



Interfor Corporation

First Quarter Report

For the three months ended March 31, 2022

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 months ended March 31, 2022 ("Q1'22"). 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 months ended March 31, 2022, 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 May 11, 2022.

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 First Quarter, 2022", "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 2021 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; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2021 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 First Quarter, 2022

Interfor recorded Net earnings in Q1'22 of \$397.0 million, or \$6.69 per share, compared to \$69.7 million, or \$1.15 per share in Q4'21 and \$264.5 million, or \$4.01 per share in Q1'21. Adjusted net earnings in Q1'22 were \$392.5 million compared to \$78.2 million in Q4'21 and \$270.6 million in Q1'21.

Adjusted EBITDA was \$570.1 million on sales of \$1.3 billion in Q1'22 versus \$149.5 million on sales of \$675.9 million in Q4'21.

Notable items in the quarter:

- Acquisition of EACOM Timber Corporation
 - On February 22, 2022, the Company completed the transaction to acquire 100% of the equity interests of EACOM Timber Corporation ("EACOM") from an affiliate of Kelso & Company. The acquisition includes seven sawmills with a combined lumber production capacity of 985 million board feet, an I-Joist plant with annual production capacity of 70 million linear feet, and a value-added remanufacturing plant with annual production capacity of 60 million board feet (the "Acquired Eastern Canada Operations"). The Company paid total consideration of \$731.2 million which was funded from cash on hand and drawings on the Revolving Term Line.
 - The Acquired Eastern Canada Operations contributed \$5.1 million of Adjusted EBITDA to Interfor's first quarter results, which is net of \$68.0 million recorded in production costs related to fair value adjustments recognized at the acquisition date.
- Record Lumber Production
 - Total lumber production in Q1'22 was 921 million board feet, representing an increase of 163 million board feet quarter-over-quarter and setting an Interfor production record. The U.S. South and U.S. Northwest regions accounted for 452 million board feet and 173 million board feet, respectively, compared to 409 million board feet and 166 million board feet in Q4'21. Production in the B.C. region increased to 196 million board feet from 183 million board feet in Q4'21. The Acquired Eastern Canada Operations accounted for 100 million board feet in Q1'22.
 - Total lumber shipments were 860 million board feet, or 141 million higher than Q4'21.
 - The 61 million board feet shortfall of lumber shipments compared to production was the result of ongoing logistics constraints across the U.S. and Canada.
- Strengthening Lumber Prices
 - Interfor's average selling price was \$1,410 per mfbm, up \$588 per mfbm versus Q4'21. The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' price benchmarks increased quarter-over-quarter by US\$475, US\$506 and US\$560 per mfbm to US\$1,119, US\$1,159 and US\$1,293 per mfbm, respectively, with the majority of these increases occurring early in the quarter.
- Strong Free Cash Flow Generation
 - Interfor generated \$378.8 million of cash flow from operations before changes in working capital, or \$6.38 per share. This was partially offset by a \$97.6 million investment in working capital, primarily related to higher trade receivables driven by lumber prices and seasonally higher log inventories in B.C.
 - Net debt ended the quarter at \$340.2 million, or 15.8% of invested capital, resulting in available liquidity of \$483.3 million.
- Strategic Capital Investments
 - Capital spending was \$50.9 million, including \$34.8 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 and a new planer at the Castlegar, BC sawmill.

