligations (Note 7(b))		**50.9**		-
Deferred reforestation obligations (Note 15)		**56.3**		63.9
Other long-term liabilities (Notes 16, 17 and 29(b))		**32.9**		24.6
Put liability (Notes 28 and 29(b))		**111.9**		-
Deferred income taxes, net (Note 22)		**319.9**		241.8
Total liabilities	**$**	**2,458.1**	$	1,505.2
EQUITY				
Share capital (Note 18)	**$**	**987.9**	$	987.9
Contributed surplus and other equity (Note 29(b))		**(82.8)**		31.9
Retained earnings		**674.3**		931.1
Accumulated other comprehensive income		**65.9**		105.5
Total equity attributable to equity shareholders of the Company		**1,645.3**		2,056.4
Non-controlling interests (Note 19)		**423.6**		283.5
Total equity	**$**	**2,068.9**	$	2,339.9
Total liabilities and equity	**$**	**4,527.0**	$	3,845.1

Commitments and Contingencies (Note 26) and **Subsequent Event** (Note 30)

The accompanying notes are an integral part of these consolidated financial statements.

APPROVED BY THE BOARD

"R.S. Smith" *"C.A. Pinette"*

Director, R.S. Smith Director, C.A. Pinette

Canfor Corporation
Consolidated Statements of Income (Loss)

(millions of Canadian dollars, except per share data)	Years ended December 31, **2019**	2018
Sales	**$ 4,658.3**	$ 5,044.4
Costs and expenses		
Manufacturing and product costs	**3,581.5**	3,244.5
Freight and other distribution costs	**684.1**	643.7
Countervailing and anti-dumping duty expense, net (Note 30)	**178.7**	169.1
Amortization	**362.2**	270.5
Selling and administration costs	**124.9**	108.0
Restructuring, mill closure and severance costs (Note 17)	**21.2**	-
	4,952.6	4,435.8
Operating income (loss)	**(294.3)**	608.6
Finance expense, net (Note 21)	**(57.5)**	(26.0)
Foreign exchange gain (loss) on long-term debt	**6.8**	(10.9)
Foreign exchange gain (loss) on duties recoverable, net	**(3.1)**	6.1
Gain (loss) on derivative financial instruments (Note 28)	**(26.4)**	1.1
Other income, net	**9.6**	9.9
Net income (loss) before income taxes	**(364.9)**	588.8
Income tax recovery (expense) (Note 22)	**95.2**	(149.8)
Net income (loss)	**$ (269.7)**	$ 439.0
Net income (loss) attributable to:		
Equity shareholders of the Company	**$ (263.0)**	$ 354.9
Non-controlling interests (Note 19)	**(6.7)**	84.1
Net income (loss)	**$ (269.7)**	$ 439.0
Net income (loss) per common share: (in Canadian dollars)		
Attributable to equity shareholders of the Company		
- Basic and diluted (Note 18)	**$ (2.10)**	$ 2.78

The accompanying notes are an integral part of these consolidated financial statements.

Canfor Corporation
Consolidated Statements of Other Comprehensive Income (Loss)

(millions of Canadian dollars)		Years ended December 31, **2019**		2018
Net income (loss)	**$**	**(269.7)**	$	439.0
Other comprehensive income (loss)				
Items that will not be recycled through net income (loss):				
Defined benefit plan actuarial gains (Note 14)		**16.2**		6.9
Income tax expense on defined benefit plan actuarial gains (Note 22)		**(4.4)**		(1.9)
	$	**11.8**	$	5.0
Items that may be recycled through net income (loss):				
Foreign exchange translation of foreign operations, net of tax		**(39.6)**		50.4
Other comprehensive income (loss), net of tax		**(27.8)**		55.4
Total comprehensive income (loss)	**$**	**(297.5)**	$	494.4
Total comprehensive income (loss) attributable to:				
Equity shareholders of the Company	**$**	**(294.8)**	$	408.5
Non-controlling interests (Note 19)		**(2.7)**		85.9
Total comprehensive income (loss)	**$**	**(297.5)**	$	494.4

The accompanying notes are an integral part of these consolidated financial statements.

Canfor Corporation
Consolidated Statements of Changes in Equity

(millions of Canadian dollars)		Years ended December 31, 2019		2018
Share capital				
Balance at beginning of year	**$**	**987.9**	$	1,014.9
Share purchases (Note 18)		**-**		(27.0)
Balance at end of year (Note 18)	**$**	**987.9**	$	987.9
Contributed surplus and other equity				
Balance at beginning of year	**$**	**31.9**	$	31.9
Put liability related to Vida acquisition (Notes 28 and 29(b))		**(114.7)**		-
Balance at end of year	**$**	**(82.8)**	$	31.9
Retained earnings				
Balance at beginning of year	**$**	**931.1**	$	629.5
Net income (loss) attributable to equity shareholders of the Company		**(263.0)**		354.9
Defined benefit plan actuarial gains, net of tax		**7.8**		3.2
Impact of change in accounting policy (Notes 4 and 7)		**(1.6)**		-
Share purchases (Note 18)		**-**		(57.8)
Non-controlling interests arising from change in partnership interest in pellet plants		**-**		1.3
Balance at end of year	**$**	**674.3**	$	931.1
Accumulated other comprehensive income				
Balance at beginning of year	**$**	**105.5**	$	55.1
Foreign exchange translation of foreign operations, net of tax		**(39.6)**		50.4
Balance at end of year	**$**	**65.9**	$	105.5
Total equity attributable to equity shareholders of the Company	**$**	**1,645.3**	$	2,056.4
Non-controlling interests				
Balance at beginning of year	**$**	**283.5**	$	269.6
Net income (loss) attributable to non-controlling interests		**(6.7)**		84.1
Defined benefit plan actuarial gains attributable to non-controlling interests, net of tax		**4.0**		1.8
Distributions to non-controlling interests (Note 19)		**(27.8)**		(74.5)
Impact of change in accounting policy (Notes 4 and 7)		**(0.1)**		-
Acquisition of non-controlling interests (Note 29(b))		**170.7**		-
Non-controlling interests arising from change in partnership interest in pellet plants		**-**		2.5
Balance at end of year (Note 19)	**$**	**423.6**	$	283.5
Total equity	**$**	**2,068.9**	$	2,339.9

The accompanying notes are an integral part of these consolidated financial statements.

Canfor Corporation
Consolidated Statements of Cash Flows

(millions of Canadian dollars)	Years ended December 31, 2019	2018
Cash generated from (used in):		
Operating activities		
Net income (loss)	**$ (269.7)**	$ 439.0
Items not affecting cash:		
Amortization	**362.2**	270.5
Income tax expense (recovery)	**(95.2)**	149.8
Long-term portion of deferred reforestation obligations	**(8.9)**	(0.3)
Foreign exchange (gain) loss on long-term debt	**(6.8)**	10.9
Foreign exchange (gain) loss on duty deposits recoverable, net (Note 10)	**3.1**	(6.1)
Adjustment to accrued duties (Note 30)	**41.3**	(25.8)
Changes in mark-to-market value of derivative financial instruments (Note 28)	**16.5**	(19.1)
Employee future benefits expense	**10.9**	11.7
Restructuring, mill closure and severance costs (Note 17)	**21.2**	-
Finance expense, net	**57.5**	26.0
Other, net	**(0.4)**	12.9
Restructuring, mill closure and severance costs paid (Note 17)	**(12.0)**	-
Defined benefit plan contributions, net	**(21.9)**	(28.2)
Income taxes paid, net	**(11.5)**	(222.4)
	86.3	618.9
Net change in non-cash working capital (Note 23)	**114.4**	(82.8)
	200.7	536.1
Financing activities		
Change in operating bank loans (Note 12)	**365.0**	-
Proceeds from long-term debt, net (Note 13)	**281.7**	-
Repayment of long-term debt (Note 13)	**(1.2)**	(0.4)
Payment of lease obligations (Note 7(b))	**(17.9)**	-
Finance expenses paid	**(49.7)**	(23.3)
Share purchases (Note 18)	**-**	(88.5)
Acquisition of non-controlling interests (Note 19)	**(0.2)**	(0.1)
Cash distributions paid to non-controlling interests (Note 19)	**(27.8)**	(74.5)
	549.9	(186.8)
Investing activities		
Additions to property, plant and equipment, timber and intangible assets, net (Notes 6, 8 and 9)	**(302.8)**	(401.4)
Proceeds on disposal of property, plant and equipment	**3.0**	2.6
Consideration paid for acquisition of Vida, net of cash acquired (Note 29(b))	**(562.3)**	-
Vida consideration holdback (Note 29(b))	**(9.7)**	-
First phase investment in Elliott (Note 29(a))	**(56.1)**	-
Term loan to Elliott (Note 29(a))	**(7.7)**	-
Other, net	**(9.0)**	5.4
	(944.6)	(393.4)
Foreign exchange gain on cash and cash equivalents	**1.4**	8.6
Decrease in cash and cash equivalents*	**(192.6)**	(35.5)
Cash and cash equivalents at beginning of year*	**252.7**	288.2
Cash and cash equivalents at end of year*	**$ 60.1**	$ 252.7

*Cash and cash equivalents include cash on hand less unpresented cheques.

The accompanying notes are an integral part of these consolidated financial statements.

1. Reporting Entity

Canfor Corporation is a company incorporated and domiciled in Canada and listed on The Toronto Stock Exchange. The address of the Company's registered office is 100-1700 West 75th Avenue, Vancouver, British Columbia, Canada, V6P 6G2. The consolidated financial statements of the Company as at and for the year ended December 31, 2019 comprise the Company and its subsidiaries, including Canfor Pulp Products Inc. ("CPPI"), as well as the Vida Group of Sweden ("Vida") from the February 28, 2019 acquisition date (hereinafter referred to as "Canfor" or "the Company") and the Company's interests in associates and jointly controlled entities.

Canfor is an integrated forest products company with facilities in Canada, the United States ("US"), and Europe. The Company produces softwood lumber, pulp and paper products, remanufactured lumber products, engineered wood and other lumber-related products, wood pellets, and energy.

2. Basis of Preparation

Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on February 20, 2020.

Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis, except for the following material items:

- Financial instruments classified as measured at fair value;
- Equity investments, initially recognized at cost and subsequently increased or decreased to recognize the investor's share of the investee's equity;
- Asset retirement obligations and deferred reforestation obligations, measured at the discounted value of expected future cash flows; and
- The retirement benefit surplus and obligation related to the defined benefit pension plans, measured net of the accrued benefit obligation and the fair value of the plan assets.

Use of estimates and judgments

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

Canfor regularly reviews its estimates and assumptions; however, it is possible that circumstances may arise which may cause actual results to differ from management estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about the significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements is included in the applicable notes:

- Note 5 – Inventories;
- Note 6 – Property, Plant and Equipment;
- Note 7 – Leases;
- Note 8 – Timber Licenses;
- Note 9 – Goodwill and Other Intangible Assets;
- Note 10 – Long-Term Investments and Other;
- Note 14 – Employee Future Benefits;
- Note 15 – Deferred Reforestation Obligations;
- Note 16 – Asset Retirement Obligations;
- Note 17 – Restructuring Provision and Assets Held for Sale;
- Note 22 – Income Taxes; and
- Note 29 – Acquisitions.

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.

3. Significant Accounting Policies

The following accounting policies have been applied to the financial information presented.

Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when Canfor is able to govern the financial and operating activities of those other entities to generate returns for the Company. Inter-company transactions, balances and unrealized gains and losses on transactions between different entities within the Company are eliminated. Significant subsidiaries include Canadian Forest Products Ltd. and Canfor Southern Pine, Inc. ("CSP"), which are wholly owned, and CPPI and Vida, which Canfor owned 54.8% and 70.0%, respectively, at December 31, 2019.

Associates are those entities in which Canfor exercises significant influence, but not control, over financial and operating policies. Unless circumstances indicate otherwise, significant influence is presumed to exist when Canfor holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method and are recognized initially at cost. The consolidated financial statements include Canfor's share of the post-acquisition income and expenses and equity movement of these equity accounted investees. Joint ventures are accounted for using the equity method of accounting.

Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date. Canfor measures goodwill at the acquisition date as the fair value of the consideration transferred, including any non-controlling interest when applicable, less the fair value of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in net income. Transaction costs in connection with business combinations are expensed as incurred.

Cash and cash equivalents

Cash and cash equivalents include cash in bank accounts and liquid money market instruments with original maturities, or redemption dates, of three months or less from the date of acquisition, and are valued at amortized cost, which approximates market value. Cash is presented net of unpresented cheques. When the amount of unpresented cheques is greater than the amount of cash, the net amount is presented as cheques issued in excess of cash on hand. Interest is earned at variable rates dependent on the amount, credit quality and term of the Company's deposits.

Financial Instruments

Financial instruments comprise cash and cash equivalents, trade and other accounts receivables, certain investments and advances, derivative instruments, accounts payable and accrued liabilities, other liabilities, operating loans and long-term debt, as well as the Company's put liability. Canfor uses derivative financial instruments in the normal course of its operations as a means to manage its foreign exchange, interest rate, lumber price, and energy price risk. Canfor's policy is not to utilize derivative financial instruments for trading or speculative purposes. Canfor's derivative financial instruments are not designated as hedges for accounting purposes.

