INTERFOR

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 Highlights[1]

		For the 3 months ended			For the 9 months ended	
	Unit	Sept. 30 2019	Sept. 30 2018	Jun. 30 2019	Sept. 30 2019	Sept. 30 2018
			(restated)[2]			(restated)[2]
Financial Highlights[3]						
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 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 Results[1]

		2019			2018[2]				2017[2]
	Unit	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**
Financial Performance[3]									
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.
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 interim financial statements.
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.

	For the 3 months ended Sept. 30,		For the 9 months ended Sept. 30,	
Thousands of Dollars	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 Equipm*ent, 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 Sept. 30 2019	Sept. 30 2018 (restated)[1]	Jun. 30 2019	For the 9 months ended Sept. 30 2019	Sept. 30 2018 (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.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three and nine months ended September 30, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
		(note 3(a))		(note 3(a))
Sales (note 12)	$ 486,494	$ 570,486	$ 1,419,002	$ 1,718,023
Costs and expenses:				
Production	448,214	469,482	1,309,440	1,351,554
Selling and administration	9,383	12,580	29,756	40,115
Long term incentive compensation expense (recovery)	1,049	(7,503)	2,181	1,351
U.S. countervailing and anti-dumping duty deposits (note 14(a))	12,081	15,920	34,043	43,676
Depreciation of plant and equipment (note 8)	20,595	20,022	59,727	60,824
Depletion and amortization of timber, roads and other (note 8)	8,142	12,301	30,080	34,919
	499,464	522,802	1,465,227	1,532,439
Operating earnings (loss) before restructuring costs	(12,970)	47,684	(46,225)	185,584
Capital asset write-downs and restructuring costs (note 9)	31,814	5,848	33,566	10,753
Operating earnings (loss)	(44,784)	41,836	(79,791)	174,831
Finance costs (note 10)	(3,784)	(2,980)	(11,284)	(9,694)
Other foreign exchange gain (loss)	216	(1,847)	235	144
Other income (expense)	(100)	192	6,223	(66)
	(3,668)	(4,635)	(4,826)	(9,616)
Earnings (loss) before income taxes	(48,452)	37,201	(84,617)	165,215
Income tax expense (recovery)				
Current	416	663	809	3,000
Deferred	(13,220)	8,365	(23,317)	37,645
	(12,804)	9,028	(22,508)	40,645
Net earnings (loss)	$ (35,648)	$ 28,173	$ (62,109)	$ 124,570
Net earnings (loss) per share (note 11)				
Basic and diluted	$ (0.53)	$ 0.40	$ (0.92)	$ 1.78

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and nine months ended September 30, 2019 and 2018 (unaudited)

	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
		(note 3(a))		(note 3(a))
Net earnings (loss)	$ (35,648)	$ 28,173	$ (62,109)	$ 124,570
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss), net of tax	(1,151)	957	(1,018)	2,846
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	6,020	(9,284)	(17,581)	14,670
Total other comprehensive income (loss), net of tax	4,869	(8,327)	(18,599)	17,516
Comprehensive income (loss)	$ (30,779)	$ 19,846	$ (80,708)	$ 142,086

