



Interfor Corporation

Third Quarter Report

For the three and nine months ended September 30, 2021

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and nine months ended September 30, 2021 ("Q3'21" and "YTD'21", respectively). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2021, 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 unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of November 4, 2021.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US\$/USD are to the United States Dollar.

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, 2021", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "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 2020 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; the existence of a public health crisis (such as the current COVID-19 pandemic); and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2020 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, 2021

Interfor recorded Net earnings in Q3'21 of \$65.6 million, or \$1.05 per share, compared to \$419.2 million, or \$6.45 per share in Q2'21 and \$121.6 million, or \$1.81 per share in Q3'20. Adjusted net earnings in Q3'21 were \$46.7 million compared to \$433.5 million in Q2'21 and \$140.0 million in Q3'20.

Adjusted EBITDA was \$93.9 million on sales of \$664.3 million in Q3'21 versus \$611.3 million on sales of \$1.1 billion in Q2'21.

Notable items in the quarter:

- Record Production and Shipments
 - Total lumber production in Q3'21 was 731 million board feet, representing an increase of 15 million board feet quarter-over-quarter and setting an Interfor production record. The U.S. South and U.S. Northwest regions accounted for 411 million board feet and 156 million board feet, respectively, compared to 387 million board feet and 137 million board feet in Q2'21. Sawmills acquired on July 9, 2021 contributed to the increased output in both regions. Production in the B.C. region decreased to 164 million board feet from 192 million board feet in Q2'21 due to log supply related downtime at the B.C. Interior sawmills as a result of wildfires.
 - Total lumber shipments were 753 million board feet, or 39 million board feet higher than Q2'21 and 135 million board feet higher than Q3'20.
 - Interfor's average selling price was \$744 per mfbm, down \$675 per mfbm versus Q2'21. The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' lumber price benchmarks decreased quarter-over-quarter by US\$560, US\$840 and US\$1,051 per mfbm to US\$468, US\$479 and US\$558 per mfbm, respectively.
- Strong Free Cash Flow Generation
 - Interfor generated \$72.3 million of cash flow from operations before changes in working capital, or \$1.15 per share. A decrease in working capital investment added \$123.9 million of cash flow, primarily related to the collection of trade receivables recorded at higher lumber prices and lower log inventories in B.C. driven by wildfire impacts.
 - Net debt ended the quarter at \$(133.8) million, or (9.3)% of invested capital, resulting in available liquidity of \$836.3 million.
- Strategic Capital Investments
 - Capital spending was \$44.0 million, including \$26.6 million on high-return discretionary projects. The majority of this discretionary spending was focused on the ongoing multi-year rebuild of the Eatonton, GA sawmill, which will begin ramp-up in Q1'22.
- Acquisition of Four US Sawmills and Restart of the DeQuincy, LA Operation
 - On July 9, 2021, Interfor concluded the acquisition of four sawmill operations located in Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR (the "Acquired US Sawmills") from Georgia-Pacific Wood Products LLC and GP Wood Products LLC. The Company paid total consideration of US\$372.0 million.
 - Inventory purchase accounting adjustments of \$14.0 million related to the Acquired US Sawmills are included in production costs for Q3'21.
 - Significant progress has been made on restarting operations at the sawmill in DeQuincy, LA, which has annual lumber production capacity of 200 million board feet. Lumber production is expected to begin in Q1'22 and ramp-up over the course of 2022.

- Normal Course Issuer Bid ("NCIB") Completion and Renewal
 - On September 16, 2021, Interfor announced an amendment to its NCIB increasing the maximum number of common shares that may be purchased by an additional 690,906 common shares. The amended NCIB allowed for the purchase of up to 6,672,658 common shares.
 - During Q3'21, Interfor purchased 2,882,048 common shares under the Company's NCIB for total consideration of \$83.1 million. This completed the purchase of all 6,672,658 common shares allowable for total consideration of \$177.3 million, representing an average price of \$26.56 per share, or 1.03 times book value per share at September 30, 2021.
 - The Company announced today a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares, which represents 10% of the Company's public float. The Company continues to believe that, from time to time, the market price of its common shares may be attractive and their purchase would represent a prudent use of its capital to increase shareholder value.
- Sale of Former Sawmill Property
 - On July 21, 2021, the Company completed the sale of property, plant and equipment at its former Hammond sawmill located in Maple Ridge, B.C. for net cash proceeds of \$39.7 million and recorded a gain of \$22.8 million.
- Softwood Lumber Duties
 - Interfor expensed \$6.1 million of duties in the quarter, representing the full amount of CV and AD duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 8.99%.
 - Cumulative duties of US\$163.0 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\$32.9 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Deferral of Old-Growth Logging in B.C.