Classification and measurement of financial assets

Financial assets are classified as either measured at amortized cost, fair value through other comprehensive income ("FVOCI"), or fair value through net income ("FVTPL") based on the business model in which a financial asset is managed, its contractual cash flow characteristics and when certain conditions are met:

- Amortized cost – measured at amortized cost using the effective interest rate method. Where applicable, amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in net income.
- FVOCI – measured at FVOCI if not designated as FVTPL. Interest income, foreign exchange gains and losses and impairment are recognized in net income. Other net gains and losses are recognized in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to net income.
- FVTPL – measured at FVTPL if not classified as amortized cost or FVOCI with net gains and losses, including any interest or dividend income, recognized in net income.

Equity investments are required to be classified as measured at fair value. However, on initial recognition of an equity investment that is not held-for-trading, the Company may irrevocably elect to present subsequent changes in the investments fair value in OCI. This election is made on an investment by investment basis. The Company currently records gains and losses on its equity investments in net income.

Classification and measurement of financial liabilities

Financial liabilities (other than the put liability) are classified as either measured at amortized cost or FVTPL. A financial liability is classified as FVTPL if it is held-for-trading, a derivative, or if it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value with net gains and losses, including interest expense, recognized in net income. Other financial liabilities are initially measured at fair value and subsequently measured at amortized cost using the effective interest rate method. Any gains or losses on derecognition of financial liabilities (other than the put liability) are also recognized in net income. The Company's put liability is measured initially at fair value with subsequent net gains and losses recognized in other equity ("FVTEQ"). Interest expense and foreign exchange gains and losses of all financial liabilities are recognized in net income.

Canfor's financial instruments are classified and subsequently measured as follows:

Financial Assets:	
Cash and cash equivalents	Amortized cost
Trade and other accounts receivables	Amortized cost
Long-term advance	Amortized cost
Investments in debt and equity securities	FVTPL
Futures contracts (lumber and energy)	FVTPL
Foreign exchange forward contracts	FVTPL
Financial Liabilities:	
Accounts payable and accrued liabilities	Amortized cost
Other liabilities	Amortized cost
Operating loans	Amortized cost
Long-term debt	Amortized cost
Put liability	FVTEQ

Impairment

The Company applies the simplified approach in determining expected credit losses ("ECLs"), which requires a probability-weighted estimate of expected lifetime credit losses to be recognized upon initial recognition of financial assets measured at amortized cost and contract assets. Credit losses are measured as the present value of cash shortfalls from all possible default events, discounted at the effective interest rate of the financial asset. Loss allowances for financial assets at amortized cost are deducted from the gross carrying amount of the assets.

Inventories

Inventories include logs, lumber, engineered wood and other lumber-related products, pulp, paper, wood pellets, chips, and materials and supplies. These are measured at the lower of cost and net realizable value and are presented net of applicable write-downs. The cost of inventories is based on the weighted average cost principle, and includes raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses.

Assets Held for Sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses recognized upon initial classification as held for sale, as well as subsequent gains and losses on remeasurement, are recognized in net income. Impairment losses are allocated first to goodwill, if applicable, and then to the remaining assets held for sale on a pro-rata basis, excluding assets that are subject to other measurement requirements in accordance with Canfor's other accounting policies. Once classified as held for sale, intangible assets and property, plant and equipment, are no longer amortized or depreciated.

Leases

Policy applicable from January 1, 2019

Lease Definition

At inception of a contract, the Company assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. An identified asset may be implicitly or explicitly specified in a contract, but must be physically distinct, and must not have the ability for substitution by a lessor. The Company has the right to control an identified asset if it obtains substantially all of its economic benefits and either pre-determines, or directs how and for what purpose the asset is used.

Measurement of Right-of-Use Assets and Lease Obligations

At lease commencement, the Company recognizes a right-of-use asset ("ROU asset") and a lease obligation. The ROU asset is initially measured at cost, which comprises the initial amount of the lease obligation adjusted for any lease payments made at, or before, the commencement date, plus any initial direct costs incurred, less any lease incentives received.

The ROU asset is subsequently amortized on a straight-line basis over the shorter of the term of the lease, or the useful life of the assets determined on the same basis as the Company's property, plant and equipment. The ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease obligation.

The lease obligation is initially measured at the present value of lease payments remaining at the lease commencement date, discounted using the Company's incremental borrowing rate. Lease payments included in the measurement of the lease obligation, when applicable, may comprise fixed payments, variable payments that depend on an index or rate, amounts expected to be payable under a residual value guarantee and the exercise price under a purchase, extension or termination option that the Company is reasonably certain to exercise.

The lease obligation is subsequently measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease obligation is remeasured, a corresponding adjustment is made to the carrying amount of the ROU asset.

Recognition Exemptions

The Company has elected not to recognize ROU assets and lease obligations for short-term leases that have a lease term of twelve months or less or for leases of low-value assets. Payments associated with these leases are recognized as an operating expense on a straight-line basis over the lease term within costs and expenses on the consolidated statement of income.

Property, plant and equipment

Items of property, plant and equipment are measured at cost less accumulated amortization and impairment losses.

Cost includes expenditures which are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, borrowing costs (as applicable), and any other costs directly attributable to bringing assets to the location and condition necessary for it to be used in the manner intended by management.

The cost of replacing a major component of an item of property, plant and equipment is recognized in the carrying amount of the item if the future economic benefits embodied within the part will flow to Canfor and its cost can be measured reliably. The carrying amount of the replaced component is removed. The costs of the day-to-day servicing of property, plant and equipment are recognized in net income as incurred.

Amortization is recognized in net income on a straight-line basis over the estimated useful lives of each component of an item of property, plant and equipment, as set out in the table below. Land is not amortized. The majority of Canfor's amortization expense for property, plant and equipment relates to manufacturing and product costs.

Amortization methods, useful lives and residual values are reviewed, and adjusted if appropriate, at each reporting date. The following rates have been applied to Canfor's capital assets:

Buildings	5 to 50 years
Pulp and paper machinery and equipment	8 to 20 years
Sawmill machinery and equipment	5 to 15 years
Logging machinery and equipment	4 to 20 years
Logging roads and bridges	5 to 25 years
Mobile and other equipment	5 to 10 years

Timber licenses

Timber licenses include tree farm licenses, forest licenses and timber licenses with the Provinces of British Columbia and Alberta. Timber licenses are carried at cost less accumulated amortization. Renewable licenses are amortized using the straight-line method over 50 years, while non-renewable licenses are amortized over the period of the license.

Other intangible assets

Goodwill

Goodwill represents the excess of the cost of a business acquisition over the fair value of Canfor's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses.

Computer software

Software development costs relate to major software systems purchased or developed by the Company. These costs are amortized on a straight-line basis over periods of five to ten years.

Government assistance

Government assistance relating to the acquisition of property, plant and equipment is recorded as a reduction of the cost of the asset to which it relates, with any amortization calculated on the net amount. Government grants related to income are recognized as income or a reimbursement of costs on a systematic basis over the periods necessary to match them with the related costs which they were intended to compensate.

Asset impairment

Canfor's property, plant and equipment, ROU assets, timber licenses and other intangible assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows that are largely independent of cash inflows from other assets or groups of assets (cash-generating unit or "CGU").

Non-financial assets, other than goodwill, for which impairment was recorded in a prior period, 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 no impairment loss been recognized in prior years.

For the purpose of impairment testing, goodwill is allocated to the Company's operating divisions which represent the lowest level within the Company at which the goodwill is monitored for internal management purposes.

Employee future benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognized as an employee future benefits expense when they are earned.

For hourly employees covered by forest industry union defined contribution or benefit plans, the consolidated statement of income is charged with the Company's contributions required under the collective agreements.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. Canfor has various defined benefit plans that provide both pension and other non-pension post-retirement benefits to certain salaried employees, and certain hourly employees not covered by forest industry union plans. The other non-pension post-retirement benefits include certain health care benefits and pension bridging benefits to eligible retired employees.

The surplus and/or obligation recognized in the consolidated balance sheet in respect of a defined benefit pension plan is the net of the accrued benefit obligation and the fair value of the plan assets. The accrued benefit obligation, the related service cost and, where applicable, the past service cost is determined separately for each defined benefit pension plan based on actuarial determinations using the projected unit credit method. Under the projected unit credit method, the accrued benefit obligation is calculated as the present value of each member's prospective benefits earned in respect of credited service prior to the valuation date and the related service cost is calculated as the present value of the benefits the member is assumed to earn for credited service in the ensuing year. The actuarial assumptions used in these calculations, such as salary escalation and health care inflation, are based upon best estimates selected by Canfor. The discount rate assumptions are based on the yield at the reporting date on high quality corporate bonds that have maturity dates approximating the terms of Canfor's obligations.

Actuarial gains and losses can arise from differences between actual and expected outcomes or changes in the actuarial assumptions or legislated amounts payable. Actuarial gains and losses, including the return on plan assets, are recognized in other comprehensive income in the period in which they occur.

Provisions

Canfor recognizes a provision if, as a result of a past event, it has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provision recorded is management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The expense arising from the unwinding of the discount due to the passage of time is recorded as a finance expense. The main classes of provisions recognized by Canfor are as follows:

Asset retirement obligations

Canfor recognizes a liability for asset retirement obligations in the period in which they are incurred. The site restoration costs are capitalized as part of the cost of the related item of property, plant and equipment and amortized on a basis consistent with the expected useful life of the related asset. Asset retirement obligations are discounted at the risk-free rate in effect at the balance sheet date.

Deferred reforestation obligations

Forestry legislation in British Columbia and Alberta requires Canfor to incur the cost of reforestation of its forest, timber and tree farm licenses and forest management agreements. Accordingly, Canfor records an expense and a liability for the costs of reforestation in the period in which the timber is harvested. In periods subsequent to the initial measurement, changes in the liability resulting from the passage of time and revisions to management's estimates are recognized in net income as they occur. Deferred reforestation obligations are discounted at the risk-free rate in effect at the balance sheet date.

Restructuring

A provision for restructuring is recognized as an expense and a liability, when Canfor has approved a detailed and formal restructuring plan, which may include the indefinite or permanent closure of one of its operations, and the restructuring has either commenced, or has been announced publicly. Provisions are not recognized for future operating costs.

Share-based compensation

Canfor has one share-based compensation plan, as described in Note 20. Compensation expense is recognized for Canfor's Deferred Share Unit ("DSU") Plan when the DSUs are granted, with a corresponding increase to the liability. The liability is remeasured at each reporting date and at settlement date, with any changes in the fair value of the liability recognized as a compensation expense or recovery in net income. The fair value of the DSUs is determined with reference to the market price of Canfor's shares as at the date of valuation.

Revenue recognition

Canfor's revenues are derived from the sale of lumber, engineered wood and other lumber-related products, pulp, paper, residual fibre, logs, wood pellets and energy. Revenue is measured based on the consideration specified in a contract with a customer, net of applicable sales taxes, returns, rebates and discounts and after eliminating sales within the Company. Revenue is recognized when the Company transfers control of products to customers.

The timing of transfer of control to customers varies depending on the individual terms of the contract of sale, but is typically as follows for Canfor's principal revenue generating activities:

- *Lumber* – At the time lumber and lumber-related products are loaded onto a truck or rail carrier, upon vessel departure, or when lumber and lumber-related products have been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for volume rebates and discounts at the point in time control is transferred.
- *Pulp and Paper* – At the time pulp and paper is loaded onto a truck or rail carrier, upon vessel departure, or when pulp and paper has been picked up by the buyer at a designated transfer point at the Company's mill or warehouse. The amount of revenue recognized is adjusted for commissions, volume rebates and discounts at the point in time control is transferred.

Amounts charged to customers for shipping and handling are recognized as revenue, and shipping and handling costs incurred by Canfor are reported as a component of freight and other distribution costs. Countervailing and anti-dumping duties are recorded as a component of operating income.

Income taxes

Income tax expense comprises current and deferred taxes. Current and deferred taxes are recognized in net income except to the extent that they relate to 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 period, using the tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Canfor recognizes deferred income tax in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is measured at tax rates expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

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. Investment tax credits are credited to manufacturing and product costs in the period in which it becomes reasonably assured that the Company is entitled to them. Unused investment tax credits are recorded as other current or long-term assets in the Company's consolidated balance sheet, depending upon when the benefit is expected to be received.

Foreign currency translation

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency.

The majority of Canfor's sales are denominated in foreign currencies, primarily the US dollar, as well as Swedish Krona ("SEK") following the acquisition of Vida on February 28, 2019. Transactions in foreign currencies are translated to the functional currency at exchange rates on the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate on that date. Foreign currency differences arising on translation are recognized in net income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to the Canadian dollar at exchange rates on the reporting date. The income and expenses of foreign operations are translated to the Canadian dollar at exchange rates on the transaction dates. Foreign exchange differences arising from translation of foreign operations are recognized in other comprehensive income, and recorded to the accumulated foreign exchange translation account. Canfor's foreign operations include CSP, Vida, and all entities owned or partly owned by CSP and Vida.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. Segment results reported to the chief operating decision-maker include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interest-bearing liabilities, head office expenses, and income tax assets and liabilities. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment, timber licenses and intangible assets, other than goodwill.