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended September 30, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
		(note 3(a))		(note 3(a))
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (35,648)	$ 28,173	$ (62,109)	$ 124,570
Items not involving cash:				
Depreciation of plant and equipment (note 8)	20,595	20,022	59,727	60,824
Depletion and amortization of timber, roads and other (note 8)	8,142	12,301	30,080	34,919
Income tax expense (recovery)	(12,804)	9,028	(22,508)	40,645
Finance costs (note 10)	3,784	2,980	11,284	9,694
Other assets	202	241	523	(176)
Reforestation liability	(1,834)	(2,111)	(2,577)	(684)
Provisions and other liabilities	6,210	(3,672)	5,206	(3,992)
Stock options	224	212	541	558
Write-down of plant, equipment and intangibles (note 9)	14,583	5,823	16,394	10,687
Unrealized foreign exchange loss (gain)	(150)	(12)	10	115
Other expense (income)	(982)	(192)	(7,305)	66
	2,322	72,793	29,266	277,226
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(4,741)	20,766	(25,189)	(3,204)
Inventories	37,647	951	28,082	(30,975)
Prepayments	(1,340)	(602)	(7,082)	(3,260)
Trade accounts payable and provisions	(3,933)	(5,235)	(20,595)	8,005
Income taxes paid	(297)	(1,954)	(872)	(3,276)
	29,658	86,719	3,610	244,516
Investing activities:				
Additions to property, plant and equipment	(31,951)	(28,968)	(126,781)	(56,133)
Additions to roads and bridges	(3,767)	(9,473)	(17,272)	(23,641)
Additions to timber licences and other intangible assets	(5)	(40)	(77)	(90)
Proceeds on disposal of property, plant and equipment and other	309	324	8,449	509
Net proceeds from (additions to) marketable securities, deposits and other assets	370	(93,354)	47,130	(106,933)
	(35,044)	(131,511)	(88,551)	(186,288)
Financing activities:				
Issuance of share capital, net of expenses (note 7)	-	-	80	143
Share repurchases (note 7)	-	(11,950)	(7,825)	(11,950)
Interest payments	(3,431)	(2,048)	(8,848)	(7,880)
Lease liability payments	(2,927)	(2,503)	(8,692)	(7,328)
Debt refinancing costs	(3)	(67)	(1,194)	(70)
Change in operating line components of long term debt (note 6)	-	-	5	(1)
Additions to long term debt (note 6)	-	155,909	197,925	155,909
Repayments of long term debt (note 6)	-	(155,797)	(197,175)	(155,797)
	(6,361)	(16,456)	(25,724)	(26,974)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	402	(2,144)	(3,301)	2,699
Increase (decrease) in cash	(11,345)	(63,392)	(113,966)	33,953
Cash and cash equivalents, beginning of period	63,531	228,945	166,152	131,600
Cash and cash equivalents, end of period	$ 52,186	$ 165,553	$ 52,186	$ 165,553

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

September 30, 2019, December 31, 2018 and January 1, 2018 (unaudited)

(thousands of Canadian Dollars)	Sept. 30, 2019	Dec. 31, 2018	Jan. 1, 2018
		(note 3(a))	(note 3(a))
Assets			
Current assets:			
Cash and cash equivalents	$ 52,186	$ 166,152	$ 131,600
Marketable securities	-	42,863	-
Trade accounts receivable and other	113,685	90,384	112,470
Income tax receivable	2,869	3,008	1,289
Inventories (note 5)	177,216	209,178	165,156
Prepayments	23,349	16,833	12,186
	369,305	528,418	422,701
Employee future benefits	110	303	502
Deposits and other assets	10,617	16,842	6,404
Right of use assets	31,996	37,778	38,600
Property, plant and equipment	755,130	723,773	669,165
Roads and bridges	29,629	29,829	24,092
Timber licences	61,234	64,153	66,589
Other intangible assets	3,803	5,288	14,170
Goodwill	154,537	158,799	147,081
Deferred income taxes	4,635	133	253
	$ 1,420,996	$ 1,565,316	$ 1,389,557
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	$ 128,400	$ 154,869	$ 152,355
Reforestation liability	14,430	13,947	12,873
Lease liabilities	10,026	10,158	8,019
Income taxes payable	238	356	224
	153,094	179,330	173,471
Reforestation liability	26,021	28,235	27,535
Lease liabilities	27,063	33,954	36,165
Long term debt (notes 6 and 13)	264,860	272,840	250,900
Employee future benefits	13,133	8,687	8,249
Provisions and other liabilities	19,644	16,421	25,808
Deferred income taxes	36,327	57,083	17,877
Equity:			
Share capital (note 7)	533,563	537,534	555,388
Contributed surplus	4,357	3,851	8,582
Translation reserve	66,812	84,393	40,733
Retained earnings	276,122	342,988	244,849
	880,854	968,766	849,552
	$ 1,420,996	$ 1,565,316	$ 1,389,557