- Restart of the DeQuincy, LA Sawmill
 - Lumber production at the sawmill in DeQuincy, LA restarted on January 9, 2022, well ahead of schedule. During Q1'22, the sawmill was operating on one shift and increased to two shifts by April 2022. Ramp-up to its 200 million board foot annual capacity is expected by the end of 2022.
- Normal Course Issuer Bid ("NCIB")
 - During Q1'22, Interfor purchased 5,026,305 common shares under the Company's NCIB for total consideration of \$194.3 million. In April 2022, Interfor purchased 1,015,396 common shares for total consideration of \$32.9 million. This completed the purchase of all 6,041,701 common shares allowable under the NCIB for total consideration of \$227.2 million, representing an average price of \$37.60 per share or 1.15 times book value per share at March 31, 2022.
- Minority Interest in GreenFirst Forest Products Inc. ("GreenFirst")
 - On May 2, 2022, a wholly-owned subsidiary of Interfor acquired a total of 28,684,433 common shares in the capital of GreenFirst from Rayonier A.M. Canada G.P., which represents approximately 16.2% of GreenFirst's issued and outstanding common shares. The Company paid total cash consideration of \$55.6 million.
- Sale of Acorn Speciality Sawmill in BC
 - On April 12, 2022, the Company announced it had reached an agreement to sell its Acorn specialty sawmill located near Vancouver, British Columbia to an affiliate of San Industries Ltd. The completion of the transaction is subject to customary conditions and is expected to close in the second quarter of 2022.
- Softwood Lumber Duties
 - Interfor expensed \$35.8 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on shipments of softwood lumber from its Canadian operations to the U.S. at a combined rate of 17.91%.
 - Interfor has cumulative duties of US\$362.1 million held in trust by U.S. Customs and Border Protection as at March 31, 2022, including US\$161.2 million of duty deposits related to the Acquired Eastern Canada Operations. Except for US\$104.7 million in respect of overpayments arising from duty rate adjustments and the fair value of assumed rights to duties acquired related to the Acquired Eastern Canada Operations, Interfor has recorded the duty deposits as an expense.

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 North American economy adjusts to inflationary pressures, rising interest rates, logistics constraints and labour shortages.

Interfor expects lumber demand to continue to grow over the mid-term, as repair and renovation activities and new housing starts in the U.S. benefit from favourable underlying demand fundamentals. However, the potential for elevated interest rates exists, which may reduce housing affordability and slow the growth in demand for lumber.

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. Interfor is well positioned with its strong balance sheet and significant available liquidity to continue pursuing its strategic plans despite ongoing economic and geo-political uncertainty globally.

Financial and Operating Highlights¹

		For the three months ended		
		Mar. 31, 2022	Mar. 31, 2021	Dec. 31, 2021
	Unit			
Financial Highlights²				
Total sales	\$MM	1,349.0	849.3	675.9
Lumber	\$MM	1,212.5	762.4	591.5
Logs, residual products and other	\$MM	136.5	86.9	84.4
Operating earnings	\$MM	512.7	355.6	99.2
Net earnings	\$MM	397.0	264.5	69.7
Net earnings per share, basic	\$/share	6.69	4.01	1.15
Adjusted net earnings ³	\$MM	392.5	270.6	78.2
Adjusted net earnings per share, basic ³	\$/share	6.61	4.11	1.29
Operating cash flow per share (before working capital changes) ³	\$/share	6.38	5.73	2.19
Adjusted EBITDA ³	\$MM	570.1	392.1	149.5
Adjusted EBITDA margin ³	%	42.3%	46.2%	22.1%
Total assets	\$MM	3,081.4	2,159.7	2,603.5
Total debt	\$MM	403.1	377.3	375.7
Net debt ³	\$MM	340.2	(236.0)	(162.9)
Net debt to invested capital ³	%	15.8%	(21.7%)	(11.1%)
Annualized return on capital employed ³	%	86.8%	79.2%	18.2%
Operating Highlights				
Lumber production	million fbm	921	687	758
Lumber sales	million fbm	860	666	719
Lumber - average selling price ⁴	\$/thousand fbm	1,410	1,143	822
Average USD/CAD exchange rate ⁵	1 USD in CAD	1.2662	1.2660	1.2603
Closing USD/CAD exchange rate ⁵	1 USD in CAD	1.2496	1.2575	1.2678

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 First Quarter 2022 Financial Performance

Sales

Interfor recorded \$1,349.0 million of total sales, up 58.8% from \$849.3 million in the first quarter of 2021, driven by the sale of 860 million board feet of lumber at an average price of \$1,410 per mfbm. Average selling price increased \$267 per mfbm, or 23.4%, while lumber sales volume increased 194 million board feet, or 29.1%, as compared to the same quarter of 2021.

Increases in the average selling price of lumber reflect higher prices for Southern Yellow Pine, Western SPF and Hem-Fir in Q1'22 as compared to Q1'21. The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' benchmarks increased by US\$204, US\$224 and US\$131 per mfbm to US\$1,119, US\$1,159 and US\$1,293 per mfbm, respectively.

Sales generated from logs, residual products and other increased by \$49.6 million or 57.1% in Q1'22 compared to Q1'21 due mainly to the Acquired Eastern Canada Operations I-Joist plant sales and an increase in volume of chips produced and sold.

