



Interfor Corporation

Third Quarter Report

For the three and nine months ended September 30, 2019

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations as at and for the three and nine months ended September 30, 2019 ("Q3'19" and "YTD'19", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2019, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 7, 2019.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Third Quarter, 2019", "Reconfiguration of B.C. Coastal Business", "Strategic Capital Plan Update", "Acquisition of B.C. Interior Cutting Rights from Canfor", "Senior Leadership Transition", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein and in Interfor's 2018 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2018 annual Management's Discussion and Analysis.

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

Overview of Third Quarter, 2019

Interfor recorded a net loss in Q3'19 of \$35.6 million, or \$0.53 per share, compared to a net loss of \$11.2 million, or \$0.17 per share in Q2'19 and net earnings of \$28.2 million, or \$0.40 per share in Q3'18.

Adjusted net loss in Q3'19 was \$11.8 million compared to an Adjusted net loss of \$16.2 million in Q2'19 and Adjusted net earnings of \$28.3 million in Q3'18.

Adjusted EBITDA was \$16.8 million on sales of \$486.5 million in Q3'19 versus \$12.6 million on sales of \$481.3 million in Q2'19.

Included in the Company's results for Q3'19 are \$23.2 million (after-tax) for capital asset write-downs and restructuring costs, or \$31.8 million on a pre-tax basis. This includes \$14.0 million of non-cash impairments for capital asset write-downs on buildings, equipment and other assets related to the permanent closure of Interfor's Hammond sawmill and \$17.8 million of accruals for the settlement of various human resource matters related to the reconfiguration of the Company's B.C. Coastal business and succession arrangements related to the announced retirement of Interfor's CEO.

Other notable items in the quarter included:

- **Mixed Lumber Price Movements**
 - Movements in key benchmark prices were mixed quarter-over-quarter with the SYP Composite dropping by US\$18 to US\$355 per mfbm while the Western SPF Composite benchmark rose by US\$15 to US\$338 per mfbm and the KD H-F Stud 2x4 9' benchmark remained relatively flat at US\$337 per mfbm. Interfor's average lumber selling price fell \$20 from Q2'19 to \$583 per mfbm.
- **Production Increased; Balanced with Shipments**
 - Total lumber production was 685 million board feet, up 38 million board feet from the prior quarter. Production in the U.S. South region increased to 348 million board feet from 320 million board feet in the preceding quarter as the Monticello and Meldrim sawmills ramped up production after completion of the Phase I capital projects at these locations. The B.C. and U.S. Northwest regions accounted for 205 million board feet and 131 million board feet, respectively, compared to 187 million board feet and 140 million board feet in Q2'19. Production in Q2'19 was affected by the curtailments taken in the B.C. Interior in response to weak lumber prices and continuing high log costs.
 - Total lumber shipments were 692 million board feet, including agency and wholesale volumes, or 18 million board feet higher than Q2'19.
 - Lumber inventories at September 30, 2019 were 215 million board feet, up 4 million board feet quarter-over-quarter.
- **Continued Strong Financial Position**
 - Net debt ended the quarter at \$212.7 million, or 19.4% of invested capital, resulting in available liquidity of \$380.9 million.
 - Interfor generated \$2.3 million of cash flow from operations before changes in working capital, or \$0.03 per share. Total cash generated from operations was \$29.7 million, primarily the result of reduced log inventories in B.C.
 - Capital spending was \$35.7 million in Q3'19, including \$25.5 million on high-return discretionary projects, primarily in the U.S. South and the remainder related to maintenance capital and woodlands projects.

- Softwood Lumber Duties
 - Interfor expensed \$12.1 million of duties in the quarter, representing the full amount of countervailing (“CV”) and anti-dumping (“AD”) duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.
 - Cumulative duties of US\$85.8 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. Except for US\$3.3 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Reconfiguration of B.C. Coastal Business

On September 3, 2019, Interfor announced a plan to reconfigure its B.C. Coastal business, including the permanent closure of its Hammond sawmill, located in Maple Ridge, B.C., and the reorganization of its forestry and woodlands operations.

This plan is expected to result in the repatriation of working capital tied up at Hammond, the monetization of related real estate and improved results in the years ahead. In addition, the Company’s B.C. Coastal forestry and woodlands operations will be reorganized to focus on value realization rather than operational integration with Hammond.