Commitments and contingencies (note 14)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at January 1, 2018 (note 3(a))	$ 555,388	$ 8,582	$ 40,733	$ 244,849	$ 849,552
Net earnings:	-	-	-	111,058	111,058
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	-	-	43,660	-	43,660
Defined benefit plan actuarial gain, net of tax	-	-	-	508	508
Contributions and distributions:					
Share issuance, net of expenses (note 7)	(18,068)	(5,434)	-	(13,427)	(36,929)
Share repurchases (note 7)	214	(71)	-	-	143
Stock options	-	774	-	-	774
Balance at December 31, 2018 (note 3(a))	$ 537,534	$ 3,851	$ 84,393	$ 342,988	$ 968,766
Net loss:	-	-	-	(62,109)	(62,109)
Other comprehensive loss:					
Foreign currency translation differences for foreign operations, net of tax	-	-	(17,581)	-	(17,581)
Defined benefit plan actuarial loss, net of tax	-	-	-	(1,018)	(1,018)
Contributions and distributions:					
Share issuance, net of expenses (note 7)	115	(35)	-	-	80
Share repurchases (note 7)	(4,086)	-	-	(3,739)	(7,825)
Stock options	-	541	-	-	541
Balance at September 30, 2019	$ 533,563	$ 4,357	$ 66,812	$ 276,122	$ 880,854
Balance at January 1, 2018 (note 3(a))	$ 555,388	$ 8,582	$ 40,733	$ 244,849	$ 849,552
Net earnings:	-	-	-	124,570	124,570
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	-	-	14,670	-	14,670
Defined benefit plan actuarial gain, net of tax	-	-	-	2,846	2,846
Contributions and distributions:					
Share issuance, net of expenses (note 7)	214	(71)	-	-	143
Share repurchases (note 7)	(4,738)	(5,407)	-	(1,805)	(11,950)
Stock options	-	558	-	-	558
Balance at September 30, 2018 (note 3(a))	$ 550,864	$ 3,662	$ 55,403	$ 370,460	$ 980,389

See accompanying notes to consolidated financial statements

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia, the U.S. Northwest and the U.S. South for sale to markets around the world.

Interfor Corporation exists under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1H7.

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2019 and 2018 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

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

These financial statements were approved by Interfor's Board of Directors on November 7, 2019.

(b) Basis of measurement:

These financial statements are prepared on the historical cost basis except for the following items in the Statements of Financial Position:

(i) Derivative financial instruments are measured at fair value at each reporting date;

(ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value at each reporting date;

(iii) Equity-settled share-based payments are measured at fair value at the grant date;

(iv) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis; and

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

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

3. Significant accounting policies:

Except for the change noted below, these financial statements have been prepared on a consistent basis with the significant accounting policies and methods of computation applied in the Company's audited December 31, 2018 annual consolidated financial statements, which are available on www.sedar.com.

(a) Change in accounting policy:

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

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

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

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

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

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 recognized.

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

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

3. Significant accounting policies (continued):

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

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

	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
Consolidated Statement of Earnings:	**For the 3 months ended September 30, 2018:**			**For the 9 months ended September 30, 2018:**		
Sales	$ 570,486	$ -	$ 570,486	$ 1,718,023	$ -	$ 1,718,023
Costs and expenses						
Production	472,354	(2,872)	469,482	1,359,291	(7,737)	1,351,554
Selling and administration	12,825	(245)	12,580	40,850	(735)	40,115
Long term incentive compensation (recovery)	(7,503)	-	(7,503)	1,351	-	1,351
U.S. countervailing and anti-dumping duty deposits	15,920	-	15,920	43,676	-	43,676
Depreciation of plant and equipment	20,071	(49)	20,022	60,990	(166)	60,824
Depletion and amortization of timber, roads and other	9,715	2,586	12,301	27,482	7,437	34,919
	523,382	(580)	522,802	1,533,640	(1,201)	1,532,439
Operating earnings before write downs and restructuring	47,104	580	47,684	184,383	1,201	185,584
Capital assets write-downs and restructuring costs	5,848	-	5,848	10,753	-	10,753
Operating earnings	41,256	580	41,836	173,630	1,201	174,831
Finance costs	(2,465)	(515)	(2,980)	(8,156)	(1,538)	(9,694)
Other foreign exchange gain (loss)	(1,847)	-	(1,847)	144	-	144
Other income (expense)	192	-	192	(66)	-	(66)
	(4,120)	(515)	(4,635)	(8,078)	(1,538)	(9,616)
Earnings before income taxes	37,136	65	37,201	165,552	(337)	165,215
Income tax expense						
Current	663	-	663	3,000	-	3,000
Deferred	8,381	(16)	8,365	37,709	(64)	37,645
	9,044	(16)	9,028	40,709	(64)	40,645
Net earnings	$ 28,092	$ 81	$ 28,173	$ 124,843	$ (273)	$ 124,570
Net earnings per share						
Basic and diluted	$ 0.40	$ (0.00)	$ 0.40	$ 1.78	$ (0.00)	$ 1.78