On November 2, 2021, the B.C. government announced a proposed deferral of harvesting within 2.6 million hectares of B.C. forests. This proposed deferral, if implemented, has been identified as temporary and is subject to First Nations engagement which is currently ongoing. Interfor requires additional and more specific information to understand the potential impacts of this proposal on its operations in B.C. Interfor's operations within the coastal and interior regions of B.C. account for 4% and 19% of its total lumber production capacity, respectively.

Outlook

North American lumber markets over the near term are expected to remain above historical trends driven by continued strong demand from new housing starts and repair and remodel activity, albeit with volatility as the economy adjusts to the COVID-19 pandemic recovery.

Interfor expects lumber demand to continue to grow over the mid-term, as repair and renovation activities and U.S. housing starts benefit from favourable underlying economic fundamentals and trends.

Interfor's strategy of maintaining a diversified portfolio of operations in multiple regions allows the Company to both reduce risk and maximize returns on capital over the business cycle. While uncertainty remains as to the duration and extent of the economic impact from the COVID-19 pandemic, Interfor is well positioned with its strong balance sheet and significant available liquidity.

Financial and Operating Highlights¹

		For the 3 months ended			For the 9 months ended	
		Sept. 30	Sept. 30	Jun. 30	Sept. 30	Sept. 30
	Unit	2021	2020	2021	2021	2020
Financial Highlights²						
Total sales	\$MM	664.3	644.9	1,099.7	2,613.3	1,521.3
Lumber	\$MM	559.6	562.4	1,012.9	2,334.9	1,263.8
Logs, residual products and other	\$MM	104.7	82.5	86.8	278.4	257.5
Operating earnings	\$MM	54.8	171.4	568.3	978.7	199.3
Net earnings	\$MM	65.6	121.6	419.2	749.4	131.1
Net earnings per share, basic	\$/share	1.05	1.81	6.45	11.61	1.95
Adjusted net earnings ³	\$MM	46.7	140.0	433.5	750.9	151.4
Adjusted net earnings per share, basic ³	\$/share	0.74	2.08	6.67	11.60	2.25
Operating cash flow per share (before working capital changes) ³	\$/share	1.15	3.20	7.46	14.48	4.32
Adjusted EBITDA ³	\$MM	93.9	221.7	611.3	1,097.3	301.1
Adjusted EBITDA margin ³	%	14.1%	34.4%	55.6%	42.0%	19.8%
Total assets	\$MM	2,488.7	1,731.9	2,409.4	2,488.7	1,731.9
Total debt	\$MM	375.3	400.2	365.1	375.3	400.2
Net debt ³	\$MM	(133.8)	88.7	(490.7)	(133.8)	88.7
Net debt to invested capital ³	%	(9.3%)	8.3%	(46.1%)	(9.3%)	8.3%
Annualized return on capital employed ³	%	16.0%	45.6%	110.8%	69.2%	18.4%
Operating Highlights						
Lumber production	million fbm	731	642	716	2,133	1,690
Lumber sales	million fbm	753	618	714	2,133	1,758
Lumber - average selling price ⁴	\$/thousand fbm	744	910	1,419	1,095	719
Average USD/CAD exchange rate ⁵	1 USD in CAD	1.2600	1.3321	1.2282	1.2513	1.3541
Closing USD/CAD exchange rate ⁵	1 USD in CAD	1.2741	1.3339	1.2394	1.2741	1.3339

Notes:

- Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
- Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
- 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 unaudited condensed consolidated interim financial statements.
- Gross sales before duties.
- Based on Bank of Canada foreign exchange rates.

Summary of Third Quarter 2021 Financial Performance

Sales

Interfor recorded \$664.3 million of total sales, up 3.0% from \$644.9 million in the third quarter of 2020, driven by the sale of 753 million board feet of lumber at an average price of \$744 per mfbm. Lumber sales volume increased 135 million board feet, or 21.8%, while average selling price decreased \$166 per mfbm, or 18.2%, as compared to the same quarter of 2020.