The closure is expected to be completed in the fourth quarter, after the mill’s remaining log and lumber inventories are processed and shipped.

Strategic Capital Plan Update

Interfor’s previously announced Phase I strategic capital projects at the Meldrim, Georgia and Monticello, Arkansas sawmills were substantially completed at the end of the prior quarter and are now in the ramp-up phase. Total project costs are expected to be US\$70.9 million. As of September 30, 2019, US\$69.9 million has been capitalized.

The Phase II projects at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina, with a budget of US\$240 million, are on track for completion in various stages over the period of 2019 to 2022. As of September 30, 2019, US\$43.9 million has been capitalized and the projects remain on budget.

Acquisition of B.C. Interior Cutting Rights from Canfor

On June 3, 2019, Interfor entered into a purchase agreement with Canadian Forest Products Ltd. to acquire two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior and assume certain liabilities for total cash compensation of \$60 million. The transaction remains subject to various consents, including that by the Government of B.C. and is currently targeted to close in the fourth quarter, 2019 as consultation with stakeholders continues.

Senior Leadership Transition

On August 26, 2019, Interfor announced that long-time President & CEO Duncan Davies will step down on December 31, 2019 and Ian Fillinger, currently the Company’s Senior Vice President & COO, has been appointed President & CEO effective January 1, 2020. Mr. Fillinger will also serve on the Company’s Board of Directors following this date.

Mr. Davies will also step down from his role as a director of the Company and has agreed to remain with the Company in an advisory capacity through the end of 2020.

Outlook

The near term demand outlook is expected to be impacted by uncertainties related to economic growth in North America as well as a traditional fall/winter seasonal slowdown that can be weather dependant. Industry curtailments and permanent closures in the B.C. Interior and U.S. Northwest should help balance supply with demand over the coming quarters.

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

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

Financial and Operating Highlights¹

	Unit	For the 3 months ended			For the 9 months ended	
		Sept. 30 2019	Sept. 30 2018	Jun. 30 2019	Sept. 30 2019	Sept. 30 2018
			(restated) ²		(restated) ²	
Financial Highlights³						
Total sales	\$MM	486.5	570.5	481.3	1,419.0	1,718.0
Lumber	\$MM	403.5	480.3	406.9	1,190.9	1,453.2
Logs, residual products and other	\$MM	83.0	90.2	74.4	228.1	264.8
Operating earnings (loss)	\$MM	(44.8)	41.8	(18.2)	(79.8)	174.8
Net earnings (loss)	\$MM	(35.6)	28.2	(11.2)	(62.1)	124.6
Net earnings (loss) per share, basic	\$/share	(0.53)	0.40	(0.17)	(0.92)	1.78
Adjusted net earnings (loss) ⁴	\$MM	(11.8)	28.3	(16.2)	(40.7)	133.7
Adjusted net earnings (loss) per share, basic ⁴	\$/share	(0.17)	0.40	(0.24)	(0.60)	1.91
Operating cash flow per share (before working capital changes) ⁴	\$/share	0.03	1.04	0.15	0.43	3.96
Adjusted EBITDA ⁴	\$MM	16.8	72.5	12.6	45.8	282.7
Adjusted EBITDA margin ⁴	%	3.5%	12.7%	2.6%	3.2%	16.5%
Total assets	\$MM	1,421.0	1,575.7	1,459.8	1,421.0	1,575.7
Total debt	\$MM	264.9	258.9	261.7	264.9	258.9
Net debt	\$MM	212.7	3.8	198.2	212.7	3.8
Net debt to invested capital ⁴	%	19.4%	0.4%	17.9%	19.4%	0.4%
Annualized return on invested capital ⁴	%	6.1%	29.1%	4.6%	5.7%	38.6%
Operating Highlights						
Lumber production	million fbm	685	674	647	1,978	2,029
Total lumber sales	million fbm	692	685	674	1,987	2,033
Lumber sales - Interfor produced	million fbm	681	675	664	1,955	1,999
Lumber sales - wholesale and commission	million fbm	11	10	10	32	34
Lumber - average selling price ⁵	\$/thousand fbm	583	701	603	599	715
Average USD/CAD exchange rate ⁶	1 USD in CAD	1.3204	1.3070	1.3377	1.3292	1.2876
Closing USD/CAD exchange rate ⁶	1 USD in CAD	1.3243	1.2945	1.3087	1.3243	1.2945

Notes:

- 1 Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
- 2 Financial information has been restated for implementation of IFRS 16, *Leases*.
- 3 Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
- 4 Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
- 5 Gross sales before duties.
- 6 Based on Bank of Canada foreign exchange rates.