Consolidated Statement of Comprehensive Income:	**For the 3 months ended September 30, 2018:**			**For the 9 months ended September 30, 2018:**		
Net earnings	$ 28,092	$ 81	$ 28,173	$ 124,843	$ (273)	$ 124,570
Other comprehensive income (loss):						
Items that will not be recycled to Net earnings:						
Defined benefit plan actuarial gain, net of tax	957	-	957	2,846	-	2,846
Items that are or may be recycled to Net earnings:						
Foreign currency translation differences for foreign operations, net of tax	(9,289)	5	(9,284)	14,688	(18)	14,670
Total other comprehensive income (loss), net of tax	(8,332)	5	(8,327)	17,534	(18)	17,516
Comprehensive income	$ 19,760	$ 86	$ 19,846	$ 142,377	$ (291)	$ 142,086

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

3. Significant accounting policies (continued):

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

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

	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
Consolidated Statement of Cash Flows:	**For the 3 months ended September 30, 2018:**			**For the 9 months ended September 30, 2018:**		
Cash provided by (used in):						
Operating activities:						
Net earnings	$ 28,092	$ 81	$ 28,173	$ 124,843	$ (273)	$ 124,570
Depreciation of plant and equipment	20,071	(49)	20,022	60,990	(166)	60,824
Depletion and amortization of timber, roads and other	9,715	2,586	12,301	27,482	7,437	34,919
Income tax expense	9,044	(16)	9,028	40,709	(64)	40,645
Finance costs	2,465	515	2,980	8,156	1,538	9,694
Provisions and other liabilities	(3,724)	52	(3,672)	(4,180)	188	(3,992)
Unrealized foreign exchange loss (gain)	97	(109)	(12)	(84)	199	115
Cash generated by operations before working capital changes	69,733	3,060	72,793	268,367	8,859	277,226
Trade accounts receivable and other	20,738	28	20,766	(3,232)	28	(3,204)
Prepayments	(560)	(42)	(602)	(3,344)	84	(3,260)
Trade accounts payable and provisions	(3,952)	(1,283)	(5,235)	9,656	(1,651)	8,005
Cash generated by operating activities	84,956	1,763	86,719	237,196	7,320	244,516
Investing activities:						
Net additions to marketable securities, deposits and other assets	(93,354)	-	(93,354)	(106,919)	(14)	(106,933)
Cash used in investing activities	(131,511)	-	(131,511)	(186,274)	(14)	(186,288)
Financing activities:						
Interest payments	(2,788)	740	(2,048)	(7,902)	22	(7,880)
Payment of lease liabilities	-	(2,503)	(2,503)	-	(7,328)	(7,328)
Cash used in financing activities	(14,693)	(1,763)	(16,456)	(19,668)	(7,306)	(26,974)

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

3. Significant accounting policies (continued):

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

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

	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
Consolidated Statement of Financial Position:	**As at January 1, 2018:**			**As at December 31, 2018:**		
Prepayments and other	$ 12,562	$ (376)	$ 12,186	$ 17,307	$ (474)	$ 16,833
Total current assets	423,077	(376)	422,701	528,892	(474)	528,418
Right of use assets	-	38,600	38,600	-	37,778	37,778
Property, plant and equipment	670,830	(1,665)	669,165	725,266	(1,493)	723,773
Deferred income tax asset	251	2	253	132	1	133
Total assets	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316
Trade accounts payable and provisions	$ 152,854	$ (499)	$ 152,355	$ 155,434	$ (565)	$ 154,869
Lease liabilities	-	8,019	8,019	-	10,158	10,158
Total current liabilities	165,951	7,520	173,471	169,737	9,593	179,330
Long term lease liabilities	-	36,165	36,165	-	33,954	33,954
Provisions and other liabilities	26,976	(1,168)	25,808	17,413	(992)	16,421
Deferred income tax payable	19,197	(1,320)	17,877	58,527	(1,444)	57,083
Translation reserve	40,720	13	40,733	84,423	(30)	84,393
Retained earnings	249,498	(4,649)	244,849	348,257	(5,269)	342,988
Total equity	854,188	(4,636)	849,552	974,065	(5,299)	968,766
Total liabilities and shareholders' equity	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316