Decreases in the average selling price of lumber reflect lower benchmark prices for Southern Yellow Pine, Western SPF and Hem-Fir in Q3'21 as compared to Q3'20. The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' benchmarks decreased by US\$280, US\$232 and US\$206 per mfbm to US\$468, US\$479 and US\$558 per mfbm, respectively.

Sales generated from logs, residual products and other increased by \$22.1 million or 26.8% in Q3'21 compared to Q3'20, due mainly to an increase in the average selling price of logs and an increase in volume of chips produced and sold.

Operations

Production costs increased by \$156.0 million, or 39.6%, compared to Q3'20, explained by a 21.8% increase in lumber sales volume, inflationary impacts on conversion costs, higher log stumpage rates in B.C. and inventory purchase accounting adjustments for the Acquired US Sawmills, partially offset by a stronger Canadian Dollar on average.

Lumber production of 731 million board feet in Q3'21 was 89 million board feet higher than Q3'20.

Production from the Canadian operations decreased by 30 million board feet to 164 million board feet in Q3'21, compared to Q3'20 due to log constraint related disruptions as a result of wildfires in the B.C. Interior. Production from the Company's U.S. South sawmills totaled 411 million board feet in Q3'21, up 80 million board feet compared to Q3'20, reflecting the Summerville sawmill acquisition and Acquired US Sawmills and the ramp-up of completed capital projects. Production from the Company's U.S. Northwest operations totaled 156 million board feet in Q3'21, up 39 million board feet compared to Q3'20, due to higher productivity rates and the Acquired US Sawmills.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled \$6.1 million for Q3'21, down \$13.6 million from Q3'20. The decrease is due to lower cash deposit rates, lower shipments to the U.S. from Canadian sawmills and lower lumber sales prices as compared to Q3'20.

Depreciation of plant and equipment was \$25.9 million in Q3'21, up \$5.0 million from Q3'20, due primarily to the start-up of completed capital projects in the U.S. South, the Summerville sawmill acquisition and Acquired US Sawmills. Depletion and amortization of timber, roads and other was \$7.4 million, down \$0.5 million from Q3'20, primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were \$13.7 million, up \$1.7 million from Q3'20 primarily as a result of costs related to various information technology system implementations and transaction costs related to the Summerville sawmill acquisition and Acquired US Sawmills, partially offset by lower accruals for short term incentive compensation.

Long term incentive compensation expense was \$4.8 million in Q3'21, down \$0.8 million from Q3'20, primarily as a result of the impact of a 6.6% increase in the price of Interfor common shares used to value share-based awards during Q3'21 compared to a 38.2% increase during Q3'20.

Asset write-downs and restructuring costs in Q3'21 were \$1.0 million, primarily being non-cash impairments on right-of-use assets related to the sale of property, plant and equipment at the former Hammond sawmill. The asset write-downs and restructuring costs in Q3'20 were \$13.0 million. This included \$10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon.

Finance costs decreased to \$4.4 million in Q3'21 from \$4.9 million in Q3'20 due to a decrease in interest expense in Canadian Dollars on U.S. Dollar borrowings as a result of the stronger Canadian Dollar on average in Q3'21 compared to Q3'20 and a decrease in the principal balance of Senior Secured Notes at Q3'21 compared to Q3'20. Additionally, the decrease is due to interest income relating to the long-term duties receivable recorded in Q4'20 as a result of the CV and AD duties rate finalization.

Other foreign exchange gain of \$9.1 million in Q3'21 and loss of \$2.9 million in Q3'20 result primarily from the quarter-end revaluation of U.S. Dollar cash held by Canadian operations. The closing Canadian Dollar weakened by 2.8% in Q3'21 (strengthened by 2.1% in Q3'20) and the Company held higher U.S. Dollar cash balances in Q3'21 compared to Q3'20 primarily due to the strong cash flow from operations during YTD'21.

Other income of \$22.6 million in Q3'21 primarily resulted from the sale of property, plant and equipment at the Company's former Hammond sawmill. Other expense in Q3'20 was negligible.

Income Taxes

The Company recorded income tax expense of \$16.4 million in Q3'21 at an effective tax rate of 20%, comprised of \$14.7 million in current income tax recovery and \$31.1 million in deferred tax expense. The current income tax recovery in Q3'21 is due to a reduction in the YTD'21 US tax liability from the accelerated tax write-down of property, plant and equipment in respect of the Acquired US Sawmills. The Company recorded income tax expense of \$41.9 million in Q3'20 at an effective tax rate of 26%, comprised of \$1.5 million in current income tax expense and \$40.4 million deferred tax expense.