4. Change in Significant Accounting Policy

Effective January 1, 2019, the Company adopted IFRS 16 *Leases* ("IFRS 16"), which supersedes IAS 17 *Leases* ("IAS 17") and related interpretations. Under IAS 17, leases were previously classified as either operating or financing for lessees based on an assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. As the Company's leases were previously classified as operating, straight-line operating lease expense was recognized over the lease term in the comparative period.

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees, with a ROU asset representing the Company's right to use the underlying asset, and a lease obligation representing its obligation to make lease payments. Amortization expense for ROU assets and interest expense for lease obligations replaces the straight-line operating lease expense recognized under IAS 17.

The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognized in retained earnings at January 1, 2019. Short-term and low-value recognition exemptions were applied, as well as certain practical expedients allowing for the use of hindsight to assess the lease term for contracts with extension options, the exclusion of initial direct costs from measurement of the ROU asset and the exclusion of leases with a term of less than one year remaining at the transition date. The impact of transition is outlined under Note 7, with changes in accounting policies, effective January 1, 2019, included in Note 3.

5. Inventories

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Logs	**$**	**185.5**	$	199.5
Finished products		**452.6**		389.3
Residual fibre		**38.7**		44.8
Materials and supplies		**127.1**		128.9
	$	**803.9**	$	762.5

The above inventory balances are stated at the lower of cost and net realizable value. For the year ended December 31, 2019, a net $8.6 million inventory write-down recovery was recognized for the lumber segment (December 31, 2018 – write-down expense of $36.7 million), resulting in an inventory provision for logs and lumber of $28.1 million at December 31, 2019 (December 31, 2018 – provision of $36.7 million).

For the year ended December 31, 2019, a net $10.7 million inventory write-down expense was recognized for the pulp and paper segment (December 31, 2018 – nil), resulting in an inventory provision for pulp logs, finished products, and raw materials of $10.7 million at December 31, 2019 (December 31, 2018 – nil).

Inventory expensed in 2019 and 2018 includes manufacturing and product costs and amortization.

6. Property, Plant and Equipment

(millions of Canadian dollars)		Land		Pulp and paper mills		Solid wood operations[2]		Logging assets and other equipment		Construction in progress		Total
Cost												
Balance at January 1, 2018	$	49.3	$	1,608.0	$	1,935.1	$	234.5	$	91.8	$	3,918.7
Additions[1]		-		0.4		1.1		0.8		395.1		397.4
Disposals		(0.1)		(54.7)		(29.5)		(5.7)		-		(90.0)
Transfers		1.4		139.2		214.4		17.1		(372.1)		-
Effect of movements in exchange rates		2.3		-		43.5		0.7		5.6		52.1
Balance at December 31, 2018	$	52.9	$	1,692.9	$	2,164.6	$	247.4	$	120.4	$	4,278.2
Additions[1]		-		0.5		0.8		-		274.1		275.4
Vida acquisition (Note 29(b))		8.9		-		447.7		-		11.8		468.4
Disposals		(0.4)		(27.5)		(47.6)		(2.5)		-		(78.0)
Reclass to assets held for sale (Note 17)		(2.7)		-		(57.2)		(8.1)		-		(68.0)
Transfers		0.6		59.9		229.6		17.9		(308.0)		-
Effect of movements in exchange rates		(1.6)		-		(40.9)		(0.3)		(3.9)		(46.7)
Balance at December 31, 2019	$	57.7	$	1,725.8	$	2,697.0	$	254.4	$	94.4	$	4,829.3
Amortization												
Balance at January 1, 2018	$	(2.5)	$	(1,136.8)	$	(1,164.0)	$	(177.3)	$	-	$	(2,480.6)
Amortization for the year		-		(79.1)		(157.6)		(12.2)		-		(248.9)
Disposals		-		53.4		23.9		2.2		-		79.5
Transfers		-		-		(2.0)		2.0		-		-
Effects of movements in exchange rates		-		-		(20.6)		(0.4)		-		(21.0)
Balance at December 31, 2018	$	(2.5)	$	(1,162.5)	$	(1,320.3)	$	(185.7)	$	-	$	(2,671.0)
Amortization for the year		-		(87.4)		(215.6)		(15.0)		-		(318.0)
Disposals		-		26.6		44.0		1.5		-		72.1
Reclass to assets held for sale (Note 17)		0.2		-		41.9		6.0		-		48.1
Transfers		-		-		0.2		(0.2)		-		-
Effect of movements in exchange rates		-		-		14.0		-		-		14.0
Balance at December 31, 2019	$	(2.3)	$	(1,223.3)	$	(1,435.8)	$	(193.4)	$	-	$	(2,854.8)
Carrying Amounts												
At January 1, 2018	$	46.8	$	471.2	$	771.1	$	57.2	$	91.8	$	1,438.1
At December 31, 2018	$	50.4	$	530.4	$	844.3	$	61.7	$	120.4	$	1,607.2
At December 31, 2019	**$**	**55.4**	**$**	**502.5**	**$**	**1,261.2**	**$**	**61.0**	**$**	**94.4**	**$**	**1,974.5**

[1] Net of capital expenditures by CPPI that are financed by government grants.
[2] Solid Wood operations include those sawmills, pellet plants, engineered wood and other lumber-related product plants, plywood and oriented strand board plants that are consolidated on a line-by-line basis.

7. Leases

The Company's leased assets include land, buildings, vehicles, machinery and equipment. Effective January 1, 2019, the Company adopted IFRS 16 as outlined in Note 4, recognizing $46.1 million of ROU assets, $48.3 million of lease obligations and deferred tax assets of $0.6 million, with the difference of $1.6 million recognized in retained earnings.

The following table reconciles the Company's lease commitments disclosed in the consolidated financial statements as at and for the year ended December 31, 2018, to the lease obligations recognized on initial application of IFRS 16:

(millions of Canadian dollars)		
Operating lease commitments at December 31, 2018	$	52.1
Recognition exemptions for short-term and low-value leases		(0.9)
Discounted using the incremental borrowing rate at January 1, 2019		(6.5)
Lease remeasurements and other transitional adjustments		3.6
Lease obligations recognized at January 1, 2019	$	48.3

Lease obligations were measured at the present value of remaining lease payments at the transition date, discounted at the Company's incremental borrowing rate. The weighted average incremental borrowing rate applied at January 1, 2019 was 4.3% for leases originating in Canada, and 5.1% for those originating in the US.

(a) Right-of-Use Assets

(millions of Canadian dollars)	Land	Pulp and paper mills	Solid wood operations	Logging assets and other equipment	Facilities and other	Total
Cost						
Balance at January 1, 2019	$ 1.5	$ 7.0	$ 42.4	$ 6.6	$ 17.8	$ 75.3
Additions and acquisitions	-	0.5	33.9	1.5	7.8	43.7
Disposals and transfers	-	-	(3.3)	(0.2)	(0.1)	(3.6)
Effect of movements in exchange rates	-	-	(0.8)	-	(0.2)	(1.0)
Balance at December 31, 2019	$ 1.5	$ 7.5	$ 72.2	$ 7.9	$ 25.3	$ 114.4
Amortization						
Balance at January 1, 2019	$ (0.9)	$ (3.7)	$ (14.0)	$ (1.7)	$ (8.9)	$ (29.2)
Amortization for the year	(0.2)	(1.3)	(12.1)	(2.0)	(3.2)	(18.8)
Disposals and transfers	-	-	1.7	0.1	0.1	1.9
Effect of movements in exchange rates	-	-	0.2	-	-	0.2
Balance at December 31, 2019	$ (1.1)	$ (5.0)	$ (24.2)	$ (3.6)	$ (12.0)	$ (45.9)
Carrying Amounts						
At January 1, 2019	$ 0.6	$ 3.3	$ 28.4	$ 4.9	$ 8.9	$ 46.1
At December 31, 2019	**$ 0.4**	**$ 2.5**	**$ 48.0**	**$ 4.3**	**$ 13.3**	**$ 68.5**

(b) Lease Obligations

Contractual, undiscounted cash flows associated with the Company’s lease obligations are as follows:

(millions of Canadian dollars)	**As at December 31, 2019**
Within one year	**$ 22.6**
Between one and five years	**54.9**
Beyond five years	**5.1**
Total undiscounted lease obligations	**$ 82.6**

Discounted lease obligations recognized on the Company’s consolidated balance sheet are follows:

(millions of Canadian dollars)	
Current	**$ 21.3**
Non-Current	**50.9**
Total discounted lease obligations	**$ 72.2**

Interest expense on lease obligations for 2019 was $3.3 million and is included in finance expense, net. Operating lease expenses relating to short-term and low-value leases not included in the measurement of lease obligations for 2019 was $4.5 million. Variable lease expenses not included in the measurement of lease obligations for 2019 was $1.3 million. The Company expects variable lease payments to remain broadly consistent in future years.

Total cash outflows for leases in 2019 was $23.7 million, including $5.8 million for short-term and low-value leases, as well as variable lease expenses.

8. Timber Licenses

(millions of Canadian dollars)	
Cost	
Balance at January 1, 2018	$ 870.0
Additions	1.4
Balance at December 31, 2018	$ 871.4
Additions	-
Reclass to assets held for sale (Note 17)	(69.2)
Balance at December 31, 2019	$ 802.2
Amortization	
Balance at January 1, 2018	$ (351.7)
Amortization for the year	(15.6)
Balance at December 31, 2018	$ (367.3)

(millions of Canadian dollars)		
Amortization for the year	$	(14.7)
Reclass to assets held for sale (Note 17)		25.5
Balance at December 31, 2019	$	(356.5)
Carrying amounts		
At January 1, 2018	$	518.3
At December 31, 2018	$	504.1
At December 31, 2019	**$**	**445.7**

9. Goodwill and Other Intangible Assets

(millions of Canadian dollars)		Goodwill		Other intangible assets		Total
Cost						
Balance at January 1, 2018	$	195.4	$	103.3	$	298.7
Additions		-		29.1		29.1
Disposals and transfers		-		(39.8)		(39.8)
Effect of movement in exchange rates		17.0		4.1		21.1
Balance at December 31, 2018	$	212.4	$	96.7	$	309.1
Additions (Note 29(b))		195.7		9.3		205.0
Effect of movement in exchange rates		(14.8)		(0.9)		(15.7)
Balance at December 31, 2019	$	393.3	$	105.1	$	498.4
Amortization						
Balance at January 1, 2018	$	-	$	(70.6)	$	(70.6)
Amortization for the year		-		(6.0)		(6.0)
Disposals and transfers		-		39.0		39.0
Effect of movement in exchange rates		-		(3.2)		(3.2)
Balance at December 31, 2018	$	-	$	(40.8)	$	(40.8)
Amortization for the year		-		(10.7)		(10.7)
Effect of movement in exchange rates		-		0.4		0.4
Balance at December 31, 2019	$	-	$	(51.1)	$	(51.1)
Carrying amounts						
At January 1, 2018	$	195.4	$	32.7	$	228.1
At December 31, 2018	$	212.4	$	55.9	$	268.3
At December 31, 2019	**$**	**393.3**	**$**	**54.0**	**$**	**447.3**

Canfor's goodwill relates to its US subsidiaries, as well as its European subsidiary following the February 28, 2019, acquisition of Vida, and is denominated in US dollars and SEK, respectively. Goodwill is allocated separately to each acquired business and tested at that level for impairment purposes. The recoverable amount of the goodwill is determined based on an assessment of the value in use, estimated using a discounted cash flow model.

As part of the goodwill impairment assessment, assumptions are made in relation to forecast prices and exchange rates. Key assumptions used in the cash flow models include forecast prices and foreign exchange rates, which the Company's management determined with reference to both internal and external publications.

For the 2019 goodwill impairment assessment of the Company's US subsidiaries, a pre-tax discount rate of 8.0% was utilized, based on the Company's current weighted average cost of capital and US risk-adjusted internal borrowing rate, with a cost inflation rate of 1.0%. In this analysis prepared by Management, the net present value of the future expected cash flows was compared to the carrying value of the Company's investment in these assets, including goodwill, at year end, with no impairment of goodwill required at December 31, 2019.

Management will assess the Company's newly acquired European subsidiary for impairment annually, beginning with the year ending December 31, 2020.

10. Long-Term Investments and Other

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Investment in Elliott (Note 29(a))	**$**	**78.1**	$	-
Other investments		**11.4**		21.0
Duty deposits recoverable, net (Note 30)		**32.4**		76.6
Other deposits, loans, advances and long-term assets (Note 29(b))		**51.8**		12.8
	$	**173.7**	$	110.4

The 'Duty Deposits Recoverable, Net' balance represents US-dollar anti-dumping and countervailing duty cash deposits paid in excess of the calculated expense accrued at December 31, 2019 (Note 30).

A consideration holdback of $9.7 million related to the acquisition of Vida is included in 'Other Deposits, Loan, Advances and Long-Term Assets' above at December 31, 2019 (Note 29(b)).