Operations

Production costs increased by \$301.7 million, or 69.8%, compared to Q1'21, explained by a 29.1% increase in lumber sales volume, inventory purchase accounting adjustments for the Acquired Eastern Canada Operations, inflationary impacts on conversion costs, higher log stumpage rates in B.C. and a weaker Canadian Dollar on average.

Lumber production of 921 million board feet in Q1'22 was 234 million board feet higher than Q1'21.

Production from the Canadian BC operations decreased by 12 million board feet to 196 million board feet in Q1'22, compared to Q1'21. The Acquired Eastern Canada Operations contributed production of 100 million board feet in Q1'22. Production from the Company's U.S. South and U.S. Northwest sawmills totaled 452 million board feet and 173 million board feet, respectively in Q1'22, up 114 million board feet and 32 million board feet, respectively compared to Q1'21. The increase in production is due primarily to the acquisition of five sawmill operations, Summerville, SC acquired in late Q1'21 and Bay Springs, MS, Fayette, AL, Philomath, OR and DeQuincy, LA acquired in Q3'21.

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 \$35.8 million for Q1'22, up \$23.4 million from Q1'21. The increase is due to higher lumber sales prices, higher shipments to the U.S. from Canadian sawmills and higher cash deposit rates as compared to Q1'21.

Depreciation of plant and equipment was \$33.1 million in Q1'22, up \$11.6 million from Q1'21, due primarily to the start-up of completed capital projects in the U.S. South, the acquisition of sawmills in 2021 and the Acquired Eastern Canada Operations. Depletion and amortization of timber, roads and other was \$9.1 million, up \$2.2 million from Q1'21, primarily due to increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were \$17.6 million, up \$4.7 million from Q1'21 primarily as a result of transaction costs related to the Acquired Eastern Canada Operations and accruals for short term incentive compensation.

Long term incentive compensation expense was \$3.7 million in Q1'22, down \$4.0 million from Q1'21, primarily as a result of the impact of a 3.7% decrease in the price of Interfor common shares used to value share-based awards during Q1'22 compared to a 10.6% increase during Q1'21.

Asset write-downs and restructuring costs in Q1'22 were \$3.2 million, primarily related to severance and non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company's strategic capital projects. The asset write-downs and restructuring costs in Q1'21 were negligible.

Finance costs increased to \$5.2 million from \$4.5 million in Q1'21 primarily due to higher borrowings during Q1'22 to fund the acquisition of the Acquired Eastern Canada Operations.

Other foreign exchange gain of \$12.8 million in Q1'22 and loss of \$2.3 million in Q1'21 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations.

Other income of \$8.7 million in Q1'22 primarily relates to insurance proceeds the Company expects to receive from a business interruption claim related to fire damage at one of the Acquired Eastern Canada Operations. Other income of \$2.0 million in Q1'21 primarily resulted from the sale of surplus land on the B.C. Coast.

Income Taxes

The Company recorded income tax expense of \$132.0 million in Q1'22 at an effective tax rate of 25%, comprised of \$122.6 million current income tax and \$9.4 million deferred tax. The Company recorded income tax expense of \$86.3 million in Q1'21 at an effective tax rate of 25%, comprised of \$83.2 million current income tax and \$3.1 million deferred tax.

Net Earnings

The Company recorded Net earnings of \$397.0 million, or \$6.69 per share, compared to \$264.5 million, or \$4.01 per share in Q1'21. 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