Net Earnings

The Company recorded Net earnings of \$65.6 million, or \$1.05 per share, compared to Net earnings of \$121.6 million, or \$1.81 per share in Q3'20. Operating margins and Net earnings were impacted by substantially lower lumber prices, partially offset by higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company's NCIB.

Summary of Year-to-Date 2021 Financial Performance

Sales

Interfor recorded \$2.6 billion of total sales, up 71.8% from \$1.5 billion in the first nine months of 2020, driven by the sale of 2.1 billion board feet of lumber at an average price of \$1,095 per mfbm. Average selling price increased \$376 per mfbm, or 52.3%, while lumber sales volume increased 375 million board feet, or 21.3%, as compared to the first nine months of 2020.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'21 as compared to YTD'20. The Western SPF Composite and SYP Composite benchmarks increased US\$431 to US\$911 per mfbm and US\$295 to US\$804 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark increased US\$573 to US\$1,110 per mfbm for YTD'21 as compared to YTD'20. Realized lumber prices were slightly offset in Canadian Dollar terms by the 7.6% strengthening of the Canadian Dollar against the U.S. Dollar in YTD'21 as compared to YTD'20.

Sales generated from logs, residual products and other increased by \$20.8 million or 8.1% as compared to the same period of 2020 mainly due to an increase in volume of chips produced and sold, partially offset by reduced availability of surplus logs for sale.

Operations

Production costs increased by \$285.2 million or 24.7% over the first nine months of 2021, explained by an increase of 21.3% in lumber sales volume and inventory purchase accounting adjustments for the Summerville sawmill acquisition and Acquired US Sawmills, partially offset by a stronger Canadian Dollar on average versus YTD'20.

Lumber production of 2.1 billion board feet in YTD'21 was 443 million board feet higher than YTD'20.

Production from the Canadian operations increased by 69 million board feet to 563 million board feet in YTD'21, compared to YTD'20 during which temporary COVID-19 related curtailments were taken. Production from the Company's U.S. South sawmills totaled 1.1 billion board feet in YTD'21, up 263 million board feet compared to YTD'20, due to increased operating schedules related to market demand, the Summerville sawmill acquisition, the Acquired US Sawmills and the ramp-up of completed capital projects. Additionally, production from the U.S. South sawmills in YTD'20 was impacted by COVID-19 related curtailments. Production from the Company's U.S. Northwest operations totaled 435 million board feet in YTD'21, up 111 million board feet compared to YTD'20, due to increased operating schedules, higher productivity rates, the Acquired US Sawmills and COVID-19 related curtailments in YTD'20 offset by the sale of the sawmill in Gilchrist, Oregon in Q4'20.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled \$37.7 million for YTD'21, remaining unchanged from YTD'20. Higher lumber sales prices and higher shipment volume to the U.S. from Canadian sawmills

was offset by lower cash deposit rates as compared to YTD'20.

Depreciation of plant and equipment was \$70.1 million, up 24.0% from the first nine months of 2020, due primarily to increased operating schedules, the start-up of completed capital projects in the U.S. South, the Summerville sawmill acquisition and Acquired US Sawmills. Depletion and amortization of timber, roads and other was \$21.0 million, down \$5.5 million from YTD'20 primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were \$38.7 million, up \$8.1 million from the first nine months of 2020, primarily as a result of costs related to various information technology system implementations, transaction costs related to the Summerville sawmill acquisition and Acquired US Sawmills, and accruals for short term incentive compensation.

Long term incentive compensation expense was \$23.6 million, up \$21.3 million from YTD'20, primarily as a result of the impact of a 35.3% increase in the price of Interfor Common Shares used to value share-based awards during YTD'21 compared to a 1.0% increase during YTD'20. Additionally, the long term incentive compensation in YTD'21 included adjustments to awards to reflect the special cash dividend, while the long term incentive compensation in YTD'20 was partially offset by incentive awards maturing.

Asset write-downs and restructuring costs in YTD'21 totalled \$3.4 million, primarily related to non-cash impairments on certain plant and equipment in the U.S. South as part of strategic capital projects in the region and right-of-use assets related to the sale of property, plant and equipment at the former Hammond sawmill. The asset write-downs and restructuring costs in Q3'20 were \$13.5 million. This included \$10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon.