On April 4, 2019, Canfor entered into an agreement with a third party to provide Canfor with an annual fibre supply of approximately 125,000m^3 over a period of twenty-five years for $19.5 million, which was paid on April 5, 2019 and is included in 'Other Deposits, Loan, Advances and Long-Term Assets' above at December 31, 2019.

11. Accounts Payable and Accrued Liabilities

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Trade payables and accrued liabilities	**$**	**364.2**	$	328.8
Accrued payroll and related liabilities		**106.6**		130.1
Restructuring, mill closure and severance costs (Note 17)		**7.6**		-
	$	**478.4**	$	458.9

12. Operating Loans

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Canfor (excluding Vida and CPPI)				
Available operating loans:				
Operating loan facility	**$**	**550.0**	$	450.0
Revolving credit facility		**100.0**		-
Facility for letters of credit		**70.0**		60.0
Total operating loan facilities		**720.0**		510.0
Operating loan facility drawn		**(350.0)**		-
Letters of credit		**(65.2)**		(57.4)
Total available operating loan facilities - Canfor	**$**	**304.8**	$	452.6
Vida				
Available operating loans:				
Operating loan facility	**$**	**71.0**	$	-
Overdraft facilities		**21.5**		-
Total operating loan facilities		**92.5**		-
Operating loan facilities drawn		**(0.2)**		-
Overdraft facilities drawn		**(17.8)**		-
Total available operating loan facilities - Vida	**$**	**74.5**	$	-

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
CPPI				
Available operating loans:				
Operating loan facility	**$**	**110.0**	$	110.0
Letters of credit		**(13.2)**		(11.1)
Total operating loan facility		**96.8**		98.9
Operating loan facility drawn		**(14.0)**		-
Total available operating loan facility - CPPI		**82.8**		98.9
Consolidated:				
Total operating loan facilities	**$**	**922.5**	$	620.0
Total available operating loan facilities	**$**	**462.1**	$	551.5

Interest is payable on Canfor's committed operating loan facility (excluding Vida and CPPI) at floating rates based on the lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin that varies with the Company's debt to total capitalization ratio.

On December 14, 2018, the maturity date of Canfor's committed operating loan facility (excluding Vida and CPPI) was extended to January 2, 2024, and the principal was increased by $100.0 million to $450.0 million at December 31, 2018. On September 30, 2019, Canfor (excluding Vida and CPPI) further increased the principal of its committed operating loan facility by $100.0 million to $550.0 million, with a maturity date of January 2, 2024.

On March 5, 2019, Canfor (excluding Vida and CPPI) entered into a committed revolving credit facility of $100.0 million with a maturity date of February 28, 2020. On October 30, 2019, the maturity date of the committed revolving facility was extended to October 30, 2020. Terms of the revolving facility are largely consistent with Canfor's existing committed operating loan facility.

Canfor (excluding Vida and CPPI) has a separate facility to cover letters of credit. At December 31, 2019, $62.7 million of letters of credit outstanding are covered under this facility with the balance of $2.5 million covered under Canfor's committed operating loan facility.

Vida's operating loan facilities are denominated in various currencies, with interest payable at fixed rates ranging from 1.0% to 1.3%. Vida also has separate overdraft facilities with fixed interest rates ranging from 1.7% to 4.7%.

The terms of CPPI's operating loan facility include interest payable at floating rates that vary depending on the ratio of debt to total capitalization, and is based on lenders' Canadian prime rate, bankers' acceptances, US-dollar base rate or US-dollar LIBOR rate, plus a margin.

On April 6, 2018, the maturity date of CPPI's principal operating loan facility was extended from January 3, 2020 to April 6, 2022. On September 30, 2019, the maturity date of CPPI's principal operating loan facility was extended from April 6, 2022 to April 6, 2023.

At December 31, 2019, the Company had total available undrawn operating loans of $462.1 million, including the undrawn revolving facility and undrawn facilities for letters of credit.

Canfor and CPPI's operating loan facilities have certain financial covenants, including maximum debt to total capitalization ratios. Vida is also subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2019, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their operating loan facilities. Substantially all borrowings of Vida and CPPI are non-recourse to other entities within the Company.

13. Long-Term Debt

(millions of Canadian dollars)		**As at December 31, 2019**		As at December 31, 2018
Canfor (excluding Vida and CPPI)				
CAD$225.0 million, floating interest, repayable January 2, 2024	**$**	**225.0**	$	125.0
US$200.0 million floating interest, repayable January 2, 2027		**259.7**		136.4
US$100.0 million, fixed interest of 4.4%, repayable in three equal tranches on October 2, 2023, 2024 and 2025		**129.9**		136.4
Other (US$7.7 million)[3]		**9.9**		10.6
Vida				
SEK 74.5 million, floating interest, repayable in instalments up to December 31, 2020		**10.4**		-
SEK 14.0 million, floating interest, repayable in instalments up to April 30, 2022		**2.0**		-
SEK 2.4 million, floating interest, repayable in instalments up to August 31, 2024		**0.3**		-
SEK 3.3 million, floating interest, repayable in instalments up to April 30, 2022		**0.5**		-
AUD 7.8 million, floating interest, with no fixed maturity date		**7.0**		-
CPPI				
CAD $50.0 million, floating interest, repayable September 30, 2022		**50.0**		-
Long-term debt at end of year	**$**	**694.7**	$	408.4
Less: Current portion		**(13.0)**		(0.4)
Long-term portion	**$**	**681.7**	$	408.0

[3] Amount relates to net financing for specific capital projects at Canfor's U.S. sawmills.

Canfor's long-term debt (excluding Vida) is unsecured. Vida's long-term debt is secured by its property, plant and equipment assets.

On December 14, 2018, Canfor (excluding Vida and CPPI) increased its Canadian dollar denominated floating interest rate term debt facility to $225.0 million and extended its maturity date from September 28, 2022 to January 2, 2024. Canfor (excluding Vida and CPPI) also increased its US-dollar denominated floating rate term debt facility to US$200.0 million on December 14, 2018 and extended its maturity date from September 28, 2025 to January 2, 2027. As at December 31, 2018, the incremental borrowing capacity available under both Canadian and US-dollar floating rate term debt was undrawn.

On February 25, 2019, the Company drew the remaining $100.0 million from its Canadian dollar floating interest rate term debt facility, and the remaining US$100.0 million from its US-dollar floating interest rate term debt facility to finance the Vida and Elliott acquisitions (Note 30) and to service working capital requirements.

On September 30, 2019, CPPI entered into a new non-revolving term loan for $50.0 million, repayable on September 30, 2022, with the calculation of interest and covenants consistent with CPPI's existing operating loan facility.

Canfor's borrowings (excluding Vida) feature similar financial covenants, including a maximum debt to total capitalization ratio. Vida's borrowings are subject to certain financial covenants, including minimum equity and interest coverage ratios. As at December 31, 2019, Canfor, Vida and CPPI were fully in compliance with all covenants relating to their long-term debt.

Fair value of total long-term debt

At December 31, 2019, the fair value of the Company's long-term debt is $700.6 million (December 31, 2018 - $402.9 million), determined based on prevailing market rates for long-term debt with similar characteristics and risk profile.

14. Employee Future Benefits

The Company has several funded and unfunded defined benefit pension plans and defined contribution plans that provide benefits to substantially all salaried employees and certain hourly employees. Benefits are also provided to certain salaried and hourly employees through the Company's non-pension post-retirement benefit plans, which are unfunded. The defined benefit pension plans are based on years of service and final average salary. Canfor's other non-pension post-retirement benefit plans are non-contributory and include a range of health care and other benefits. Canfor also provides pension bridge benefits to certain eligible former employees.

Total cash payments for employee future benefits for 2019 were $56.0 million (December 31, 2018 - $64.0 million), consisting of cash contributed by Canfor to its funded pension plans, cash payments directly to beneficiaries for its unfunded other non-pension post-retirement benefit plans, and cash contributed to its defined contribution and other plans.

Defined benefit plans

Canfor measures its accrued retirement benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year.

As at December 31, 2019, Canfor has four registered defined benefit pension plans for which actuarial valuations are performed at least every three years. The largest pension plan underwent an actuarial valuation for funding purposes as of December 31, 2017, which was completed in 2018. The next actuarial valuation for funding purposes is currently scheduled for December 31, 2020, to be completed in 2021. In addition, Canfor has other non-contributory benefit plans that provide certain non-pension post-retirement benefits to its members. The majority of the other non-contributory plans underwent actuarial valuations as of December 31, 2018, which were completed in 2019.

Information about Canfor's defined benefit plans, in aggregate, is as follows:

Fair market value of plan assets	**2019**		2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 690.4**	**$ -**	$ 717.5	$ -
Interest income on plan assets	**24.4**	**-**	24.1	-
Return on plan assets greater (less) than discount rate	**62.8**	**-**	(31.1)	-
Employer contributions	**18.1**	**3.8**	23.8	4.4
Employee contributions	**0.4**	**-**	0.6	-
Benefit payments	**(43.3)**	**(3.8)**	(45.5)	(4.4)
Administration expense	**(0.8)**	**-**	(0.6)	-
Other	**(0.9)**	**-**	1.6	-
End of year	**$ 751.1**	**$ -**	$ 690.4	$ -

Plan assets consist of the following:	**As at December 31, 2019**	As at December 31, 2018
Asset category	Percentage of Plan Assets	
Equity securities	**24%**	23%
Debt securities	**15%**	13%
Annuities	**60%**	63%
Cash and cash equivalents	**1%**	1%
	100%	100%

Accrued benefit obligations	**2019**		2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Beginning of year	**$ 827.7**	**$ 110.0**	$ 853.6	$ 126.0
Current service cost	**8.8**	**1.4**	9.1	2.2
Interest cost	**29.1**	**3.2**	28.4	4.0
Employee contributions	**0.4**	**-**	0.6	-
Benefit payments	**(43.3)**	**(3.8)**	(45.5)	(4.4)
Actuarial loss (gain)	**70.3**	**(23.8)**	(20.4)	(17.4)
Other	**(1.1)**	**-**	1.9	(0.4)
End of year	**$ 891.9**	**$ 87.0**	$ 827.7	$ 110.0

Of the defined benefit pension plan obligation of $891.9 million (December 31, 2018 **-** $827.7 million), $803.2 million (December 31, 2018 - $749.3 million) relates to plans that are wholly or partly funded and $88.7 million (December 31, 2018 - $78.4 million) relates to plans that are wholly unfunded, with letters of credit securing $56.4 million

(December 31, 2018 - $48.3 million) of the unfunded liability. The total obligation for the non-pension post-retirement benefit plans of $87.0 million (December 31, 2018 - $110.0 million) is unfunded.

Annuity contracts

In 2018, the Company purchased $58.9 million of buy-in annuities through its defined benefit pension plans, increasing total annuities purchased to $481.8 million. In 2018, transaction costs of $3.6 million related to the purchase were recognized in other comprehensive income (loss).

In 2019, no buy-in annuities were purchased by the Company. Future cash flows from the annuities will match the amount and timing of benefits payable under the plans, substantially mitigating the exposure to future volatility in the related pension obligations.

Medical Services Plan changes

On May 15, 2019, *Bill 20 – Medicare Protection Amendment Act, 2019* ("Bill 20"), received Royal Assent. Bill 20 eliminates Medical Services Plan ("MSP") premiums, effective January 1, 2020. This change was recognized in actuarial financial assumptions in the second quarter of 2019 and resulted in a $31.9 million pre-tax reduction of the non-pension post-retirement benefit obligation, and a corresponding gain recognized in other comprehensive income (loss). The 50% reduction in MSP in the second quarter of 2019, when combined with the initial 50% reduction recognized in the fourth quarter of 2017, resulted in a gain of $95.6 million, or $0.76 per common share ($70.5 million after tax, or $0.56 per common share), reflected in the Company's non-pension post-retirement benefit obligation.

Reconciliation of funded status of defined benefit plans to amounts recorded in the financial statements

	December 31, 2019		December 31, 2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Fair market value of plan assets	**$ 751.1**	**$ -**	$ 690.4	$ -
Accrued benefit obligations	**(891.9)**	**(87.0)**	(827.7)	(110.0)
Funded status of plans – deficit	**$ (140.8)**	**$ (87.0)**	$ (137.3)	$ (110.0)
Other pension plans	**(3.3)**	**-**	(2.5)	-
Total accrued benefit liability, net	**$ (144.1)**	**$ (87.0)**	$ (139.8)	$ (110.0)

The net accrued benefit liability is included in Canfor's consolidated balance sheet as follows:

	December 31, 2019		December 31, 2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Retirement benefit surplus	**$ 5.9**	**$ -**	$ 4.9	$ -
Retirement benefit obligations	**(150.0)**	**(87.0)**	(144.7)	(110.0)
Total accrued benefit liability, net	**$ (144.1)**	**$ (87.0)**	$ (139.8)	$ (110.0)

At December 31, 2019 and December 31, 2018, certain defined benefit pension plans are in a surplus position reflecting the return on plan assets, actuarial gains and employer contributions to the pension plans during 2019 and 2018. The plans with a net retirement surplus have been classified as non-current assets on the balance sheet.