Summary of Third Quarter 2019 Financial Performance

Sales

Interfor recorded \$486.5 million of total sales, down 14.7% from \$570.5 million in the third quarter of 2018, driven by the sale of 692 million board feet of lumber at an average price of \$583 per mfbm. Lumber sales volume increased 7 million board feet, or 1.0%, while average selling price decreased \$118 per mfbm, or 16.8%, as compared to the same quarter of 2018.

The decrease in the average selling price of lumber reflects significantly lower prices across all benchmark products in Q3'19 as compared to Q3'18. The Southern Yellow Pine Composite declined by US\$108 to US\$355 per mfbm, while the Western SPF Composite and the KD HF Stud 2x4 9' benchmark decreased US\$97 to US\$338 per mfbm and US\$131 to US\$337 per mfbm, respectively.

The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the weakening of the Canadian Dollar against the U.S. Dollar by 1.0% on average in Q3'19 as compared to Q3'18.

Sales generated from logs, residual products and other decreased by \$7.2 million or 8.0% in Q3'19 compared to Q3'18 primarily as a result of a 33.6% decline in log production from B.C. operations, resulting in fewer surplus logs available for sale.

Operations

Production costs decreased by \$21.3 million, or 4.5%, compared to Q3'18, explained primarily by a reduction in its net realizable value provision for log and lumber inventories partially offset by higher stumpage rates in B.C. and a weaker Canadian Dollar, on average, in Q3'19 versus Q3'18.

Lumber production of 685 million board feet in Q3'19 was 11 million board feet higher than Q3'18.

Production from Interfor's B.C. operations declined by 18 million board feet from Q3'18 to 206 million board feet, affected by temporary market related reductions in operating schedules of the B.C. Interior sawmills.

Production from the Company's U.S. South sawmills totaled 348 million board feet, up 35 million board feet compared to Q3'18 due to weather related log supply shortages and project/maintenance downtime that occurred in Q3'18 and the contributions from the Company's Phase I strategic capital projects. Production from the Company's U.S. Northwest operations totaled 131 million board feet, down 6 million board feet compared to Q3'18.

Interfor expensed the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled \$12.1 million in Q3'19, down \$3.8 million from Q3'18. The decrease is attributable to lower shipments to the U.S. from Canadian sawmills and lower prices in Q3'19 as compared to Q3'18.

Depreciation of plant and equipment was \$20.6 million, up \$0.6 million compared to Q3'18.

Depletion and amortization of timber, roads and other was \$8.1 million, down \$4.2 million from Q3'18 primarily due to a 33.6% decline in log production volume in B.C. Moreover, an intangible asset recognized on acquisition of certain sawmills in U.S. South in 2014 was fully amortized in Q2'19.

Corporate and Other

Selling and administration expenses were \$9.4 million, down \$3.2 million from Q3'18. The third quarter of 2018 included an accrual for short term incentive compensation and certain non-recurring costs not reflected in the Q3'19 comparative.

The \$1.0 million long term incentive compensation expense mostly reflects the vesting of various incentive plans as well as a 2.6% increase during the quarter in the market price of Interfor Common shares used to value share-based awards. The long term incentive compensation recovery of \$7.5 million in Q3'18 resulted primarily from a 20.6% decrease in the market price of Interfor Common Shares during that quarter and the impact of incentive awards maturing.

Capital asset write-downs and restructuring costs in Q3'19 were \$31.8 million. This includes \$14.0 million of non-cash impairments for capital asset write-downs on buildings, equipment and other assets related to the permanent closure of Interfor's Hammond sawmill and \$17.8 million of accruals for the settlement of various human resource matters related to the reconfiguration of the Company's B.C. Coastal business and succession arrangements related to the announced retirement of Interfor's CEO. The asset write-down in Q3'18 related to non-cash impairments of certain equipment to be replaced as part of capital projects in the U.S. South.

Finance costs increased to \$3.8 million in Q3'19 from \$3.0 million in Q3'18 primarily due to a drop in interest income from surplus cash and the effect of a weaker Canadian Dollar on U.S. Dollar denominated interest expense.