Finance costs decreased to \$13.4 million from \$14.2 million in the first nine months of 2020 primarily due to interest income relating to the long-term duties receivable recorded in Q4'20 as a result of the CV and AD duties rate finalization. Additionally, the decrease is due to a decrease in interest expense in Canadian Dollars on U.S. Dollar borrowings as a result of the stronger Canadian Dollar on average in YTD'21 compared to YTD'20.

Other foreign exchange gain of \$2.1 million in YTD'21 and loss of \$8.7 million in YTD'20 result primarily from the period-end revaluations of U.S. Dollar cash held by Canadian operations. Interfor held higher U.S. Dollar cash balances on average in YTD'21 as compared to YTD'20 due to the strong cash flow from operations during YTD'21.

Other income of \$23.5 million in YTD'21 primarily resulted from the sale of property, plant and equipment at the Company's former Hammond sawmill. Other income of \$0.4 million in YTD'20 resulted primarily from the gains recognized as a result of compensation received on the extinguishment of timber licenses on the BC. Coast.

Income Taxes

The Company recorded income tax expense of \$241.6 million in YTD'21 at an effective tax rate of 24%, comprised of \$203.6 million in current tax expense and \$38.0 million in deferred tax expense. The YTD'20 income tax expense of \$45.7 million, at an effective tax rate of 26%, is comprised of a \$1.7 million current tax expense and \$44.0 million deferred tax expense.

Net Earnings

The Company recorded Net earnings of \$749.4 million, or \$11.61 per share, compared to Net earnings of \$131.1 million, or \$1.95 per share, in the same period of 2020. Operating margins and Net earnings were positively impacted by higher lumber prices and higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company's NCIB.

Summary of Quarterly Results¹

	Unit	2021			2020				2019
		Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Performance ²									
Total sales	\$MM	664.3	1,099.7	849.3	662.3	644.9	396.8	479.6	456.8
Lumber	\$MM	559.6	1,012.9	762.4	575.0	562.4	322.1	379.3	385.2
Logs, residual products and other	\$MM	104.7	86.8	86.9	87.3	82.5	74.7	100.3	71.6
Operating earnings (loss)	\$MM	54.8	568.3	355.6	203.2	171.4	13.3	14.6	(49.0)
Net earnings (loss)	\$MM	65.6	419.2	264.5	149.1	121.6	3.2	6.3	(41.7)
Net earnings (loss) per share, basic	\$/share	1.05	6.45	4.01	2.24	1.81	0.05	0.09	(0.62)
Adjusted net earnings (loss) ³	\$MM	46.7	433.5	270.6	164.7	140.0	10.6	0.7	(17.4)
Adjusted net earnings (loss) per share, basic ³	\$/share	0.74	6.67	4.11	2.47	2.08	0.16	0.01	(0.26)
Operating cash flow per share (before working capital changes) ³	\$/share	1.15	7.46	5.73	3.05	3.20	0.56	0.57	0.25
Adjusted EBITDA ³	\$MM	93.9	611.3	392.1	248.6	221.7	42.8	36.6	17.6
Adjusted EBITDA margin ³	%	14.1%	55.6%	46.2%	37.5%	34.4%	10.8%	7.6%	3.9%
Annualized return on capital employed ³	%	16.0%	110.8%	79.2%	48.4%	45.6%	2.4%	4.0%	(16.0%)
Shares outstanding - end of period	million	60.8	63.6	65.3	66.0	67.3	67.3	67.3	67.3
Shares outstanding - weighted average	million	62.7	65.0	65.9	66.7	67.3	67.3	67.3	67.3
Operating Performance									
Lumber production	million fbm	731	716	687	687	642	421	627	668
Lumber sales	million fbm	753	714	666	683	618	499	641	681
Lumber - average selling price ⁴	\$/thousand fbm	744	1,419	1,143	842	910	646	592	566
Average USD/CAD exchange rate ⁵	1 USD in CAD	1.2600	1.2282	1.2660	1.3030	1.3321	1.3862	1.3449	1.3200
Closing USD/CAD exchange rate ⁵	1 USD in CAD	1.2741	1.2394	1.2575	1.2732	1.3339	1.3628	1.4187	1.2988

Notes:

- Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
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- 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 unaudited condensed consolidated interim financial statements.
- Gross sales before duties.
- Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, the USD/CAD foreign currency exchange rate and sawmill sales, closures and/or acquisitions.