Components of pension cost

The following table shows the before tax impact on net income (loss) and other comprehensive income (loss) of the Company's defined benefit pension and other non-pension post-retirement benefit plans:

	2019		2018	
(millions of Canadian dollars)	**Defined Benefit Pension Plans**	**Other Benefit Plans**	Defined Benefit Pension Plans	Other Benefit Plans
Recognized in net income (loss)				
Current service cost	**$ 8.8**	**$ 1.4**	$ 9.1	$ 2.2
Administration expense	**0.7**	**-**	0.8	-
Interest cost	**4.7**	**3.2**	4.3	4.0
Other	**-**	**-**	-	(0.4)
Total expense included in net income (loss)	**$ 14.2**	**$ 4.6**	$ 14.2	$ 5.8

(millions of Canadian dollars)	2019 Defined Benefit Pension Plans	2019 Other Benefit Plans	2018 Defined Benefit Pension Plans	2018 Other Benefit Plans
Recognized in other comprehensive income (loss)				
Actuarial loss (gain) – experience	**$ 7.7**	**$ (1.1)**	$ 1.0	$ (8.5)
Actuarial loss – demographic assumptions	**(0.2)**	**-**	(0.1)	-
Actuarial loss (gain) – financial assumptions	**62.8**	**9.2**	(21.3)	(8.9)
Actuarial gain – elimination of MSP	**-**	**(31.9)**	-	-
Return on plan assets less (greater) than discount rate	**(62.8)**	**-**	31.1	-
Administrative costs greater (less) than expected	**0.1**	**-**	(0.2)	-
Total loss (gain) in other comprehensive income (loss)	**$ 7.6**	**$ (23.8)**	$ 10.5	$ (17.4)

Significant assumptions

The actuarial assumptions used in measuring Canfor's benefit plan provisions and benefit costs are as follows:

	December 31, 2019 Defined Benefit Pension Plans	December 31, 2019 Other Benefit Plans	December 31, 2018 Defined Benefit Pension Plans	December 31, 2018 Other Benefit Plans
Discount rate	**3.0%**	**3.0%**	3.6%	3.6%
Rate of compensation increases	**3.0%**	**n/a**	3.0%	n/a
Initial medical cost trend rate	**n/a**	**5.5%**	n/a	5.5%
Ultimate medical cost trend rate	**n/a**	**4.5%**	n/a	4.5%
Year ultimate rate is reached	**n/a**	**2022**	n/a	2022

In addition to the significant assumptions listed in the table above, the average life expectancy of a 65-year-old at December 31, 2019 and December 31, 2018 is between 21.1 years and 24.2 years. As at December 31, 2019, the weighted average duration of the defined benefit plan obligation, which reflects the average age of the plan members, is 12.8 years (December 31, 2018 - 12.0 years). The weighted average duration of the other benefit plans is 13.7 years (December 31, 2018 - 13.3 years).

Sensitivity analysis

Assumed discount rates and medical cost trend rates have a significant effect on the accrued retirement benefit obligation and related plan assets. A one percentage point change in these assumptions would have the following effects on the accrued retirement benefit obligation, including the impact of plan annuity assets, for 2019:

(millions of Canadian dollars)	1% Increase	1% Decrease
Defined benefit pension plan liabilities, net of annuity assets		
Discount rate	$ (53.7)	$ 66.7
Other benefit plan liabilities		
Discount rate	$ (9.6)	$ 11.7
Initial medical cost trend rate	$ 4.3	$ (4.2)

When taking into account the impact of annuities, 50% (December 31, 2018 – 52%) of the change to the defined benefit pension plans is fully offset against changes in discount rates and longevity risk (potential increases in life expectancy of plan members) through buy-in annuities, and a further 13% (December 31, 2018 - 12%) is partially offset through the plan's investment in debt securities.

As at December 31, 2019, contribution payments of $19.5 million are estimated to be made to the Company's defined benefit pension plans in 2020 based on the last actuarial valuation for funding purposes.

Defined contribution and other plans

The total expense recognized in 2019 for Canfor's defined contribution plans was $13.8 million (December 31, 2018 - $12.8 million). Canfor contributes to various forest industry union benefit plans providing both pension and other retirement benefits. These plans are accounted for as defined contribution plans. Contributions to these plans, not included in the expense for defined contribution plans above, amounted to $20.3 million in 2019 (December 31, 2018 - $23.0 million).

15. Deferred Reforestation Obligations

The following table provides a reconciliation of the deferred reforestation obligations as at December 31, 2019 and December 31, 2018:

(millions of Canadian dollars)		2019		2018
Reforestation obligations at beginning of year	**$**	**116.8**	$	112.5
Expense for year		**38.1**		50.3
Accretion expense		**1.2**		1.2
Reclass to liabilities held for sale (Note 17)		**(2.8)**		-
Changes in estimates		**2.8**		(0.7)
Paid during the year, net		**(48.8)**		(46.5)
Reforestation obligations at end of year	**$**	**107.3**	$	116.8
Less: Current portion		**(51.0)**		(52.9)
Long-term portion	**$**	**56.3**	$	63.9

The total undiscounted amount of the estimated cash flows required to settle the obligations at December 31, 2019 is $110.9 million (December 31, 2018 - $121.8 million), with payments expected to occur over 15 years. Due to the general long-term nature of the liability, the most significant area of uncertainty in estimating the provision is the future costs that will be incurred. The estimated cash flows have been adjusted for inflation and discounted using risk-free rates ranging from 1.7% to 1.8% at December 31, 2019 (December 31, 2018 – 1.9% to 2.1%).

16. Asset Retirement Obligations

The following table provides a reconciliation of the asset retirement obligations as at December 31, 2019 and December 31, 2018:

(millions of Canadian dollars)		2019		2018
Asset retirement obligations at beginning of year	**$**	**11.0**	$	10.3
Accretion expense		**0.2**		0.2
Reclass to liabilities held for sale (Note 17)		**(0.5)**		-
Changes in estimates		**0.9**		0.5
Asset retirement obligations at end of year	**$**	**11.6**	$	11.0
Less: Current portion		**(0.3)**		(0.3)
Long-term portion	**$**	**11.3**	$	10.7

Canfor's asset retirement obligations include $6.6 million in relation to landfill closure costs of CPPI. CPPI's obligations represent estimated undiscounted future payments of $9.3 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 1 to 32 years and have been discounted at risk-free rates ranging from 1.7% to 1.8% (December 31, 2018 – 1.9% to 2.2%).

Canfor's asset retirement obligations (excluding CPPI's), represent estimated undiscounted future payments of $7.5 million to remediate landfills at the operations at the end of their useful lives. The payments are expected to occur over periods ranging from 2 to 51 years and have been discounted at risk-free rates ranging from 1.4% to 1.6% (December 31, 2018 – 1.9% to 2.2%).

Canfor and CPPI have certain assets that have indeterminable retirement dates and, therefore, there is an indeterminate settlement date for the related asset retirement obligations. As a result, no asset retirement obligations are recorded for these assets. These assets include wastewater and effluent ponds that will have to be drained once the related operating facility is closed and storage sites for which removal of chemicals, fuels and other related materials will be required once the related operating facility is closed. When the retirement dates of these assets become determinable and an estimate of fair value can be made, an asset retirement obligation will be recorded.

It is possible that changes in future conditions could require a material change in the recognized amount of the asset retirement obligations. The long-term portion of the asset retirement obligation balance is included in 'Other Long-Term Liabilities', with the current portion included in 'Prepaid Expenses and Other' on the Company's consolidated balance sheet.

17. Restructuring Provision and Assets Held for Sale

On June 3, 2019, the Company announced that it had entered into an agreement to sell its forest tenure associated with its Vavenby sawmill located in British Columbia ("BC") to Interfor Corporation for proceeds of $60.0 million. Also on June 3, 2019, the Company announced its intention to permanently close the Vavenby sawmill following the sale, which is currently anticipated to close in the first quarter of 2020, subject to customary closing conditions, including the consent of the Minister of Forests.

During the second quarter of 2019, as a result of the planned closure and pending sale of Vavenby, the Vavenby sawmill assets and forest tenure (together, "Vavenby disposal group"), were reclassified to 'Assets Held for Sale' and the reforestation provision associated with the forest tenure was reclassified to 'Liabilities Held for Sale' on the Company's consolidated balance sheet.

On November 13, 2019, Canfor entered into a separate agreement with a third party to sell certain Vavenby sawmill assets, not included within the existing Vavenby disposal group, as well as one other non-operating asset for total proceeds of $9.7 million. The Company expects the sale to close in conjunction with the aforementioned forest tenure sale to Interfor. Accordingly, during the fourth quarter of 2019, these additional assets totalling $11.1 million were reclassified to assets held for sale and an additional $0.5 million was reclassified to liabilities held for sale.

Upon initial classification as held for sale, the carrying values of the assets were assessed for impairment in accordance with IFRS 5 *Non-Current Assets Held for Sale and Discontinued Operations*, with no adjustments required.

At December 31, 2019, assets and liabilities held for sale were comprised of the following:

(millions of Canadian dollars)		**As at December 31, 2019**
Inventories	**$**	**2.6**
Prepaid expenses and other		**2.8**
Property, plant and equipment		**19.9**
Timber licenses		**43.7**
Assets held for sale	**$**	**69.0**
Deferred reforestation obligation		**2.8**
Asset retirement obligation		**0.5**
Liabilities held for sale	**$**	**3.3**

On July 18, 2019, the Company announced further capacity reductions at two of its BC sawmills. The Mackenzie sawmill was indefinitely curtailed effective July 18, 2019, and one of two shifts was permanently eliminated at the Isle Pierre sawmill effective September 20, 2019.

Due to the aforementioned closure of the Vavenby sawmill and indefinite curtailments, restructuring, mill closure and severance costs of $21.2 million have been recognized during 2019.

The following table provides a reconciliation of the restructuring provision for the year ended December 31, 2019:

(millions of Canadian dollars)		**2019**
Initial accrued liability at June 30, 2019	**$**	**11.5**
Additional costs accrued		**9.7**
Paid during the year		**(12.0)**
Accrued liability at end of year	**$**	**9.2**
Less: Current portion		**(7.6)**
Long-term portion	**$**	**1.6**

The current portion of $7.6 million and long-term portion of $1.6 million are recognized in 'Accounts Payable and Accrued Liabilities' (Note 11) and 'Other Long-Term Liabilities', respectively, on the Company's consolidated balance sheet at December 31, 2019.

18. Share Capital

Authorized

10,000,000 preferred shares, with a par value of $25 each.
1,000,000,000 common shares without par value.

Issued and fully paid

	2019			2018		
(millions of Canadian dollars, except number of shares)	**Number of Shares**		**Amount**	Number of Shares		Amount
Common shares at beginning of year	**125,219,400**	**$**	**987.9**	128,644,980	$	1,014.9
Common shares purchased	**-**		**-**	(3,425,580)		(27.0)
Common shares at end of year[4]	**125,219,400**	**$**	**987.9**	125,219,400	$	987.9

[4]Based on trade date.

The holders of common shares are entitled to vote at all meetings of shareholders of the Company, except meetings at which only holders of preferred shares would be entitled to vote. The common shareholders are entitled to receive dividends as and when declared on the common shares. The holders of preferred shares are not generally entitled to receive notice of, or to attend or vote at, general meetings of shareholders of the Company. Preferred shareholders are entitled to preference over the common shares with respect to payment of dividends and upon any distribution of assets in the event of liquidation, dissolution and winding-up of the Company. The Company does not have any preferred shares outstanding.

Basic net income (loss) per share is calculated by dividing the net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. The weighted average number of common shares outstanding for 2019 was 125,219,400 (December 31, 2018 – 127,742,297), and reflects common shares purchased under the Company's normal course issuer bid.

Normal course issuer bid

On March 4, 2019, the Company renewed its normal course issuer bid whereby it can purchase for cancellation up to 6,260,970 common shares or approximately 5% of its issued and outstanding common shares as of March 1, 2019. The renewed normal course issuer bid is set to expire on March 6, 2020. The Company does not currently intend to renew the normal course issuer bid following its expiry.

In 2019, Canfor did not purchase any common shares. In 2018, Canfor purchased 3,425,580 common shares for $84.8 million (an average of $24.76 per common share), of which $27.0 million was charged to share capital and $57.8 million was charged to retained earnings. Cash payments for shares purchased in 2018 totaled $84.8 million, with an additional $3.7 million payment made in 2018 in relation to shares purchased in 2017.

As at February 20, 2020 there were 125,219,400 common shares of the Company outstanding.

Under a separate normal course issuer bid, during the year ended December 31, 2019, CPPI purchased 17,200 common shares at an average price of $10.67 per common share from non-controlling shareholders.

As at December 31, 2019 and February 20, 2020 Canfor's ownership interest in CPPI was 54.8% (December 31, 2018 – 54.8%).