Other foreign exchange gain of \$0.2 million in Q3'19 and losses of \$1.8 million in Q3'18 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding, cash and marketable securities held by Canadian operations. The closing Canadian Dollar weakened by 1.2% in Q3'19 (strengthened by 1.7% in Q3'18) and Interfor held lower U.S. Dollar cash and marketable securities balances on average in Q3'19 as compared to Q3'18.

Other expense of \$0.1 million in Q3'19 and other income of \$0.2 million in Q3'18 relate primarily to the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of \$12.8 million in Q3'19, comprised of \$0.4 million in current income tax expense offset by a \$13.2 million deferred tax recovery. The Company recorded an income tax expense of \$9.0 million in Q3'18, comprised of a \$0.7 million current tax expense and a \$8.3 million deferred tax expense.

Net Earnings (Loss)

The Company recorded a Net loss of \$35.6 million, or \$0.53 per share, compared to Net earnings of \$28.2 million, or \$0.40 per share in the comparable period of 2018. Adjusted net loss was \$11.8 million, or \$0.17 per share, compared with Adjusted net earnings of \$28.3 million, or \$0.40 per share in Q3'18.

Summary of Year-to-Date 2019 Financial Performance

Sales

Interfor recorded \$1.4 billion of total sales, down 17.4% from \$1.7 billion in the first nine months of 2018, driven by the sale of 2.0 billion board feet of lumber at an average price of \$599 per mfbm. Lumber sales volume decreased 46 million board feet, or 2.3%, while average selling prices dropped \$116 per mfbm, or 16.2%, as compared to the first nine months of 2018.

The decrease in the average selling price of lumber reflects lower prices across all benchmark products in YTD'19 as compared to YTD'18. The Southern Yellow Pine Composite declined by US\$106 to US\$375 per mfbm, while the Western SPF Composite and the KD HF Stud 2x4 9' benchmark decreased US\$140 to US\$340 per mfbm and US\$155 to US\$344 per mfbm, respectively for YTD'19 as compared to YTD'18. The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the 3.2% weakening of the Canadian Dollar against the U.S. Dollar in YTD'19 as compared to YTD'18.

Sales generated from logs, residual products and other decreased by \$36.7 million or 13.9% in the first nine months of 2019, as compared to the same period of 2018, primarily as a result of a 30.4% decline in log production from B.C. operations, resulting in fewer surplus logs available for sale.

Operations

Production costs decreased by \$42.2 million or 3.1% over the first nine months of 2018, explained primarily by a decline of 2.3% in lumber sales volume, partially offset by market driven log cost increases, higher stumpage rates in B.C., higher conversion costs and a weaker Canadian Dollar, on average, in YTD'19 versus YTD'18. Interfor's production costs were positively impacted by a reduction in its net realizable value provision for log and lumber inventories of \$7.1 million in YTD'19 as compared to an increase of \$2.2 million in YTD'18.

Lumber production of 2.0 billion board feet in YTD'19 was 51 million board feet lower than YTD'18.

Production from Interfor's B.C. operations totaled 588 million board feet in YTD'19, a decrease of 68 million board feet from YTD'18, as a result of temporary market related curtailments in the B.C Interior.

Production from the Company's U.S. South sawmills totaled 983 million board feet in YTD'19, up 43 million board feet compared to YTD'18 with the impact of a reduced operating schedule at the Monticello sawmill during its rebuild in YTD'19 more than offset by increased operating rates at several other mills. Production from the Company's U.S. Northwest operations totaled 406 million board feet in YTD'19, a decrease of 25 million board feet from YTD'18.

Interfor expensed the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled \$34.0 million in YTD'19, down \$9.6 million from YTD'18. The decrease is attributable to lower shipments to the U.S. from Canadian sawmills and lower prices in YTD'19 as compared to YTD'18.

Depreciation of plant and equipment was \$59.7 million, down \$1.1 million from YTD'18. This decrease is attributable to downtime related to capital projects at several of the U.S. South mills and market-related curtailments in the B.C. Interior somewhat offset by the effect of a weaker Canadian dollar.

Depletion and amortization of timber, roads and other was \$30.1 million, down \$4.8 million from YTD'18 due to a 30.4% decline in log production volume in B.C. Moreover, an intangible asset recognized on acquisition of certain sawmills in the U.S. South in 2014 became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were \$29.8 million, down \$10.3 million from the first nine months of 2018, which included an accrual for short term incentive compensation and certain non-recurring costs not reflected in the YTD'19 comparative.

