

MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 3, 2022

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2021 ("Q4'21" and "2021", 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 year ended December 31, 2021, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 3, 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 Fourth Quarter, 2021", "Acquisition of EACOM Timber Corporation", "Deferral of Old-Growth Logging in B.C.", "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". Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; the existence of a public health crisis (such as the current COVID-19 pandemic); and the assumptions described under the heading "Critical Accounting Estimates" herein.

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 Fourth Quarter, 2021

Interfor recorded Net earnings in Q4'21 of \$69.7 million, or \$1.15 per share, compared to \$65.6 million, or \$1.05 per share in Q3'21 and \$149.1 million, or \$2.24 per share in Q4'20. Adjusted net earnings in Q4'21 were \$78.2 million compared to \$46.7 million in Q3'21 and \$164.7 million in Q4'20.

Adjusted EBITDA was \$149.5 million on sales of \$675.9 million in Q4'21 versus \$93.9 million on sales of \$664.3 million in Q3'21.

Interfor recorded Net earnings of \$819.0 million, or \$12.88 per share, in 2021, compared to \$280.3 million, or \$4.18 per share in 2020. Adjusted EBITDA was \$1.2 billion on sales of \$3.3 billion.

Notable items in the quarter:

- Record Lumber Production
 - Total lumber production in Q4'21 was 758 million board feet, representing an increase of 27 million board feet quarter-over-quarter and setting an Interfor production record. The U.S. South and U.S. Northwest regions accounted for 409 million board feet and 166 million board feet, respectively, compared to 411 million board feet and 156 million board feet in Q3'21. Production in the B.C. region increased to 183 million board feet from 164 million board feet in Q3'21, which was impacted by wildfire-related log supply constraints.
 - Total lumber shipments were 719 million board feet, or 33 million lower than Q3'21 in part due to weather-related logistics constraints in B.C. and the U.S. Northwest.
 - Strengthening Lumber Prices
 - Interfor's average selling price was \$822 per mfbm, up \$78 per mfbm versus Q3'21. The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' lumber price benchmarks increased quarter-over-quarter by US\$176, US\$174 and US\$175 per mfbm to US\$644, US\$653 and US\$733 per mfbm, respectively, with the majority of these increases occurring in the latter half of the quarter.
 - Benchmark lumber prices have continued to strengthen into 2022, rising to all-time record levels for the month of January.
 - Enhanced Financial Flexibility
 - Interfor's financial flexibility was enhanced substantially in the quarter through significant cash flow generation and an expansion of its revolving credit facility. Available liquidity increased to \$1.0 billion, and cash exceeded debt by \$162.9 million at quarter-end.
 - Interfor generated \$133.1 million of cash flow from operations before changes in working capital, or \$2.19 per share. This was partially offset by a \$46.9 million investment in working capital driven by weather-related shipment constraints and a seasonal build up of log inventories in B.C.
 - On December 17, 2021, the Company completed an early renewal and expansion of its Revolving Term Line. The commitment under the facility has been increased by \$150 million to a total of \$500 million, and the term has been extended from March 2024 to December 2026.
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- Strategic Capital Investments
 - Capital spending was \$63.0 million, including \$38.6 million on high-return discretionary projects. The majority of this discretionary spending was focused on the ongoing multi-year rebuild of the Eatonton, GA sawmill, which will begin ramp-up in Q1'22 towards its proforma 230 million board foot annual capacity.
- Restart of the DeQuincy, LA Sawmill
 - Lumber production at the sawmill in DeQuincy, LA restarted on January 9, 2022, well ahead of schedule. The sawmill is currently operating on one shift with plans underway to ramp-up to two shifts and its 200 million board foot annual capacity by the end of 2022.
- Normal Course Issuer Bid ("NCIB") Renewal
 - On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares, which represents 10% of the Company's public float.
 - Interfor did not purchase any of its common shares during the quarter.
- Softwood Lumber Duties Rate Adjustment
 - In Q4'21, the U.S. Department of Commerce ("the DoC") published the final rates for countervailing ("CV") and anti-dumping ("AD") duties based on the results of its second administrative review covering shipments for the year ended December 31, 2019. The final combined rate for 2019 was 17.91%, compared to the cash deposit rate of 20.23%. To reflect the lower amended final rates for 2019, Interfor recorded a \$4.3 million reduction to duties expense in Q4'21 and a corresponding receivable on its balance sheet.
 - On January 31, 2022, the DoC issued its preliminary combined all other rate of 11.64% for 2020. The rate is the result of the DoC's third administrative review and is subject to change until its final rate determinations which are expected in August 2022. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of December 31, 2021 to reflect the preliminary all other duty rate announced.
 - Cumulative duties of US\$170.4 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\$36.2 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Acquisition of EACOM Timber Corporation

On November 23, 2021, the Company announced that it had reached an agreement with an affiliate of Kelso & Company to acquire 100% of the equity interests of EACOM Timber Corporation ("EACOM"). The acquisition includes seven sawmills with a combined lumber production capacity of 985 million board feet, an I-Joist plant with annual production of 70 million linear feet, and a value-added remanufacturing plant with annual production capacity of 60 million board feet.