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.

Lumber production and sales decreased commencing in Q4'19 with the Hammond sawmill closure and in Q4'20 with the sale of the sawmill in Gilchrist, Oregon. Lumber production and sales increased commencing in Q1'21 with the Summerville sawmill acquisition and in Q3'21 with the Acquired US Sawmills.

Asset and goodwill impairments and other costs resulting from the B.C. Coastal reorganization and other restructuring activities affected results in Q4'19. Asset impairments resulting from the sale of the sawmill in Gilchrist, Oregon affected results in Q4'20.

The gain on sale of property, plant and equipment at the Company's former Hammond sawmill

affected results in Q3'21.

In the latter part of Q1'20 and majority of Q2'20, operations were impacted by the pandemic outbreak of COVID-19.

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. A stronger Canadian Dollar has the opposite impacts.

Liquidity

Balance Sheet

Interfor's Net debt at September 30, 2021 was \$(133.8) million, or (9.3)% of invested capital, representing a decrease of \$58.4 million from the level of Net debt at December 31, 2020.

As at September 30, 2021 the Company had net working capital of \$563.7 million and available liquidity of \$836.3 million, based on the full borrowing capacity under its \$350 million Revolving Term Line.

The Revolving Term Line and Senior Secured Notes are subject to financial covenants, including net debt to total capitalization ratios, and an EBITDA interest coverage ratio.

Management believes, based on circumstances known today, that Interfor has sufficient working capital and liquidity to fund operating and capital requirements for the foreseeable future.

Thousands of Dollars	For the 3 months ended Sept. 30,		For the 9 months ended Sept. 30,	
	2021	2020	2021	2020
Net debt				
Net debt, period opening	\$(490,682)	\$239,114	\$(75,432)	\$224,860
(Repayment) issuance of Senior Secured Notes	-	-	(6,671)	140,770
Revolving Term Line net drawings (repayments)	1	(23)	1	(82)
Impact on U.S. Dollar denominated debt from weakening (strengthening) CAD	10,221	(8,647)	38	(278)
Decrease (increase) in cash and cash equivalents	365,553	(144,849)	(48,016)	(285,473)
Impact on U.S. Dollar denominated cash and cash equivalents from (weakening) strengthening CAD	(18,922)	3,110	(3,749)	8,908
Net debt, period ending	\$(133,829)	\$88,705	\$(133,829)	\$88,705

On March 26, 2020, the Company issued US\$50,000,000 of Series F Senior Secured Notes, bearing interest at 3.34%, and US\$50,000,000 of Series G Senior Secured Notes, bearing interest at 3.25%. Each series of these Senior Secured Notes have equal payments of US\$16,667,000 due on each of March 26, 2028, 2029 and on maturity in 2030.

Cash Flow from Operating Activities

The Company generated \$934.4 million of cash flow from operations before changes in working capital in YTD'21, for an increase of \$642.8 million over YTD'20. There was a net cash inflow from operations after changes in working capital of \$966.2 million in YTD'21, with \$31.8 million of cash released from operating working capital.

Increased sales contributed to a \$17.6 million outflow related to trade receivables and higher activity as a result of the Summerville sawmill acquisition and Acquired US Sawmills contributed to the \$50.2 million inflow from trade accounts payable and provisions. Higher taxable income resulted in income tax installment payments of \$151.7 million in YTD'21. Income taxes payable increased by \$63.5 million YTD'21, with payment of this expected to occur in Q4'21 and in Q1'22.

In YTD'20, \$296.8 million of cash was generated from operations, with \$5.2 million of cash generated from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled \$608.0 million in YTD'21, with \$539.9 million for the Summerville sawmill acquisition and Acquired US Sawmills, \$100.6 million for plant and equipment and \$13.1 million for development of roads and bridges, partially offset by \$45.7 million in proceeds on disposal of property, plant and equipment.

Discretionary mill improvements of \$69.5 million in YTD'21 include several projects, the most significant of which relate to a new kiln at the Adams Lake, BC sawmill, a new planer at the Castlegar, BC sawmill and the ongoing multi-year rebuild of the Eatonton, Georgia sawmill.

Maintenance capital investments excluding roads totaled \$31.1 million in YTD'21.