The \$2.2 million long term incentive compensation expense mostly reflects the impact of a 2.6% year-to-date increase in the market price of Interfor Common shares used to value share-based awards and incentive awards maturing. The \$1.4 million long term incentive compensation expense in YTD'18 resulted from the impact of incentive awards maturing, partially offset by the impact of an 8.2% year-to-date decrease in the market price of Interfor Common Shares used to value share-based awards.

Finance costs increased to \$11.3 million YTD'19 from \$9.7 million YTD'18 resulting from unamortized deferred financing fees associated with extinguished credit facilities that were written off and the effect of a weaker Canadian Dollar on U.S. Dollar denominated interest expense.

Capital asset write-downs and restructuring costs in YTD'19 were \$33.6 million. This includes \$15.8 million of non-cash impairments for capital asset write-downs on buildings, equipment and other assets primarily related to the permanent closure of Interfor's Hammond sawmill and \$17.8 million of accruals for the settlement of various human resource matters related to the reconfiguration of the Company's B.C. Coastal business and succession arrangements related to the announced retirement of Interfor's CEO. The YTD'18 restructuring charges relate to costs associated with non-cash impairments of an intangible asset and certain equipment in the U.S. South related to legacy buildings and equipment replaced through the Company's strategic capital projects.

Other foreign exchange gains of \$0.2 million in YTD'19 and \$0.1 million in YTD'18 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding, cash and marketable securities held by Canadian operations. The closing Canadian Dollar strengthened by 2.9% YTD'19 (weakened by 3.2% in YTD'18) which was offset by lower U.S. Dollar cash and marketable securities balances on average in YTD'19 as compared to YTD'18.

Other income of \$6.2 million in YTD'19 relates primarily to a gain recognized as a result of compensation received on the extinguishment of two timber licences on the B.C. Coast. Other expense of \$0.1 million in YTD'18 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of \$22.5 million in YTD'19, comprised of a \$0.8 million current tax expense offset by a \$23.3 million deferred tax recovery. The YTD'18 income tax expense of \$40.6 million is comprised of a \$3.0 million current tax expense and a \$37.6 million deferred tax expense.

Net Earnings (Loss)

The Company recorded a net loss of \$62.1 million, or \$0.92 per share, compared to net earnings of \$124.6 million, or \$1.78 per share, in the same period of 2018. Adjusted net loss was \$40.7 million, or \$0.60 per share, compared to Adjusted net earnings of \$133.7 million, or \$1.91 per share in YTD'18.

Summary of Quarterly Results¹

Unit	2019			2018 ²			2017 ²		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	
Financial Performance³									
Total sales	\$MM	486.5	481.3	451.2	468.5	570.5	619.9	527.6	532.8
Lumber	\$MM	403.5	406.9	380.5	387.7	480.3	527.0	445.9	446.0
Logs, residual products and other	\$MM	83.0	74.4	70.7	80.8	90.2	92.9	81.7	86.8
Operating earnings (loss)	\$MM	(44.8)	(18.2)	(16.8)	(16.9)	41.8	86.4	46.6	48.3
Net earnings (loss)	\$MM	(35.6)	(11.2)	(15.3)	(13.5)	28.2	63.7	32.7	36.0
Net earnings (loss) per share, basic	\$/share	(0.53)	(0.17)	(0.23)	(0.20)	0.40	0.91	0.47	0.52
Adjusted net earnings (loss) ⁴	\$MM	(11.8)	(16.2)	(12.7)	(20.2)	28.3	68.9	36.5	44.8
Adjusted net earnings (loss) per share, basic ⁴	\$/share	(0.17)	(0.24)	(0.19)	(0.29)	0.40	0.98	0.52	0.64
Operating cash flow per share (before working capital changes) ⁴	\$/share	0.03	0.15	0.25	0.14	1.04	1.80	1.12	1.22
Adjusted EBITDA ⁴	\$MM	16.8	12.6	16.3	8.9	72.5	126.7	83.5	91.8
Adjusted EBITDA margin ⁴	%	3.5%	2.6%	3.6%	1.9%	12.7%	20.4%	15.8%	17.2%
Annualized return on invested capital ⁴	%	6.1%	4.6%	6.1%	3.6%	29.1%	49.9%	33.5%	37.5%
Shares outstanding - end of period	million	67.3	67.3	67.3	67.8	69.4	70.0	70.0	70.0
Shares outstanding - weighted average	million	67.3	67.3	67.3	68.9	69.9	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	685	647	646	607	674	688	666	655
Total lumber sales	million fbm	692	674	621	647	685	700	648	686
Lumber sales - Interfor produced	million fbm	681	664	610	639	675	689	635	666
Lumber sales - wholesale and commission	million fbm	11	10	11	8	10	11	13	20
Lumber - average selling price ⁵	\$/thousand fbm	583	603	613	599	701	753	688	650
Average USD/CAD exchange rate ⁶	1 USD in CAD	1.3204	1.3377	1.3295	1.3204	1.3070	1.2911	1.2647	1.2713
Closing USD/CAD exchange rate ⁶	1 USD in CAD	1.3243	1.3087	1.3363	1.3642	1.2945	1.3168	1.2894	1.2545