		2022		2021			2020		
	Unit	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial Performance ²									
Total sales	\$MM	1,349.0	675.9	664.3	1,099.7	849.3	662.3	644.9	396.8
Lumber	\$MM	1,212.5	591.5	559.6	1,012.9	762.4	575.0	562.4	322.1
Logs, residual products and other	\$MM	136.5	84.4	104.7	86.8	86.9	87.3	82.5	74.7
Operating earnings	\$MM	512.7	99.2	54.8	568.3	355.6	203.2	171.4	13.3
Net earnings	\$MM	397.0	69.7	65.6	419.2	264.5	149.1	121.6	3.2
Net earnings per share, basic	\$/share	6.69	1.15	1.05	6.45	4.01	2.24	1.81	0.05
Adjusted net earnings ³	\$MM	392.5	78.2	46.7	433.5	270.6	164.7	140.0	10.6
Adjusted net earnings per share, basic ³	\$/share	6.61	1.29	0.74	6.67	4.11	2.47	2.08	0.16
Operating cash flow per share (before working capital changes) ³	\$/share	6.38	2.19	1.15	7.46	5.73	3.05	3.20	0.56
Adjusted EBITDA ³	\$MM	570.1	149.5	93.9	611.3	392.1	248.6	221.7	42.8
Adjusted EBITDA margin ³	%	42.3%	22.1%	14.1%	55.6%	46.2%	37.5%	34.4%	10.8%
Annualized return on capital employed ³	%	86.8%	18.2%	16.0%	110.8%	79.2%	48.4%	45.6%	2.4%
Shares outstanding - end of period	million	55.8	60.8	60.8	63.6	65.3	66.0	67.3	67.3
Shares outstanding - weighted average	million	59.4	60.8	62.7	65.0	65.9	66.7	67.3	67.3
Operating Performance									
Lumber production	million fbm	921	758	731	716	687	687	642	421
Lumber sales	million fbm	860	719	753	714	666	683	618	499
Lumber - average selling price ⁴	\$/thousand fbm	1,410	822	744	1,419	1,143	842	910	646
Average USD/CAD exchange rate ⁵	1 USD in CAD	1.2662	1.2603	1.2600	1.2282	1.2660	1.3030	1.3321	1.3862
Closing USD/CAD exchange rate ⁵	1 USD in CAD	1.2496	1.2678	1.2741	1.2394	1.2575	1.2732	1.3339	1.3628

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.

The Company's quarterly financial trends are most impacted by volatility in market prices for lumber, seasonality in lumber demand, disruptions in the availability of freight, variability in log costs driven by stumpage rates, fluctuations in the USD/CAD foreign currency exchange rate and sawmill acquisitions, disposals and/or closures.

Lumber production and sales decreased commencing in Q4'20 with the sale of the sawmill in Gilchrist, OR. Lumber production and sales increased commencing in Q1'21 with the acquisition of the sawmill in Summerville, SC, in Q3'21 with the acquisition of the sawmills in Bay Springs, MS, Fayette, AL and Philomath, OR and in Q1'22 with the Acquired Eastern Canada Operations and the restart of the sawmill in DeQuincy, LA.

Asset impairments resulting from the sale of the sawmill in Gilchrist, OR 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 Q2'20, results were impacted by production curtailments related to 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 March 31, 2022 was \$340.2 million, or 15.8% of invested capital, representing an increase of \$503.1 million from the level of Net debt at December 31, 2021.

As at March 31, 2022 the Company had net working capital of \$462.4 million and available liquidity of \$483.3 million, based on the full borrowing capacity under its \$500 million Revolving Term Line.

The Revolving Term Line and Senior Secured Notes are subject to financial covenants, including a net debt to total capitalization ratio 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 three months ended		
	Mar. 31, 2022	Dec. 31, 2021	Mar. 31, 2021
Net debt			
Net debt, period opening	\$(162,886)	\$(133,829)	\$(75,432)
Revolving Term Line net drawings	31,150	2,198	-
Impact on U.S. Dollar denominated debt from strengthening CAD	(3,713)	(1,851)	(4,710)
Decrease (increase) in cash and cash equivalents	478,203	(31,623)	(162,167)
Impact on U.S. Dollar denominated cash and cash equivalents from (weakening) strengthening CAD	(2,574)	2,219	6,343
Net debt, period ending	\$340,180	\$(162,886)	\$(235,966)

On December 17, 2021, the Company completed an early renewal and expansion of its Revolving Term Line. The commitment under the facility was increased by \$150 million to a total of \$500 million, and the term was extended from March 2024 to December 2026.

Cash Flow from Operating Activities

The Company generated \$378.8 million of cash flow from operations before changes in working capital in Q1'22, for an increase of \$1.1 million over Q1'21. There was a net cash inflow from operations after changes in working capital of \$281.2 million in Q1'22, with \$97.6 million of cash invested in operating working capital.

Higher lumber prices contributed to the \$64.7 million outflow related to trade receivables and seasonally higher log inventories in B.C. contributed to the \$24.4 million outflow from inventories. Higher taxable income in 2021 resulted in income tax installment payments of \$181.0 million in Q1'22. This includes the taxes paid in relation to the Acquired Eastern Canada Operations current income taxes payable assumed on acquisition.