In YTD'20, investing activities were \$129.9 million, with \$56.6 million for the acquisition from Canfor of timber licences and other assets, net of assumed liabilities, \$65.7 million for plant and equipment and \$8.8 million for development of roads and bridges, partially offset by \$1.1 million in proceeds on disposal of plant, equipment, and other.

Discretionary and maintenance mill improvements totalled \$56.3 million and \$9.4 million, respectively, in YTD'20, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of \$310.1 million in YTD'21 resulted from the \$130.6 million special cash dividend payment, \$152.9 million used to purchase shares under the Company's NCIB, and \$6.7 million for repayments of Senior Secured Notes. Interest and lease liability payments were \$12.6 million and \$10.0 million, respectively.

The net cash inflow of \$118.6 million in YTD'20 resulted from the US\$100 million Senior Secured Note financing with Prudential Private Capital, partly offset by interest and lease liability payments of \$13.1 million and \$9.1 million, respectively.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2021:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	\$350,000	\$375,328	\$725,328
Less:			
Drawings	-	375,328	375,328
Outstanding letters of credit included in line utilization	22,836	-	22,836
Unused portion of facility	\$327,164	\$-	327,164
Add:			
Cash and cash equivalents			509,157
Available liquidity at September 30, 2021			\$836,321

Interfor's Revolving Term Line matures in March 2024 and its Senior Secured Notes have maturities principally in the years 2024-2030.

As of September 30, 2021, the Company had commitments for capital expenditures totaling \$93.5 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, 2021.

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, 2021, such instruments aggregated \$64.2 million (December 31, 2020 - \$62.8 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 did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q3'21 or Q3'20.

Outstanding Shares

As of November 4, 2021, Interfor had 60,781,186 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of November 4, 2021, there were 511,024 stock options outstanding with exercise prices ranging from \$9.78 to \$26.19 per common share.

On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares, which represents 10% of the Company's public float.

On November 5, 2020, the Company announced a NCIB whereby it can purchase for cancellation up to 5,981,751 common shares. On September 16, 2021, the Company announced an amendment to its NCIB increasing the maximum number of common shares that may be purchased by an additional 690,906 common shares. The amended NCIB allowed for the purchase of up to 6,672,658 common shares. As at September 30, 2021, the Company had purchased all of the common shares permitted under the NCIB.

During the first nine months of 2021, Interfor purchased 5,345,238 common shares at a cost of \$152.9 million. No common shares were purchased in YTD'20 under the Company's prior NCIB that expired on March 6, 2020.

Controls and Procedures

During the nine months ended September 30, 2021, the Company included the design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") for its acquired Summerville, Bay Springs, Fayette, DeQuincy and Philomath operations within its ICFR framework. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the three and nine months ended September 30, 2021 that materially affected, or would be reasonably likely to materially affect, such controls.

Critical Accounting Estimates

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended September 30, 2021. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2020, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended September 30, 2021, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these are expected to have a significant effect on future financial statements.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes), and Annualized return on capital employed 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:

	For the 3 months ended			For the 9 months ended	
	Sept. 30 2021	Sept. 30 2020	Jun. 30 2021	Sept. 30 2021	Sept. 30 2020
Thousands of Canadian Dollars except number of shares and per share amounts					
Adjusted Net Earnings					
Net earnings	\$65,630	\$121,604	\$419,241	\$749,358	\$131,148
Add:					
Asset write-downs and restructuring costs	997	12,985	2,213	3,352	13,471
Other foreign exchange (gain) loss	(9,104)	2,907	4,645	(2,113)	8,719
Long term incentive compensation expense	4,809	5,576	11,145	23,624	2,259
Other (income) expense	(22,571)	43	1,045	(23,522)	(428)
Post closure wind-down (recoveries) costs	(24)	3,085	251	451	3,085
Income tax effect of above adjustments	6,956	(6,206)	(4,991)	(264)	(6,875)
Adjusted net earnings	\$46,693	\$139,994	\$433,549	\$750,886	\$151,379
Weighted average number of shares - basic ('000)	62,741	67,270	64,984	64,539	67,263
Adjusted net earnings per share	\$0.74	\$2.08	\$6.67	\$11.63	\$2.25
Adjusted EBITDA					
Net earnings	\$65,630	\$121,604	\$419,241	\$749,358	\$131,148
Add:					
Depreciation of plant and equipment	25,899	20,850	22,717	70,090	56,512
Depletion and amortization of timber, roads and other	7,396	7,922	6,669	21,033	26,560
Finance costs	4,444	4,907	4,437	13,405	14,188
Income tax expense	16,439	41,916	138,922	241,617	45,684
EBITDA	119,808	197,199	591,986	1,095,503	274,092
Add:					
Long term incentive compensation expense	4,809	5,576	11,145	23,624	2,259
Other foreign exchange (gain) loss	(9,104)	2,907	4,645	(2,113)	8,719
Other (income) expense	(22,571)	43	1,045	(23,522)	(428)
Asset write-downs and restructuring costs	997	12,985	2,213	3,352	13,471
Post closure wind-down (recoveries) costs	(24)	2,967	251	451	2,967
Adjusted EBITDA	\$93,915	\$221,677	\$611,285	\$1,097,295	\$301,080
Sales	\$664,274	\$644,884	\$1,099,670	\$2,613,251	\$1,521,308
Adjusted EBITDA margin	14.1%	34.4%	55.6%	42.0%	19.8%