Notes:

- 1 Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
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- 5 Gross sales before duties.
- 6 Based on Bank of Canada foreign exchange rates.

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

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'17, Q1'18 and Q1'19 and in the U.S. South in Q3'18 and Q1'19. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18 and Q2'19. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

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

Liquidity

Balance Sheet

Interfor's net debt at September 30, 2019 was \$212.7 million, or 19.4% of invested capital, for an increase of \$208.9 million from the level at September 30, 2018 and an increase of \$148.8 million from December 31, 2018.

YTD'19 net debt was positively impacted by a stronger Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars; this was partially offset by the Company's U.S. Dollar cash balances.

Thousands of Dollars	For the 3 months ended		For the 9 months ended	
	2019	2018	2019	2018
Net debt				
Net debt, period opening	\$198,209	\$34,415	\$63,825	\$119,300
Net drawing on credit facilities	-	112	755	111
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	3,120	(4,572)	(8,735)	7,889
Decrease (increase) in cash and cash equivalents	11,747	61,248	110,665	(31,254)
Decrease (increase) in marketable securities	-	(91,011)	41,766	(91,011)
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	(402)	3,608	4,398	(1,235)
Net debt, period ending, CAD	\$212,674	\$3,800	\$212,674	\$3,800

On March 28, 2019, the Company completed a modernization of its credit facilities. The new facility replaced the U.S. Operating Line, Canadian Operating Line, and Revolving Term Line with one consolidated facility. The new facility increased credit availability to \$350 million and matures in March 2024.

As at September 30, 2019, the Company had net working capital of \$216.2 million and available liquidity of \$380.9 million, including cash and borrowing capacity on its term line facility.

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

Cash Flow from Operating Activities

The Company generated \$29.3 million of cash flow from operations before changes in working capital in YTD'19, a decrease of \$248.0 million compared to YTD'18 which resulted from lower sales margins and sales volumes.

Cash generated from operations totaled \$3.6 million in YTD'19 with \$25.7 million of cash invested in operating working capital. The payment of short-term incentive compensation in YTD'19 contributed to the \$20.6 million outflow related to payables, while timing of collections contributed to the \$25.2 million total receivables outflow. A focused effort to reduce B.C. log inventory volumes contributed to the \$28.1 million inflow from inventories.

In YTD'18, \$277.2 million of cash was generated from operations with \$32.7 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled \$88.6 million with capital spending of \$126.9 million for plant and equipment, timber licences and other intangibles and \$17.3 million for development of roads offsetting \$47.1 million in net proceeds from maturing Marketable securities and deposits and \$8.4 million in proceeds on disposal of plant, equipment and other in YTD'19.

Discretionary mill improvements of \$108.5 million in YTD'19 include a number of projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello, Meldrim, Eatonton, Georgetown and Thomaston sawmills and installation of a kiln at the sawmill in Perry, Georgia.

Maintenance capital investments excluding roads totaled \$18.3 million in YTD'19, of which the majority was spent on U.S. South operations.