19. Non-Controlling Interests

The following table summarizes the non-controlling financial information for the Company's lumber operations and CPPI before inter-company eliminations:

Summarized Balance Sheets:

Amounts presented below represent non-controlling % (millions of Canadian dollars)	**As at December 31, 2019**						As at December 31, 2018					
		Lumber[5]		CPPI		**Total**		Lumber[5]		CPPI		Total
Current assets	$	107.9	$	149.6	**$**	**257.5**	$	9.5	$	158.3	$	167.8
Non-current assets		143.2		266.2		**409.4**		10.9		263.0		273.9
Total assets	$	251.1	$	415.8	**$**	**666.9**	$	20.4	$	421.3	$	441.7

Amounts presented below represent non-controlling % (millions of Canadian dollars)		**As at December 31, 2019**						As at December 31, 2018				
		Lumber[5]		CPPI		**Total**		Lumber[5]		CPPI		Total
Current liabilities	$	48.9	$	71.0	**$**	**119.9**	$	3.0	$	82.3	$	85.3
Non-current liabilities		34.6		92.7		**127.3**		3.6		69.3		72.9
Total liabilities	$	83.5	$	163.7	**$**	**247.2**	$	6.6	$	151.6	$	158.2
Total equity	$	167.6	$	252.1	**$**	**419.7**	$	13.8	$	269.7	$	283.5
Total liabilities and equity	$	251.1	$	415.8	**$**	**666.9**	$	20.4	$	421.3	$	441.7

Summarized Statements of Income (Loss) and Other Comprehensive Income (Loss):

Amounts presented below represent non-controlling % (millions of Canadian dollars)		**Year ended December 31, 2019**						Year ended December 31, 2018				
		Lumber[5]		CPPI		**Total**		Lumber[5]		CPPI		Total
Sales	$	248.3	$	491.2	**$**	**739.5**	$	18.3	$	621.2	$	639.5
Net income (loss)		7.1		(13.8)		**(6.7)**		0.8		83.3		84.1
Other comprehensive income		-		4.0		**4.0**		-		1.8		1.8
Total comprehensive income (loss)	$	7.1	$	(9.8)	**$**	**(2.7)**	$	0.8	$	85.1	$	85.9
Dividends paid to non-controlling interests	$	20.4	$	7.4	**$**	**27.8**	$	0.7	$	73.8	$	74.5

Summarized Statements of Cash Flows:

Amounts presented below represent non-controlling % (millions of Canadian dollars)		**Year ended December 31, 2019**						Year ended December 31, 2018				
		Lumber[5]		CPPI		**Total**		Lumber[5]		CPPI		Total
Cash flows from operating activities	$	33.1	$	26.8	**$**	**59.9**	$	2.7	$	97.3	$	100.0
Cash flows from financing activities	$	(3.0)	$	(46.4)	**$**	**(49.4)**	$	(0.4)	$	(53.5)	$	(53.9)
Cash flows from investing activities	$	(21.4)	$	19.2	**$**	**(2.2)**	$	(0.7)	$	(75.3)	$	(76.0)

[5]Lumber non-controlling interest includes non-controlling interest related to Vida (30%), Houston Pellet Limited Partnership (40%), CSP Moultrie Investment, LLC (5%), and Canfor Energy North Limited Partnership (15%).

On January 1, 2018, Pacific BioEnergy Corporation ("PBEC") exercised its option to purchase from Canfor an additional 10% of the outstanding shares of Canfor Energy North Limited Partnership ("CENLP") for consideration of $3.5 million, which was received in December 2017, thereby increasing their ownership from approximately 5% to 15%.

Accordingly, the non-controlling interest of CENLP was increased by $2.5 million to reflect PBEC's 15% total ownership from January 1, 2018 onwards. A net gain of $1.3 million was recorded as a credit to equity in the first quarter of 2018, representing the difference between the adjustment to Canfor's investment in CENLP and the consideration paid, and the associated tax effects.

On February 28, 2019, the Company completed the acquisition of 70% of Vida for total consideration of $589.9 million, with a 30% non-controlling interest retained by Vida shareholders of $171.3 million (Note 29(b)).

20. Share-Based Compensation

The value of the Company's DSUs, when redeemed, is equal to the market value of the shares on the redemption date, including the value of dividends paid on the Company's common shares, if any, as if they had been reinvested in additional DSUs on each payment date. The DSUs may only be redeemed upon a director's retirement from the Company, its subsidiaries or any affiliated entity.

Effective July 27, 2011, the Board ceased the issuance of DSUs for non-employee directors. The total recovery recorded in relation to the DSUs for 2019 was $0.3 million due to the revaluation of existing units (December 31, 2018 - recovery of $0.6 million). The value of outstanding DSUs at December 31, 2019 is $0.7 million (December 31, 2018 - $1.0 million).

21. Finance Expense, Net

(millions of Canadian dollars)		2019		2018
Interest expense on borrowings	**$**	**(51.8)**	$	(25.0)
Interest expense on retirement benefit obligations, net		**(7.9)**		(8.3)
Interest income		**4.0**		8.8
Other finance expenses		**(1.8)**		(1.5)
Finance expense, net	**$**	**(57.5)**	$	(26.0)

22. Income Taxes

The components of income tax recovery (expense) are as follows:

(millions of Canadian dollars)		2019		2018
Current	**$**	**82.8**	$	(132.9)
Deferred		**12.4**		(16.9)
Income tax recovery (expense)	**$**	**95.2**	$	(149.8)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

(millions of Canadian dollars)		2019		2018
Income tax recovery (expense) at statutory rate of 27.0% (2018 – 27.0%)	**$**	**98.5**	$	(159.0)
Add (deduct):				
Non-taxable income related to non-controlling interests		**0.1**		0.2
Entities with different income tax rates and other tax adjustments		**2.8**		8.3
Permanent difference from capital gains and losses and other non-deductible items		**(6.2)**		0.7
Income tax recovery (expense)	**$**	**95.2**	$	(149.8)

In addition to the amounts recorded to net income (loss), a tax expense of $4.4 million was recorded to other comprehensive income (loss) in relation to actuarial gains on the defined benefit plans for the year ended December 31, 2019 (December 31, 2018 - expense of $1.9 million).

Also included in other comprehensive income (loss) for the 2019 year is a tax recovery of $1.9 million related to foreign exchange differences on translation of investments in foreign operations (December 31, 2018 - expense of $3.2 million).

The tax effects of the significant components of temporary differences that give rise to deferred income tax assets and liabilities are as follows:

(millions of Canadian dollars)		As at December 31, 2019		As at December 31, 2018
Deferred income tax assets				
Accruals not currently deductible	**$**	**43.7**	$	44.3
Loss carryforwards		**7.6**		3.4
Retirement benefit obligations		**60.7**		66.0
Lease obligations		**17.3**		-
Goodwill and other intangible assets, net		**6.5**		9.4
Other		**7.3**		6.3
	$	**143.1**	$	129.4
Deferred income tax liabilities				
Depreciable capital assets	**$**	**(397.7)**	$	(335.2)
Right-of-use assets		**(16.3)**		-
Assets held for sale		**(11.9)**		-
Other		**(36.2)**		(35.1)
	$	**(462.1)**	$	(370.3)
Total deferred income tax (liabilities) assets	**$**	**(319.0)**	$	(240.9)
Less: Entities in a net deferred income tax asset position		**0.9**		0.9
Net deferred income tax (liabilities) assets	**$**	**(319.9)**	$	(241.8)

Deferred income tax assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. This assumption is based on management's best estimate of future circumstances and events. If these estimates and assumptions changed in the future, the value of the deferred income tax assets could be reduced, resulting in an income tax expense.

23. Net Change in Non-Cash Working Capital

(millions of Canadian dollars)		**2019**		2018
Accounts receivable	**$**	**65.3**	$	25.5
Inventories		**144.3**		(126.5)
Prepaid expenses and other		**1.3**		(11.0)
Accounts payable and accrued liabilities, current portion of deferred reforestation obligations and other current liabilities		**(96.5)**		29.2
Net change in non-cash working capital	**$**	**114.4**	$	(82.8)

24. Related Party Transactions

Canfor undertakes transactions with various related entities. These transactions are in the normal course of business, except where noted otherwise.

The Jim Pattison Group is Canfor's largest shareholder with an ownership interest of 50.9% at December 31, 2019 (December 31, 2018 – 50.9%). During 2019, subsidiaries owned by The Jim Pattison Group provided lease, insurance and other services to Canfor totalling $5.7 million (December 31, 2018 - $5.1 million) with $0.3 million outstanding at December 31, 2019 (December 31, 2018 - nil).

During 2019, CPPI sold paper to subsidiaries owned by The Jim Pattison Group totalling $3.7 million (December 31, 2018 - $3.0 million). No amounts related to these sales were outstanding as at December 31, 2019 or December 31, 2018.

During 2019 and 2018, Canfor also made contributions to certain post-employment benefit plans for the benefit of Canfor employees and CPPI provided services to its joint venture with Licella Fibre Fuel Pty. Ltd. See Note 14, Employee Future Benefits, for further details regarding Canfor's post-employment benefit plans.

Key management personnel

Key management includes members of the Board of Directors and the senior executive management team. The compensation expense for key management for services is as follows:

(millions of Canadian dollars)		**2019**		2018
Short-term benefits	**$**	**6.5**	$	8.7
Post-employment benefits		**0.2**		0.2
Share-based payments		**(0.3)**		(0.6)
	$	**6.4**	$	8.3

Short-term benefits for members of the Board of Directors include an annual retainer, as well as attendance fees.

25. Segment Information

Canfor has two reportable segments, as described below, which offer different products and are managed separately because they require different production processes and marketing strategies. The following summary describes the operations of each of the Company's reportable segments:

- *Lumber* – Includes logging operations and manufacturing and sale of various grades, widths and lengths of lumber, engineered wood and other lumber-related products, wood chips and wood pellets; and
- *Pulp and Paper* – Includes purchase of residual fibre, and production and sale of pulp and paper products, including Northern Bleached Softwood Kraft ("NBSK") and Bleached Chemi-Thermo Mechanical Pulp ("BCTMP"), as well as energy revenues. This segment includes 100% of CPPI.

Sales between segments are accounted for at prices that approximate fair value. These include sales of residual fibre from the lumber segment to the pulp and paper segment for use in the pulp production process. The Company's panels business does not meet the criteria to be reported fully as a separate segment and is included in 'Unallocated & Other' below.

The primary business activities of Vida, acquired on February 28, 2019 (Note 29(b)), include the manufacturing and sale of various grades, widths and lengths of lumber, wood chips and wood pellets, which is consistent with Canfor's lumber segment. The results of these businesses are therefore reported in the Company's lumber segment. Information regarding the operations of each reportable segment is included in the table below. The accounting policies of the reportable segments are described in Note 3.

The Company's interest-bearing liabilities are not considered to be segment liabilities, but rather are managed centrally by the treasury function. Other liabilities are not split by segment for the purposes of allocating resources and assessing performance.

(millions of Canadian dollars)	Lumber	Pulp & Paper	Unallocated & Other	Elimination Adjustment	Consolidated
Year ended December 31, 2019					
Sales from contracts with customers	**$ 3,570.6**	**$ 1,087.7**	**$ -**	**$ -**	**$ 4,658.3**
Sales to other segments	**221.3**	**0.2**	**-**	**(221.5)**	**-**
Operating income (loss)	**(227.4)**	**(31.0)**	**(35.9)**	**-**	**(294.3)**
Amortization	**268.3**	**92.9**	**1.0**	**-**	**362.2**
Capital expenditures[6]	**198.2**	**103.0**	**1.6**	**-**	**302.8**
Identifiable assets	**3,373.3**	**884.7**	**269.0**	**-**	**4,527.0**
Year ended December 31, 2018					
Sales from contracts with customers	$ 3,670.4	$ 1,374.0	$ -	$ -	$ 5,044.4
Sales to other segments	249.5	0.3	-	(249.8)	-
Operating income (loss)	390.5	246.6	(28.5)	-	608.6
Amortization	190.8	79.6	0.1	-	270.5
Capital expenditures[6]	272.3	120.5	8.6	-	401.4
Identifiable assets	2,499.4	919.3	426.4	-	3,845.1

[6] Capital expenditures represent cash paid for capital assets during the periods, excluding assets purchased as part of the acquisition of Vida (Note 29(b)). Pulp & Paper includes capital expenditures by CPPI that were partially financed by government grants.

Geographic information

Canfor operates manufacturing facilities in Canada, the US and Europe. Canfor's products are marketed worldwide, with sales made to customers in a number of different countries. In presenting information on the basis of geographical location, sales are based on the geographical location of customers and assets are based on the geographical location of the assets.

(millions of Canadian dollars)	**2019**	2018
Sales by location of customer		
Canada	**$ 478.2**	$ 592.6
United States	**2,294.5**	2,734.8
Europe	**665.8**	95.9
Asia	**1,097.9**	1,514.4
Other	**121.9**	106.7
	$ 4,658.3	$ 5,044.4

(millions of Canadian dollars)	**As at December 31, 2019**	As at December 31, 2018
Property, plant and equipment, ROU assets, timber licenses, goodwill and other intangible assets by location		
Canada	**$ 1,587.5**	$ 1,719.4
United States	**716.8**	660.1
Europe	**630.9**	-
Asia and other	**0.8**	0.1
	$ 2,936.0	$ 2,379.6

26. Commitments and Contingencies

At December 31, 2019, Canfor had contractual obligations of $134.0 million (December 31, 2018 - $137.9 million), which includes commitments for the construction of capital assets and other working capital items. The majority of these commitments are expected to be settled over the following year. In addition, the Company has committed to leases of property, plant and equipment as outlined under Note 7.