In Q1'21, \$285.1 million of cash was generated from operations with \$92.6 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled \$587.0 million, with \$537.7 million for the Acquired Eastern Canada Operations and \$51.0 million for property, plant and equipment, partially offset by \$1.2 million in proceeds on disposal of property, plant and equipment.

Discretionary mill improvements of \$34.8 million in Q1'22 were mainly focused on the ongoing multi-year rebuild of the Eatonton, GA sawmill and a new planer at the Castlegar, BC sawmill.

Maintenance capital investments excluding roads totaled \$16.2 million in Q1'22.

In Q1'21, investing activities were \$97.0 million, with \$73.6 million for the acquisition of the sawmill in Summerville, SC, \$26.3 million for plant and equipment and \$2.9 million for development of roads and bridges, partially offset by \$5.7 million in proceeds on disposal of property, plant and equipment

Discretionary and maintenance mill improvements totaled \$18.7 million and \$7.6 million, respectively, in Q1'21, of which the majority was spent on a new kiln at the Adams Lake, BC sawmill and the ongoing multi-year rebuild of the Eatonton, GA sawmill.

Cash Flow from Financing Activities

The net cash outflow of \$172.5 million in Q1'22 resulted from \$194.3 million used to purchase shares under the Company's NCIB, \$295.4 million in repayments of long-term debt, interest payments of \$5.0 million, lease liability payments of \$4.5 million and \$2.2 million Revolving Term Line net repayments. This was partially offset by additions to long-term debt of \$328.7 million.

The net cash outflow of \$25.9 million in Q1'21 resulted from \$20.3 million used to purchase shares under the Company's NCIB, interest payments of \$4.3 million and lease liability payments of \$3.3 million, partially offset by \$1.9 million in proceeds received on the issuance of shares under the Company's stock option plan.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of March 31, 2022:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	\$500,000	\$368,112	\$868,112
Less:			
Drawings	35,000	368,112	403,112
Outstanding letters of credit included in line utilization	44,606	-	44,606
Unused portion of facility	\$420,394	\$ -	420,394
Add:			
Cash and cash equivalents			62,932
Available liquidity at March 31, 2022			\$483,326

Interfor's Revolving Term Line matures in December 2026 and its Senior Secured Notes have maturities principally in the years 2024-2030.

As of March 31, 2022, the Company had commitments for capital expenditures totaling \$128.9 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 months ended March 31, 2022.

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 March 31, 2022, such instruments aggregated \$82.0 million (December 31, 2021 - \$61.4 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 Q1'22 or Q1'21.

Outstanding Shares

As of May 11, 2022, Interfor had 54,787,641 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of May 11, 2022, there were 514,396 stock options outstanding with exercise prices ranging from \$9.77 to \$37.68 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. No common shares under this NCIB were purchased in 2021.

During the first three months of 2022, Interfor purchased 5,026,305 common shares at a cost of \$194.3 million and cancelled 4,672,836 of these common shares, with the remaining 353,469 common shares cancelled in April 2022. In April 2022, Interfor purchased 1,015,396 common shares at a cost of \$32.9 million. This completed the purchase of all 6,041,701 common shares allowable under the NCIB for total consideration of \$227.2 million, representing an average price of \$37.60 per share or 1.15 times book value per share at March 31, 2022.

During the first three months of 2021, Interfor purchased 774,420 common shares at a cost of \$20.3 million and cancelled 390,850 of these common shares, with the remaining 383,570 common shares cancelled in April 2021. The common shares were purchased under the previous NCIB that expired November 10, 2021.

Controls and Procedures

As of March 31, 2022, the scope of the Company's design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") has been limited to exclude controls, policies and procedures of the Eastern Canada operations acquired from an affiliate of Kelso & Company on February 22, 2022, as we have not yet completed evaluating these controls and procedures or designing and implementing any necessary changes.