In YTD'18, investing activities were \$186.3 million, net of \$0.5 million in proceeds on the disposal of property, plant and equipment. Spending included \$56.2 million for property, plant and equipment, timber and other intangible assets, and \$23.6 million for development of roads and \$106.9 million primarily on marketable securities, as the Company invested surplus cash to yield high returns. Discretionary and maintenance mill improvements totaled \$38.4 million and \$17.8 million, respectively, in YTD'18, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of \$25.7 million in YTD'19 resulted from \$7.8 million used to purchase shares under the Company's normal course issuer bid ("NCIB"), interest payments of \$8.8 million, lease liability payments of \$8.7 million, and debt refinancing costs of \$1.2 million slightly offset by \$0.8 million in short term funding activities under the Revolving Term Line.

Net cash outflow of \$27.0 million in YTD'18 related to the purchase of shares under the NCIB for \$12.0 million, interest payments of \$7.9 million, and lease liability payments of \$7.3 million slightly offset by proceeds received on the issuance of shares under the Company's stock option plan. Activity on the Company's credit facilities included the repayment of US\$84 million of its Series A and B Senior Secured Notes, issuance of US\$84 million of Series D and E Senior Secured Notes and short-term funding activities under the Revolving Term Line.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2019:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	\$350,000	\$264,860	\$614,860
Maximum borrowing available	\$350,000	\$264,860	\$614,860
Less:			
Drawings	-	264,860	264,860
Outstanding letters of credit included in line utilization	21,246	-	21,246
Unused portion of facility	\$328,754	\$ -	328,754
Add:			
Cash and cash equivalents			52,186
Available liquidity at September 30, 2019			\$380,940

As of September 30, 2019, the Company had commitments for capital expenditures totaling \$104.9 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and nine months ended September 30, 2019.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At September 30, 2019, such instruments aggregated \$67.4 million (December 31, 2018 - \$64.7 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

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

In addition, from time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates, or trades lumber futures to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

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

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

The Company did not trade any foreign exchange contracts or lumber futures in the three and nine months ended September 30, 2019.

Outstanding Shares

As of November 7, 2019, Interfor had 67,252,973 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 7,451 Shares during the first nine months of 2019 as a result of share option exercises.

On March 4, 2019, Interfor renewed its NCIB through March 6, 2020, whereby it can purchase for cancellation up to 6,652,006 Common Shares. During the first nine months of 2019, Interfor purchased 515,100 Shares at a cost of \$7.8 million. All Shares repurchased were cancelled.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2019, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2019. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2018, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

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

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

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all risks and rewards of ownership. Under IFRS 16, Interfor now assesses whether a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

ROU assets are accounted for under IAS 16, *Property, Plant and Equipment*, and are initially measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Lease liabilities are initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, Interfor's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

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

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

		Adjustment as at December 31, 2018
Statement of Financial Position		
Prepayments	Decrease	\$ (474)
Right of use asset	Increase	37,778
Property, plant and equipment	Decrease	(1,493)
Deferred income tax asset	Increase	1
Total assets	Increase	\$ 35,812
Trade accounts payable and provisions	Decrease	\$ (565)
Current portion, lease liabilities	Increase	10,158
Long term lease liabilities	Increase	33,954
Provisions and other liabilities	Decrease	(992)
Deferred income tax	Decrease	(1,444)
Equity	Decrease	(5,299)
Total liabilities and shareholders' equity	Increase	\$ 35,812
		Adjustment for the year ended December 31, 2018
Statement of Earnings		
Production costs	Decrease	\$ 10,235
Selling and administration	Decrease	980
Depreciation of plant and equipment	Decrease	208
Depletion and amortization of timber, roads and other	Increase	(10,100)
Finance costs	Increase	(2,042)
Deferred income tax expense	Decrease	99
Net earnings	Decrease	\$ (620)
Net earnings per share	Decrease	\$ (0.01)

Adjustment
for the year ended
December 31, 2018

Statement of Cash Flows

Cash provided by:

Operating activities	Increase	\$ 12,000
Financing activities	Decrease	\$ (12,000)