	As previously reported	Adjustment	As adjusted	As previously reported	Adjustment	As adjusted
Consolidated Statements of Changes in Equity:	**As at September 30, 2018:**			**As at December 31, 2018:**		
Balance at January 1, 2018						
Translation reserve	$ 40,720	$ 13	$ 40,733	$ 40,720	$ 13	$ 40,733
Retained earnings	249,498	(4,649)	244,849	249,498	(4,649)	244,849
Total equity	854,188	(4,636)	849,552	854,188	(4,636)	849,552
Net earnings	124,843	(273)	124,570	111,678	(620)	111,058
Foreign currency translation differences for foreign operations, net of tax	14,688	(18)	14,670	43,703	(43)	43,660
Balance at end of period						
Translation reserve	55,408	(5)	55,403	84,423	(30)	84,393
Retained earnings	375,382	(4,922)	370,460	348,257	(5,269)	342,988
Total equity	985,316	(4,927)	980,389	974,065	(5,299)	968,766

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

3. Significant accounting policies (continued):

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

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

Right of use assets:

Cost	Property	Facilities	Mobile Equipment	Foreshore and Other Rights	Total
Balance at December 31, 2017	$ 21,414	$ 13,805	$ 18,825	$ 5,097	$ 59,141
Additions	134	241	7,531	557	8,463
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	7	337	1,174	-	1,518
Balance at December 31, 2018	$ 21,555	$ 14,351	$ 25,699	$ 5,613	$ 67,218
Accumulated Depreciation	**Property**	**Facilities**	**Mobile Equipment**	**Foreshore and Other Rights**	**Total**
Balance at December 31, 2017	$ 6,701	$ 4,312	$ 7,128	$ 2,400	$ 20,541
Depreciation	1,162	1,588	6,857	493	10,100
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	1	111	591	-	703
Balance at December 31, 2018	$ 7,864	$ 5,979	$ 12,745	$ 2,852	$ 29,440
Net book value at December 31, 2018	$ 13,691	$ 8,372	$ 12,954	$ 2,761	$ 37,778

Lease liabilities:

Maturity analysis - contractual undiscounted cash flows:	Dec. 31, 2018
Due within one year	$ 11,916
One to five years	22,451
More than five years	18,002
Total undiscounted lease liabilities	$ 52,369
Current	$ 10,158
Non-current	33,954
Lease liabilities in Statement of Financial Position	$ 44,112

Amounts recognized in Statement of Earnings before income tax:

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

Amounts recognized in the Statement of Cash Flows:

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

(b) New standard and interpretations not yet adopted:

Several new standards and amendments to standards and interpretations are not yet effective for the quarter ended September 30, 2019 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

Quarterly operating results of the Company reflect the seasonality of its operations and markets. Logging operations are seasonal due to 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 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 during the winter season due to reduced construction and renovation activities.

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

5. Inventories:

	Sept. 30, 2019	Dec. 31, 2018
Lumber	$ 102,323	$ 95,563
Logs	54,290	98,018
Other	20,603	15,597
	$ 177,216	$ 209,178

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at September 30, 2019 was $12,581,000 (December 31, 2018 - $19,631,000).

6. Borrowings:

September 30, 2019	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
Drawings	-	264,860	264,860
Outstanding letters of credit included in line utilization	21,246	-	21,246
Unused portion of line	$ 328,754	$ -	$ 328,754

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

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

Twelve months ending	
September 30, 2020	$ -
September 30, 2021	7,173
September 30, 2022	7,173
September 30, 2023	7,174
September 30, 2024	44,143
Thereafter	199,197
	$ 264,860

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

	3 Months Sept. 30, 2019	3 Months Sept 30, 2018	9 Months Sept 30, 2019	9 Months Sept. 30, 2018
Drawings at opening	$ 261,740	$ 263,360	$ 272,840	$ 250,900
Operating line net drawings (repayments)	-	-	5	(1)
Additions to long term debt	-	155,909	197,925	155,909
Repayments of long term debt	-	(155,797)	(197,175)	(155,797)
Effects of changes in foreign exchange rates	3,120	(4,572)	(8,735)	7,889
Drawings at September 30	$ 264,860	$ 258,900	$ 264,860	$ 258,900

(a) Revolving Term Line and Operating Line:

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

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

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

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

As at September 30, 2019, including outstanding letters of credit, the Line was drawn by $18,327,000 (December 31, 2018 - $14,771,000) and US$2,204,000 (December 31, 2018 - US$64,000) revalued at the quarter-end exchange rate to $2,919,000 (December 31, 2018 - $87,000) for total borrowings of $21,246,000 (December 31, 2018 - $14,858,000).