	For the 3 months ended			For the 9 months ended	
	Sept. 30 2021	Sept. 30 2020	Jun. 30 2021	Sept. 30 2021	Sept. 30 2020
Thousands of Canadian Dollars except number of shares and per share amounts					
Net debt to invested capital					
Net debt					
Total debt	\$375,328	\$400,170	\$365,106	\$375,328	\$400,170
Cash and cash equivalents	(509,157)	(311,465)	(855,788)	(509,157)	(311,465)
Total net debt	\$(133,829)	\$88,705	\$(490,682)	\$(133,829)	\$88,705
Invested capital					
Net debt	\$(133,829)	\$88,705	\$(490,682)	\$(133,829)	\$88,705
Shareholders' equity	1,567,063	983,225	1,554,205	1,567,063	983,225
Total invested capital	\$1,433,234	\$1,071,930	\$1,063,523	\$1,433,234	\$1,071,930
Net debt to invested capital ¹	(9.3%)	8.3%	(46.1%)	(9.3%)	8.3%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	\$196,375	\$175,492	\$484,723	\$966,178	\$296,837
Cash (generated from) used in operating working capital	(124,114)	40,087	(249)	(31,759)	(5,260)
Operating cash flow (before working capital changes)	\$72,261	\$215,579	\$484,474	\$934,419	\$291,577
Weighted average number of shares - basic ('000)	62,741	67,270	64,984	64,539	67,263
Operating cash flow per share (before working capital changes)	\$1.15	\$3.20	\$7.46	\$14.48	\$4.33
Annualized return on capital employed					
Net earnings	\$65,630	\$121,604	\$419,241	\$749,358	\$131,148
Add:					
Finance costs	4,444	4,907	4,437	13,405	14,188
Income tax expense	16,439	41,916	138,922	241,617	45,684
Earnings before income taxes and finance costs	\$86,513	\$168,427	\$562,600	\$1,004,380	\$191,020
Capital Employed					
Total assets	\$2,488,693	\$1,731,881	\$2,409,388	\$2,488,693	\$1,731,881
Current liabilities	(307,349)	(196,473)	(285,081)	(307,349)	(196,473)
Less:					
Current portion of long term debt	6,901	7,225	6,713	6,901	7,225
Current portion of lease liabilities	11,921	12,579	11,758	11,921	12,579
Capital employed, end of period	\$2,200,166	\$1,555,212	\$2,142,778	\$2,200,166	\$1,555,212
Capital employed, beginning of period	2,142,778	1,402,379	1,915,146	1,672,103	1,214,375
Average capital employed	\$2,171,472	\$1,478,796	\$2,028,962	\$1,936,135	\$1,384,794
Earnings before income taxes and finance costs divided by average capital employed	4.0%	11.4%	27.7%	51.9%	13.8%
Annualization factor	4.0	4.0	4.0	1.3	1.3
Annualized return on capital employed	16.0%	45.6%	110.8%	69.2%	18.4%

Note 1: 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: a public health crisis; price volatility; competition; availability and cost of log supply; natural or man-made disasters; currency exchange sensitivity; government regulation; allowable annual cut; indigenous peoples; barriers to lumber trade between Canada and the U.S.; stumpage fees; 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, 2020, filed under the Company's profile on www.sedar.com.

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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