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

Non-GAAP Measures

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

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

Thousands of Canadian Dollars except number of shares and per share amounts	For the 3 months ended			For the 9 months ended	
	Sept. 30 2019	Sept. 30 2018	Jun. 30 2019	Sept. 30 2019	Sept. 30 2018
		(restated) ¹			(restated) ¹
Adjusted Net Earnings (Loss)					
Net earnings (loss)	\$(35,648)	\$28,173	\$(11,159)	\$(62,109)	\$124,570
Add:					
Capital asset write-downs and restructuring costs	31,814	5,848	87	33,566	10,753
Other foreign exchange loss (gain)	(216)	1,847	321	(235)	(144)
Long term incentive compensation expense (recovery)	1,049	(7,503)	(851)	2,181	1,351
Other (income) expense	100	(192)	(6,487)	(6,223)	66
Post closure wind-down costs and losses	-	-	-	-	4
Income tax effect of above adjustments	(8,867)	149	1,866	(7,876)	(2,926)
Adjusted net earnings (loss)	\$(11,768)	\$28,322	\$(16,223)	\$(40,696)	\$133,674
Weighted average number of shares - basic ('000)	67,253	69,908	67,252	67,284	69,993
Adjusted net earnings (loss) per share	\$(0.17)	\$0.40	\$(0.24)	\$(0.60)	\$1.91
Adjusted EBITDA					
Net earnings (loss)	\$(35,648)	\$28,173	\$(11,159)	\$(62,109)	\$124,570
Add:					
Depreciation of plant and equipment	20,595	20,022	19,410	59,727	60,824
Depletion and amortization of timber, roads and other	8,142	12,301	12,201	30,080	34,919
Capital asset write-downs and restructuring costs	31,814	5,848	87	33,566	10,753
Finance costs	3,784	2,980	3,324	11,284	9,694
Other foreign exchange loss (gain)	(216)	1,847	321	(235)	(144)
Income tax expense (recovery)	(12,804)	9,028	(4,196)	(22,508)	40,645
EBITDA	15,667	80,199	19,988	49,805	281,261
Add:					
Long term incentive compensation expense (recovery)	1,049	(7,503)	(851)	2,181	1,351
Other (income) expense	100	(192)	(6,487)	(6,223)	66
Post closure wind-down costs and losses	-	-	-	-	4
Adjusted EBITDA	\$16,816	\$72,504	\$12,650	\$45,763	\$282,682
Sales	\$486,494	\$570,486	\$481,345	\$1,419,002	\$1,718,023
Adjusted EBITDA margin	3.5%	12.7%	2.6%	3.2%	16.5%
Net debt to invested capital					
Net debt					
Total debt	\$264,860	\$258,900	\$261,740	\$264,860	\$258,900
Cash and cash equivalents	(52,186)	(165,553)	(63,531)	(52,186)	(165,553)
Marketable Securities	-	(89,547)	-	-	(89,547)
Total net debt	\$212,674	\$3,800	\$198,209	\$212,674	\$3,800
Invested capital					
Net debt	\$212,674	\$3,800	\$198,209	\$212,674	\$3,800
Shareholders' equity	880,854	980,389	911,409	880,854	980,389
Total invested capital	\$1,093,528	\$984,189	\$1,109,618	\$1,093,528	\$984,189
Net debt to invested capital ²	19.4%	0.4%	17.9%	19.4%	0.4%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	\$29,658	\$86,719	\$32,302	\$3,610	\$244,516
Cash used in (generated from) operating working capital	(27,336)	(13,926)	(22,443)	25,656	32,710
Operating cash flow (before working capital changes)	\$2,322	\$72,793	\$9,859	\$29,266	\$277,226
Weighted average number of shares - basic ('000)	67,253	69,908	67,252	67,284	69,993
Operating cash flow per share (before working capital changes)	\$0.03	\$1.04	\$0.15	\$0.43	\$3.96
Annualized return on invested capital					
Adjusted EBITDA	\$16,816	\$72,504	\$12,650	\$45,763	\$282,682
Invested capital, beginning of period	\$1,109,618	\$1,006,696	\$1,106,255	\$1,032,591	\$968,852
Invested capital, end of period	1,093,528	984,189	1,109,618	1,093,528	984,189
Average invested capital	\$1,101,573	\$995,443	\$1,107,937	\$1,063,060	\$976,521
Adjusted EBITDA divided by average invested capital	1.5%	7.3%	1.1%	4.3%	28.9%
Annualization factor	4.0	4.0	4.0	1.3	1.3
Annualized return on invested capital	6.1%	29.1%	4.6%	5.7%	38.6%

Notes:

- 1 Financial information has been restated for implementation of IFRS 16, *Leases*.
- 2 Net debt to invested capital as of the period end.

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; labour disruptions; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2018, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the nine months ended September 30, 2019.

Additional Information

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



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