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

6. Borrowings (continued):

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

As at September 30, 2019, $328,754,000 of the Line was unused (December 31, 2018 - $250,142,000). As certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations, the Company recognized a foreign exchange gain of $750,000 in the first nine months, 2019 in Foreign currency translation differences in Other comprehensive income (first nine months, 2018 – loss $81,000), with no activity in Quarter 3, 2019 (Quarter 3, 2018 - loss $81,000).

(b) Senior Secured Notes:

As at September 30, 2019, the Company's Senior Secured Notes consisted of the following:

	Sept. 30, 2019	Dec. 31, 2018
Series A (US$4,450,000)	$ 5,893	$ 6,071
Series B (US$11,800,000)	15,627	16,098
Series C (US$100,000,000)	132,430	136,420
Series D (US$45,550,000)	60,322	52,112
Series E (US$38,200,000)	50,588	62,139
	$ 264,860	$ 272,840

The Senior Secured Notes have a weighted average fixed interest rate of 4.47% and maturities from June 26, 2021 to August 14, 2029.

On March 28, 2019, the Company amended the financing agreement to reduce the security requirements, financial covenants and certain other restrictions. The Senior Secured Notes are subject to certain financial covenants including a maximum ratio of total debt to total capitalization.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $7,980,000 in the first nine months, 2019 (first nine months, 2018 - $7,807,000 loss) and an unrealized loss of $3,120,000 in the third quarter, 2019 (Quarter 3, 2018 - $4,653,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

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

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

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2017	70,030,455	$ 555,388
Exercise of stock options	7,707	214
Repurchase of common shares	(2,277,540)	(18,068)
Balance, December 31, 2018	67,760,622	$ 537,534
Exercise of stock options	7,451	115
Repurchase of common shares	(515,100)	(4,086)
Balance, September 30, 2019	67,252,973	$ 533,563

On March 4, 2019, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 6,652,006 common shares ("Shares"), representing approximately 10% of its Shares issued and outstanding as at March 4, 2019. This NCIB began on March 7, 2019 and expires on March 6, 2020.

During the first nine months of 2019, Interfor purchased and cancelled 515,100 Shares at an average price of $15.19 for a cost of $7,825,000, of which $4,086,000 was charged against Share capital based on the average per share amount for Shares in that account as at the transaction date, and the balance to Retained earnings (first nine months, 2018 – 597,245 common shares purchased at an average price of $20.01 per share for a cost of $11,950,000, of which $4,738,000 and $5,407,000 were charged against Share capital and Contributed surplus, and the balance to Retained earnings; 403,130 Shares were cancelled as at September 30, 2018, with 194,115 cancelled in October 2018).

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
Production	$ 28,068	$ 30,214	$ 86,601	$ 89,500
Selling and administration	669	2,109	3,206	6,243
	$ 28,737	$ 32,323	$ 89,807	$ 95,743

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

9. Capital asset write-downs and restructuring costs:

	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
Write-down of plant, equipment, intangibles, and other	$ 14,583	$ 5,823	$ 16,394	$ 10,687
Severance and other	17,850	25	17,791	66
Lease modifications	(1,081)	-	(1,081)	-
Parts inventory write-downs	462	-	462	-
	$ 31,814	$ 5,848	$ 33,566	$ 10,753

In respect of the Company's announced plan to reconfigure its B.C Coastal business, including the permanent closure of its Hammond sawmill.

10. Finance costs:

	3 Months Sept. 30, 2019	3 Months Sept. 30, 2018	9 Months Sept. 30, 2019	9 Months Sept. 30, 2018
Interest expense on:				
Borrowings	$ 3,343	$ 3,123	$ 9,973	$ 9,107
Lease liabilities	495	515	1,526	1,538
Defined benefit obligations	690	617	2,095	1,768
Interest revenue from:				
Marketable securities and other	(453)	(1,337)	(2,313)	(2,529)
Defined benefit assets	(484)	(449)	(1,466)	(1,355)
Unwind of discount on provisions	116	183	420	527
Amortization of deferred finance costs	77	328	1,049	638
	$ 3,784	$ 2,980	$ 11,284	$ 9,694