In the ordinary course of its business activities, the Company may be subject to, or enter into, legal actions and claims with customers, unions, suppliers or others.

In circumstances where the Company is not able to determine the outcome of a legal action and claim, no amount is recognized in the consolidated financial statements, with an amount accrued only when a reliable estimate of the obligation can be made. Although there can be no assurance as to the disposition of a legal action and claim, it is the opinion of the Company's management, based upon the information available at this time, that the expected outcome of a legal action and claim, individually or in aggregate, is unlikely to have a material adverse effect on the operating results and financial condition of the Company as a whole.

During 2019, the Company received insurance proceeds $8.0 million, net of a $3.3 million deductible, related to a kiln fire at the Company's Urbana sawmill in August of 2018. An additional $3.2 million of proceeds are expected to be received in 2020.

27. Financial Risk and Capital Management

Financial risk management

Canfor is exposed to a number of risks as a result of holding financial instruments. These risks include credit risk, liquidity risk and market risk.

Canfor's internal Risk Management Committee manages risk in accordance with a Board approved Price Risk Management Controls Policy. This policy provides the framework for risk management related to commodity price, foreign exchange, interest rate and counterparty credit risk of Canfor.

Credit risk:

Credit risk is the risk of financial loss to Canfor if a counterparty to a financial instrument fails to meet its contractual obligations.

Financial instruments that are subject to credit risk include cash and cash equivalents, trade and other accounts receivable, and certain investments and advances. Contract assets are also subject to credit risk. Cash and cash equivalents include cash held through major Canadian and international financial institutions as well as temporary investments with an original maturity date, or redemption date, of three months or less. The cash and cash equivalents balance at December 31, 2019 is $60.1 million (December 31, 2018 - $252.7 million).

Canfor utilizes credit insurance to mitigate the risk associated with some of its trade accounts receivables. As at December 31, 2019, approximately 28% (December 31, 2018 - 46%) of the outstanding trade accounts receivables are covered by credit insurance. Canfor's trade accounts receivable balance at December 31, 2019 is $264.0 million, before a loss allowance of $4.3 million (December 31, 2018 - $186.5 million and $4.4 million, respectively).

At December 31, 2019, approximately 94% (December 31, 2018 - 98%) of the trade accounts receivable balance are within Canfor's established credit terms.

Liquidity risk:

Liquidity risk is the risk that Canfor will be unable to meet its financial obligations as they come due. Canfor manages liquidity risk through regular cash flow forecasting in conjunction with adequate operating loan and long-term debt facilities.

At December 31, 2019, Canfor had $382.0 million drawn on its operating loans and facilities (December 31, 2018 – nil), accounts payable and accrued liabilities of $478.4 million (December 31, 2018 - $458.9 million), and long-term debt of $694.7 million (December 31, 2018 - $408.4 million).

Market risk:

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in interest rates, foreign currency, commodity prices, and energy.

(i) Interest rate risk:

Canfor is exposed to interest rate risk through its current financial assets, operating loan facilities and long-term debt that bear variable interest rates.

Canfor may use interest rate swaps to reduce its exposure to interest rate risk associated with financial obligations bearing variable interest rates. At December 31, 2019 and December 31, 2018, the Company had no interest rate swaps outstanding.

(ii) Currency risk:

At a consolidated level, Canfor is exposed to foreign exchange risk related to the US dollar, as Canfor's products are sold principally in US dollars. In addition, Canfor holds US-dollar denominated financial assets and liabilities.

An increase (decrease) in the value of the Canadian dollar by US$0.01 would result in a pre-tax: (i) loss (gain) of approximately $1.5 million in relation to working capital balances denominated in US dollars at year end (including cash, accounts receivable and accounts payable); and a (ii) gain (loss) of approximately $1.7 million in relation to long-term debt denominated in US dollars at year end.

A portion of the currency risk associated with US dollar denominated sales is naturally offset by US dollar denominated expenses. A portion of the remaining exposure is sometimes reduced by foreign exchange collar contracts that effectively limit the minimum and maximum Canadian dollar recovery related to the sale of those US dollars. At December 31, 2019 and December 31, 2018, the Company had no foreign exchange collar contracts outstanding.

In the fourth quarter of 2018, in anticipation of the closing of the Vida transaction, the Company entered into forward foreign exchange contracts to reduce its exposure to fluctuations in SEK versus the Canadian and US dollar, resulting in the recognition of an unrealized gain of $18.8 million at December 31, 2018. During the first quarter of 2019 the Company entered into additional US and Canadian dollar forward foreign exchange contracts and upon closing of the Vida acquisition on February 28, 2019, settled all of the aforementioned contracts, and realized a net loss of $15.7 million.

Although Vida primarily transacts in its functional currency of SEK, certain products are sold in US dollars, British Pounds ("GBP"), Australian dollars ("AUD") and Euros ("EUR"). In addition, Vida holds US, GBP, AUD and EUR denominated operating loan and long-term debt facilities (Notes 12 and 13) and limits its exposure to foreign exchange risk using forward foreign exchange contracts. At December 31, 2019, the following forward foreign exchange contracts held by Vida, were outstanding:

			As at December 31, 2019
Maturity Date	**Notional Amount Currency**	**Notional Amount**	**Exchange Rates**
Forward Foreign Exchange Contracts		(millions)	(rate of SEK to notional currency)
January 31, 2020 - March 31, 2020	GBP	**£11.0**	**12.43**
January 31, 2020 - April 30, 2020	USD	**$24.0**	**9.50**
January 31, 2020	EUR	**€2.5**	**10.74**

(iii) Commodity price risk:

Canfor is exposed to commodity price risk principally related to the sale of lumber and lumber-related products, pulp and paper. From time to time, Canfor enters into futures contracts on the Chicago Mercantile Exchange for lumber and forward contracts direct with customers or on commodity exchanges for pulp. Under the Company's Price Risk Management Controls Policy, up to 15% of lumber sales and 1% of pulp sales may be sold in this way.

Canfor had the following lumber futures contracts at December 31, 2019 and December 31, 2018:

	As at December 31, 2019		As at December 31, 2018	
Maturity Date	**Notional Amount**	**Average Rate**	Notional Amount	Average Rate
Lumber Futures Contracts	(MMfbm)	(US dollars per Mfbm)	(MMfbm)	(US dollars per Mfbm)
Future sales contracts				
0-12 months	**4.1**	**$415.2**	42.7	$343.14

An increase (decrease) in the futures market price of lumber of US$10 per Mfbm would result in a nominal gain (loss) in relation to the lumber futures held at year end.

(iv) *Energy price risk:*

Canfor is exposed to energy price risk relating to purchases of natural gas and diesel oil for use in its operations.

The annual exposure is from time to time hedged up to 100% through the use of floating to fixed swap contracts or option contracts with maturity dates up to a maximum of three years. At December 31, 2019 and December 31, 2018, the Company had no energy fixed swaps or option contracts outstanding.

Capital management

Canfor's objectives when managing capital are to maintain a strong balance sheet and a globally competitive cost structure that ensures adequate liquidity to maintain and develop the business throughout the commodity price cycle.

Canfor's capital is comprised of net debt and shareholders' equity:

(millions of Canadian dollars)	**As at December 31, 2019**	As at December 31, 2018
Total debt (including operating loans)	**$ 1,076.7**	$ 408.4
Less: cash and cash equivalents	**(60.1)**	(252.7)
Net debt	**1,016.6**	155.7
Total equity	**2,068.9**	2,339.9
	$ 3,085.5	$ 2,495.6

The Company has certain financial covenants on its debt obligations, including a maximum debt to total capitalization ratio that is calculated by dividing total debt by shareholders' equity plus total debt. Debt obligations are held by various entities within the Canfor group and the individual debt agreements specify the entities within the group that are to be included in the covenant calculations. Canfor's strategy is to ensure it remains in compliance with all of its existing debt covenants, so as to ensure continuous access to capital. Canfor was fully in compliance with all its debt covenants for the years ended December 31, 2019 and December 31, 2018.

The Company manages its capital structure through rigorous planning, budgeting and forecasting processes, and ongoing management of operations, investments and capital expenditures. In 2019, the Company's management of capital primarily comprised of strategic acquisitions, investment in the Company's operations including high-return discretionary projects as well as maintenance of business capital, and the development of energy and sustainable working capital and cost management initiatives. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

28. Financial Instruments

Canfor's cash and cash equivalents, trade and other accounts receivables, certain long-term investments and advances, accounts payable and accrued liabilities, other liabilities, operating loans, and long-term debt are classified as measured at amortized cost in accordance with IFRS 9 *Financial Instruments* ("IFRS 9"). The carrying amounts of these instruments, excluding long-term debt, approximate fair value at December 31, 2019 and December 31, 2018.

Derivative instruments and investments in debt and equity securities (excluding associates accounted for under the equity method) are classified as measured at FVTPL. The put liability is measured initially at fair value and subsequently at FVTEQ. IFRS 13, *Fair Value Measurement,* requires classification of financial instruments within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability, directly or indirectly;

Level 3 – Inputs that are not based on observable market data.

There were no transfers between fair value hierarchy levels in 2019 or 2018.

The following table summarizes Canfor's financial instruments measured at fair value at December 31, 2019 and December 31, 2018, and shows the level within the fair value hierarchy in which they have been classified:

(millions of Canadian dollars)	Fair Value Hierarchy Level		**As at December 31, 2019**		As at December 31, 2018
Financial assets measured at fair value					
Investments	Level 1	**$**	**10.7**	$	20.1
Derivative financial instruments	Level 2		**0.3**		18.8
		$	**11.0**	$	38.9
Financial liabilities measured at fair value					
Derivative financial instruments	Level 2	**$**	**-**	$	0.6
Put liability (Note 29(b))	Level 3		**111.9**		-
		$	**111.9**	$	0.6

Canfor invests in equity and debt securities, which are traded in an active market and valued using closing prices on the measurement date with gains or losses recognized through net income (loss).

The Company uses a variety of derivative financial instruments from time to time to reduce its exposure to risks associated with fluctuations in foreign exchange rates, lumber prices, energy prices, and floating interest rates on long-term debt.

At December 31, 2019, the fair value of derivative financial instruments is an asset of $0.3 million (December 31, 2018 – net asset of $18.2 million), which is included in 'Accounts Receivable – Other' on the Company's consolidated balance sheet. The fair value of these financial instruments was determined based on prevailing market rates for instruments with similar characteristics.

The following table summarizes the gains (losses) on derivative financial instruments recognized in the consolidated statement of income (loss) for the years ended December 31, 2019 and December 31, 2018:

(millions of Canadian dollars)		**2019**		2018
Lumber futures	**$**	**5.7**	$	(17.9)
Foreign exchange forward contracts		**(32.1)**		18.8
Energy derivatives		**-**		0.2
Gain (loss) on derivative financial instruments	**$**	**(26.4)**	$	1.1

During the year ended December 31, 2019 a gain of $3.9 million was recognized in 'Other Equity' on the Company's consolidated balance sheet following remeasurement of the put liability (Note 29(b)).

29. Acquisitions

(a) Elliott Sawmilling Co., LLC

On May 31, 2019, the Company completed the first of a two-phase purchase of Elliott Sawmilling Co., LLC ("Elliott"), located in Estill, South Carolina, for an aggregate purchase price of US$110.5 million, plus a net working capital adjustment of US$3.1 million. In accordance with IAS 28 *Investments in Associates and Joint Ventures*, the first phase purchase of 49% was recognized as an equity investment, accounted for under the equity method, consisting of an initial cash payment of $52.0 million (US$38.5 million), a subsequent working capital payment of $4.1 million (US$3.1 million), and an additional $21.1 million (US$15.6 million) included as an 'Other Current Liability' on Canfor's consolidated balance sheet at the initial investment date.

As part of the first phase of the transaction, Canfor advanced $8.5 million (US$6.2 million) to Elliott in the form of a term loan facility during the second quarter of 2019. The term loan facility has an interest rate equal to the floating rate on Canfor's principal committed operating loan facility, plus 1.0%, and is secured by Elliott's operating assets. The term loan receivable has been offset against the balance of the above mentioned 'Other Current Liability'. As at December 31, 2019, Elliott has repaid $0.8 million (US$0.6 million) of the term loan.

After adjusting for changes in foreign exchange between the initial investment date and December 31, 2019, a net other current liability of $13.0 million (US$10.0 million) was recorded on Canfor's consolidated balance sheet. Equity income and transactions costs of $0.9 million were recognized in 2019.