The Eastern Canada operations contribution to our unaudited condensed consolidated interim financial statements for the three months ended March 31, 2022 was approximately 11.7% of consolidated sales and approximately 0.3% of consolidated net earnings. Additionally, the Eastern Canada operations total assets were approximately 7.2% of consolidated total assets. Additional information about the acquisition is provided in Note 5 to Interfor's unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2022.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the quarter ended March 31, 2022 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 March 31, 2022. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2021, 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 March 31, 2022, 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 three months ended		
	Mar. 31, 2022	Mar. 31, 2021	Dec. 31, 2021
Thousands of Canadian Dollars except number of shares and per share amounts			
Adjusted Net Earnings			
Net earnings	\$397,031	\$264,487	\$69,653
Add:			
Asset write-downs and restructuring costs	3,198	142	6,841
Other foreign exchange (gain) loss	(12,823)	2,346	4,468
Long term incentive compensation expense	3,671	7,670	8,058
Other income excluding business interruption insurance	(395)	(1,996)	(7,816)
Post closure wind-down costs	-	224	-
Income tax effect of above adjustments	1,794	(2,229)	(3,036)
Adjusted net earnings	\$392,476	\$270,644	\$78,168
Weighted average number of shares - basic ('000)	59,357	65,927	60,787
Adjusted net earnings per share	\$6.61	\$4.11	\$1.29
Adjusted EBITDA			
Net earnings	\$397,031	\$264,487	\$69,653
Add:			
Depreciation of plant and equipment	33,113	21,474	27,053
Depletion and amortization of timber, roads and other	9,124	6,968	8,397
Finance costs	5,169	4,524	4,425
Income tax expense	132,026	86,256	28,462
EBITDA	576,463	383,709	137,990
Add:			
Long term incentive compensation expense	3,671	7,670	8,058
Other foreign exchange (gain) loss	(12,823)	2,346	4,468
Other income excluding business interruption insurance	(395)	(1,996)	(7,816)
Asset write-downs and restructuring costs	3,198	142	6,841
Post closure wind-down costs	-	224	-
Adjusted EBITDA	\$570,114	\$392,095	\$149,541
Sales	\$1,349,038	\$849,307	\$675,895
Adjusted EBITDA margin	42.3%	46.2%	22.1%
Net debt to invested capital			
Net debt			
Total debt	\$403,112	\$377,250	\$375,675
Cash and cash equivalents	(62,932)	(613,216)	(538,561)
Total net debt	\$340,180	\$(235,966)	\$(162,886)
Invested capital			
Net debt	\$340,180	\$(235,966)	\$(162,886)
Shareholders' equity	1,817,371	1,322,222	1,635,973
Total invested capital	\$2,157,551	\$1,086,256	\$1,473,087
Net debt to invested capital ¹	15.8%	(21.7%)	(11.1%)
Operating cash flow per share (before working capital changes)			
Cash provided by operating activities	\$281,214	\$285,080	\$86,203
Cash used in operating working capital	97,567	92,604	46,852
Operating cash flow (before working capital changes)	\$378,781	\$377,684	\$133,055
Weighted average number of shares - basic ('000)	59,357	65,927	60,787
Operating cash flow per share (before working capital changes)	\$6.38	\$5.73	\$2.19

Note: 1 Net debt to invested capital as of the period end.

Thousands of Canadian Dollars	For the three months ended		
	Mar. 31, 2022	Mar. 31, 2021	Dec. 31, 2021
Annualized return on capital employed			
Net earnings	\$397,031	\$264,487	\$69,653
Add:			
Finance costs	5,169	4,524	4,425
Income tax expense	132,026	86,256	28,462
Earnings before income taxes and finance costs	\$534,226	\$355,267	\$102,540
Capital employed			
Total assets	\$3,081,351	\$2,159,692	\$2,603,510
Current liabilities	(472,686)	(263,526)	(321,642)
Add:			
Bank indebtedness	-	-	2,202
Current portion of long term debt	6,769	6,811	6,868
Current portion of lease liabilities	15,014	12,169	12,239
Capital employed, end of period	\$2,630,448	\$1,915,146	\$2,303,177
Capital employed, beginning of period	2,303,177	1,672,103	2,200,165
Average capital employed	\$2,466,812	\$1,793,624	\$2,251,671
Earnings before income taxes and finance costs divided by average capital employed	21.7%	19.8%	4.6%
Annualization factor	4.0	4.0	4.0
Annualized return on capital employed	86.8%	79.2%	18.2%

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; softwood lumber trade; 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, 2021, 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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