11. Net earnings (loss) per share:

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

	3 Months Sept. 30, 2019			3 Months Sept. 30, 2018		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at June 30		67,252,973			70,038,162	
Effect of shares issued in quarter		-			(130,443)	
Basic earnings (loss) per share	$ (35,648)	67,252,973	$ (0.53)	$ 28,173	69,907,719	$ 0.40
Effect of dilutive securities:						
Stock options		22,757			81,490	
Diluted earnings (loss) per share	$ (35,648)	67,275,730*	$ (0.53)	$ 28,173	69,989,209	$ 0.40

	9 Months Sept. 30, 2019			9 Months Sept. 30, 2018		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,760,622			70,030,455	
Effect of shares issued in first nine months		5,773			6,046	
Effect of shares repurchased in first nine months		(482,229)			(43,959)	
Basic earnings (loss) per share	$ (62,109)	67,284,166	$ (0.92)	$ 124,570	69,992,542	$ 1.78
Effect of dilutive securities:						
Stock options		25,083			93,642	
Diluted earnings (loss) per share	$ (62,109)	67,309,249*	$ (0.92)	$ 124,570	70,086,184	$ 1.78

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

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

12. Segmented information:

The Company manages its business as a single operating segment, being solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills or sold. Substantially all operations are located in British Columbia, Canada and the Northwest and South regions of the U.S.

Sales by market are as follows:

	3 Months Sept 30, 2019	3 Months Sept 30, 2018	9 Months Sept 30, 2019	9 Months Sept 30, 2018
United States	$ 341,578	$ 422,939	$ 1,009,054	$ 1,255,336
Canada	77,995	72,316	206,414	221,662
Japan	27,686	29,490	83,712	91,420
China/Taiwan	16,374	24,926	43,834	78,797
Other export	22,861	20,815	75,988	70,808
	$ 486,494	$ 570,486	$ 1,419,002	$ 1,718,023

Sales by product line are as follows:

	3 Months Sept 30, 2019	3 Months Sept 30, 2018	9 Months June 30, 2019	9 Months June 30, 2018
Lumber	$ 403,508	$ 480,331	$ 1,190,879	$ 1,453,232
Logs	36,816	44,101	91,829	132,589
Wood chips and other by-products	44,565	42,290	128,680	125,417
Freight and other	1,605	3,764	7,614	6,785
	$ 486,494	$ 570,486	$ 1,419,002	$ 1,718,023

13. Financial instruments:

At September 30, 2019, the fair value of the Company's Long term debt exceeded its carrying value by $21,780,000 (December 31, 2018 - $1,639,000) measured based on the level 2 of the fair value hierarchy.

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

Derivative financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while derivative financial instruments in a liability position are classified as Trade accounts payable and provisions. Financial instrument assets and liabilities are not netted, for purposes of presentation on the Statements of Financial Position.

The Company may use a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, interest rates and lumber prices. These include foreign currency forward, collar and option contracts, interest rate swaps, and lumber futures.

As at September 30, 2019, the Company had no outstanding obligations under derivative financial instruments.

14. Commitments and contingencies:

(a) U.S. Countervailing and anti-dumping duty deposits:

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing ("CV") and anti-dumping ("AD") duties on Canadian softwood lumber imports to the U.S. On January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there was reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada and the U.S. Department of Commerce ("DoC") imposed duties on Canadian shipments of softwood lumber into the U.S.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, and subsequently amended to 6.04%. As a result, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at September 30, 2019 (December 31, 2018 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,220,000 (December 31, 2018 - $4,347,000).

Cumulative duties of US$85,813,000 paid by Interfor since the inception of the current trade dispute remain held in trust by the U.S pending the First Administrative Review and conclusion of all appeals of U.S decisions. All duty deposits except US$3,265,000 (December 31, 2018 – US$3,265,000) noted above have been expensed.

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to vigorously defend the Company's and industry's positions through various appeals processes, in conjunction with the B.C. and Canadian Governments. The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts, NAFTA or WTO panels to which the DoC and ITC determinations may be appealed.

14. Commitments and contingencies (continued):

(b) 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. The cash purchase price of $60 million will be financed from Interfor's available cash balance and/or borrowings under its existing bank credit facility.

The transaction is subject to various consents, including that by the Government of B.C. The transaction is targeted to close in the fourth quarter, 2019.

INTERFOR

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