The following tables summarizes the financial information of Elliott at 100%, adjusted for fair value differences at acquisition, and reconciles the summarized financial information to the carrying amount of the Company's initial 49% investment in Elliott at December 31, 2019. Assets and liabilities are shown as at December 31, 2019, with net income amounts shown for the year ended December 31, 2019:

(millions of Canadian dollars)		**2019**
Current assets	$	**18.1**
Non-current assets		**28.8**
Current liabilities		**(9.4)**
Non-current liabilities		**(1.3)**
Net assets (100%)		**36.2**
Fair value adjustments to net assets[7]		**5.1**
Fair value of net assets (100%)		**41.3**
Canfor's share of the fair value of net assets (49%)	$	**20.2**
Other current liability		**20.4**
Accumulated other comprehensive income		**2.8**
Preliminary goodwill		**34.7**
Canfor's investment in Elliott at December 31, 2019 (49%) (Note 10)	$	**78.1**
Revenue		**51.1**
Operating income		**2.0**
Net income		**1.8**
Canfor's share of net income (49%)	$	**0.9**

[7] Fair value adjustments of $2.0 million and $3.1 million were made to current assets and non-current assets, respectively.

On May 31, 2020, Canfor will increase its ownership interest to 100%, at which time Elliott's results and balances are expected to be consolidated into Canfor's. Canfor will pay the second instalment payment of US$37.0 million upon closing of the second phase purchase on May 31, 2020, and the third and final instalment payment of US$35.0 million on May 31, 2021.

(b) Vida Group of Sweden

On February 28, 2019, the Company completed the acquisition of 70% of Vida, Sweden's largest privately-owned sawmill company, for $589.9 million (4,134 million SEK), including a net working capital adjustment of $0.3 million, plus transaction and closing costs. The acquisition method of accounting was applied in accordance with IFRS 3 *Business Combinations*, when Canfor acquired control of Vida on February 28, 2019. The acquisition included nine sawmills in southern Sweden, producing up to 1.1 billion board feet of spruce and pine products annually, and nine value added facilities that produce packaging, modular housing, industrial products and energy.

The Company incurred acquisition-related costs of $4.2 million, principally relating to external legal fees and due diligence costs, which have been included in 'Selling and Administrative Costs'. These amounts were recorded in the Company's consolidated statement of income (loss) when incurred.

On a consolidated basis, for the ten months ended December 31, 2019, Vida has contributed $724.5 million of sales, $28.6 million of operating income and $82.3 million of operating income before amortization to Canfor's results. If the acquisition had occurred on January 1, 2019, it is estimated that for the year ended December 31, 2019, Vida's sales would have been $885.2 million, operating income would have been $50.6 million and operating income before amortization would have been $111.6 million. Vida's operating income for 2019 includes $39.2 million of incremental amortization and other expenses driven by the purchase price allocation at the acquisition date.

The following table summarizes the consideration paid for 70% of Vida, inclusive of the net working capital adjustment and less cash acquired at acquisition:

(millions of Canadian dollars)		
Total consideration	**$**	**589.9**
Less: consideration holdback		**(9.7)**
Total cash consideration paid		**580.2**
Less: cash acquired		**(17.9)**
Total cash consideration paid, net of cash acquired	**$**	**562.3**

The consideration holdback of $9.7 million (68 million SEK) is required to be withheld by Canfor in a separate bank account and not paid until the fifth anniversary of the closing date, February 28, 2024. As a result, the holdback is classified as non-current restricted cash and is included in 'Other Deposits, Loan, Advances and Long-Term Assets' (Note 10), with an offsetting payable recognized in 'Other Long-Term Liabilities' on the Company's consolidated balance sheet at December 31, 2019.

The table below outlines preliminary and final recognized amounts of identifiable assets acquired and liabilities assumed at 100%, less the 30% non-controlling interest retained by Vida shareholders at the acquisition date:

(millions of Canadian dollars)		Preliminary		**Final**
Cash	$	17.9	**$**	**17.9**
Operating loan facilities (including overdraft facilities)		(17.6)		**(17.6)**
Long-term debt		(21.6)		**(21.6)**
Non-cash working capital, net (including inventory)		210.8		**210.8**
Property, plant and equipment		462.7		**468.5**
Right-of-use assets		9.9		**9.9**
Other non-current assets		0.5		**0.5**
Lease obligations		(9.9)		**(9.9)**
Other non-current liabilities (including deferred tax)		(26.0)		**(25.8)**
Deferred tax liability on fair value adjustments, net		(66.0)		**(67.2)**
Total net identifiable assets	$	560.7	**$**	**565.5**
Non-controlling interest	$	(189.7)	**$**	**(171.3)**
Goodwill		219.2		**195.7**
Total consideration	$	590.2	**$**	**589.9**

Balances that have required significant fair value adjustments for purchase price accounting included goodwill, deferred income taxes, property, plant and equipment and inventory.

Final recognized amounts reflect retrospective adjustments to property, plant and equipment fair values following the completion of an external valuation in the fourth quarter of 2019. Accordingly, amortization was retrospectively adjusted resulting in an $11.4 million reduction in amortization expense across the ten month period since acquisition, primarily reflecting movements between categories of property, plant and equipment. The external, independent valuers, having the appropriate recognized professional qualifications and experience, determined the fair values of property, plant and equipment using the market comparison and cost technique, considering market prices for similar items when they are available, and depreciated replacement cost when appropriate. Depreciated replacement cost reflects adjustment for physical deterioration, as well as functional and economic obsolescence.

The fair value of inventory was determined by Canfor applying a market comparison technique, determined based on the estimated selling price in the ordinary course of business, less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

Goodwill of $195.7 million has been recognized as part of the purchase, calculated as the excess of the aggregate consideration transferred and the amount of non-controlling interests, over the fair value of the estimated identifiable assets acquired and liabilities assumed.

The goodwill arising from the acquisition is attributable to management strength, expected future income and cash-flow projections, access to new international markets and the ability to further diversify Canfor's current product offering. As part of the consolidation of Vida, a net deferred tax liability of $67.2 million was recognized for differences between tax and accounting values of property, plant and equipment and inventory. None of the goodwill recognized is deductible for tax purposes. Goodwill arising from the acquisition has been recognized as follows:

(millions of Canadian dollars)		
Total consideration	$	**589.9**
Non-controlling interest[8]		**171.3**
Fair value of net identifiable assets		**(565.5)**
Goodwill at acquisition	$	**195.7**

[8] Calculated based on Vida's proportionate 30% interest in the fair value of the net identifiable assets acquired, adjusted for Vida's existing non-controlling interests at acquisition.

At the acquisition date, Canfor recorded a put liability of SEK 830.1 million, or $118.6 million, relating to Vida's non-controlling shareholders' option to sell their remaining 30% ownership interest to the Company in 3 to 10 years' time. Key assumptions used in the valuation model to estimate this put liability include historical and forecast pricing, costs and exchange rates, which the Company's management determined with reference to internal and external publications, where applicable. A discount rate of 10%, reflecting an estimated market rate of return, was used for the purpose of estimating this liability.

This put liability is translated to the Canadian dollar at each reporting period, with foreign currency differences arising on translation recognized in other comprehensive income (loss) and recorded to the accumulated foreign exchange translation account. Subsequent changes to the measurement of the put liability are recognized in other equity.

As at December 31, 2019, the put liability was remeasured at SEK 802.4 million. As a result of this remeasurement, including foreign exchange translation differences subsequent to initial recognition, the balance of the put liability was $111.9 million at December 31, 2019.

30. Countervailing and Anti-Dumping Duties

In 2016, a petition was filed by the US Lumber Coalition to the US Department of Commerce ("DOC") and the US International Trade Commission ("ITC") alleging certain subsidies and administered fees below the fair market value of timber that favour Canadian lumber producers. Canfor was selected by the DOC as a "mandatory respondent" to the countervailing and anti-dumping investigations and is subject to company specific countervailing and anti-dumping duties. As a result of the DOC's investigation, countervailing duties ("CVD") and anti-dumping duties ("ADD") were imposed on the Company's Canadian lumber exports to the United States beginning in 2017, with cash deposits posted at an ADD rate of 7.28% and CVD rate of 13.24%, resulting in a combined cash deposit rate of 20.52%. Cumulative cash deposits paid to December 31, 2019 were $421.4 million.

Canfor and other Canadian forest product companies, the Federal Government and Canadian Provincial Governments continue to categorically deny the US allegations and strongly disagree with the current countervailing and anti-dumping determinations made by the DOC. Canada has proceeded with legal challenges under NAFTA and through the World Trade Organization, where Canadian litigation has proven successful in the past. Despite the reduced preliminary rates for the first period of review, no cash duties will be refunded to the Company until such time as the litigation regarding the imposition of CVD and ADD has been settled.

First Period of Review ("POR1")

Despite cash deposits being made at rates determined by the DOC in 2017 (20.52%), the final liability associated with duties is not determined until the completion of administrative reviews performed by the DOC. For the CVD rate, the first period of review was based on sales and cost data through 2017 and 2018, while the ADD rate was based off data from July 2017 to December 2018. For the first period of review, the Company accrued the ADD expense at an estimated rate of 2.6% and recorded the CVD expense at the DOC's cash deposit rate of 13.24%, for a combined CVD and ADD accrual rate of 15.84%.

In early 2020, the DOC announced the preliminary results for the first period of review. Accordingly, the Company's preliminary CVD cash deposit rate was determined to be 2.93% for 2017 and 2.61% for 2018 (versus a cash deposit rate of 13.24%), while the preliminary ADD cash deposit rate was 2.02% for the entire first period of review (versus a cash deposit rate of 7.28% and an estimated accrual rate of 2.6%). For the Company, the difference between the combined cash deposit rate of 20.52% and the combined preliminary DOC rates for POR1 is currently estimated at $217.3 million (US$163.3 million).

Upon finalization of these rates (currently anticipated in the third quarter of 2020), the Company's current combined cash deposit rate of 20.52% will be reset to the final rates as determined in the first period of review (currently estimated to be 4.63% based on the preliminary determination). This new cash deposit rate will apply on the Company's Canadian lumber shipments destined to the United States until completion of the administrative review for the second period of review (anticipated in 2021).

A summary of the various rates is as follows:

Time Period	Deposit Rate	Accrued Rate	Preliminary DOC Rate	Description
April 2017 – December 2018	20.52%	15.84%	4.63%	'1st Period of Review'
January 2019 – December 2019	20.52%	29.24%[9]	Anticipated in 2021	'2nd Period of Review'
January 2020 – July 2020	20.52%		Anticipated in 2022	'3rd Period of Review'
August 2020 – December 2020	4.63%[10]			New estimated cash deposit rate from POR1

[9] Includes Canfor's estimated ADD accrual rate determined by applying DOC methodology to current sales and cost data.

[10] Preliminary POR1 rate subject to review and finalization in 2020; final POR 1 rate currently anticipated to be effective in August 2020.

In addition, upon finalization of these rates, an additional recovery will be recognized in the Company's consolidated financial statements to reflect the difference between the accrual rate of 15.84% and final rates as established for the first period of review. This additional recovery is currently estimated at $140.6 million (US$105.7 million).

Second Period of Review ("POR 2")

The second period of review is based on sales and cost data in 2019. While the Company is unable to estimate an applicable CVD rate separate from the cash deposit rate for this period, the ADD rate was expensed at a rate of 16.0% in 2019 reflecting the significant challenges experienced during the year, resulting in a combined accrual rate of 29.24% for 2019, while the cash deposit rate for 2019 remained at 20.52%.

Summary

As at December 31, 2019 Canfor has paid cumulative cash deposits of $421.4 million. For accounting purposes, a net duty recoverable of $32.4 million is included on the Company's December 31, 2019 balance sheet reflecting differences between the cash deposit rate of 20.52%, the Company's POR1 accrual rate of 15.84% and the Company's POR2 accrual rate of 29.24%.

For the year-ended December 31, 2019, the Company recorded a net duty expense of $178.7 million, comprised of cash deposits paid of $137.4 million in 2019, and net additional expense of $41.3 million, largely reflecting the Company's estimated accrual rate for POR2.

Effective duties (millions of Canadian dollars)		**2019**
Cash deposits paid in 2019 (20.52%)	**$**	**137.4**
Incremental pre-tax expense attributable to POR2 – ADD (16.0% versus 7.28%)[11]		**45.6**
Duty recovery, net, POR1 – ADD (2.9% versus 2.6%)[12]		**(4.3)**
Duty expense, net	**$**	**178.7**

[11] Reflects Canfor's estimated ADD accrual rate for POR2 determined by applying DOC methodology to current sales and cost data.

[12] Reflects Canfor's estimated ADD accrual rate of 2.9% for POR1 (versus the DOC's ADD cash deposit rate of 7.28%) determined by applying DOC methodology to sales and cost data as of November 30, 2018. Following the addition of December 2018 sales and cost data, Canfor's estimated ADD accrual rate was revised to 2.6% for all of POR1, resulting in a recovery recognized in POR2.

Canfor will continue to reassess the ADD accrual estimate at each quarter-end, applying the DOC's methodology to updated sales and cost data as this becomes available. Quarterly revisions to the ADD rate may result in a material adjustment to the consolidated statement of income (loss) while the Administrative Reviews are taking place. Changes to the DOC's existing CVD and ADD rates during the course of each Administrative Review may also result in material adjustments to the consolidated statement of income (loss).