The transaction remains subject to customary conditions and regulatory approvals for a transaction of this kind and is currently expected to close in the first quarter of 2022. The acquisition is expected to be funded from existing available liquidity.

Deferral of Old-Growth Logging in B.C.

On November 2, 2021, the B.C. government announced its intention to work in partnership with First Nations to temporarily defer harvest of up to 2.6 million hectares of old growth forests. The process remains ongoing as the majority of more than 200 First Nations in the province have indicated to the B.C. government that they require more time to review the proposed deferral plans before making decisions. Interfor does not currently anticipate any significant impact on its lumber production volumes in B.C. as a result of the proposed old growth deferrals, though other impacts may arise depending on the nature and alignment of decisions by First Nations. Interfor's operations within the coastal and interior regions of B.C. account for 4% and 19% of its total lumber production capacity, respectively.

Outlook

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

Interfor expects lumber demand to continue to grow over the mid-term, as repair and renovation activities and new housing starts in the U.S. benefit from favourable underlying demand fundamentals. However, the potential for rising interest rates in the U.S. exists, which could 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. While uncertainty remains as to the duration and extent of the economic impact from the COVID-19 pandemic, Interfor is well positioned with its strong balance sheet and significant available liquidity.

Financial and Operating Highlights¹

| Unit | For the three months ended | | | For the year ended Dec. 31 | | | |
|---|----------------------------|-----------------|------------------|----------------------------|---------|---------|---------|
| | Dec. 31 2021 | Dec. 31 2020 | Sept. 30 2021 | 2021 | 2020 | 2019 | |
| Financial Highlights² | | | | | | | |
| Total sales | \$MM | 675.9 | 662.3 | 664.3 | 3,289.1 | 2,183.6 | 1,875.8 |
| Lumber | \$MM | 591.5 | 575.0 | 559.6 | 2,926.3 | 1,838.8 | 1,576.1 |
| Logs, residual products and other | \$MM | 84.4 | 87.3 | 104.7 | 362.8 | 344.8 | 299.7 |
| Operating earnings (loss) | \$MM | 99.2 | 203.2 | 54.8 | 1,077.9 | 402.5 | (128.8) |
| Net earnings (loss) | \$MM | 69.7 | 149.1 | 65.6 | 819.0 | 280.3 | (103.8) |
| Net earnings (loss) per share, basic | \$/share | 1.15 | 2.24 | 1.05 | 12.88 | 4.18 | (1.54) |
| Adjusted net earnings (loss) ³ | \$MM | 78.2 | 164.7 | 46.7 | 829.1 | 316.1 | (58.1) |
| Adjusted net earnings (loss) per share, basic ³ | \$/share | 1.29 | 2.47 | 0.74 | 13.04 | 4.71 | (0.86) |
| Operating cash flow per share (before working capital changes) ³ | \$/share | 2.19 | 3.05 | 1.15 | 16.79 | 7.38 | 0.67 |
| Adjusted EBITDA ³ | \$MM | 149.5 | 248.6 | 93.9 | 1,246.8 | 549.7 | 63.4 |
| Adjusted EBITDA margin ³ | % | 22.1% | 37.5% | 14.1% | 37.9% | 25.2% | 3.4% |
| Total assets | \$MM | 2,603.5 | 1,843.2 | 2,488.7 | 2,603.5 | 1,843.2 | 1,341.9 |
| Total debt | \$MM | 375.7 | 382.0 | 375.3 | 375.7 | 382.0 | 259.8 |
| Net debt ³ | \$MM | (162.9) | (75.4) | (133.8) | (162.9) | (75.4) | 224.9 |
| Net debt to invested capital ³ | % | (11.1%) | (7.5%) | (9.3%) | (11.1%) | (7.5%) | 21.3% |
| Annualized return on capital employed ³ | % | 18.2% | 48.4% | 16.0% | 55.7% | 26.7% | (9.4%) |
| Operating Highlights | | | | | | | |
| Lumber production | million fbm | 758 | 687 | 731 | 2,891 | 2,377 | 2,646 |
| Lumber sales | million fbm | 719 | 683 | 753 | 2,852 | 2,441 | 2,668 |
| Lumber - average selling price ⁴ | \$/thousand fbm | 822 | 842 | 744 | 1,026 | 753 | 591 |
| Average USD/CAD exchange rate ⁵ | 1 USD in CAD | 1.2603 | 1.3030 | 1.2600 | 1.2535 | 1.3415 | 1.3269 |
| Closing USD/CAD exchange rate ⁵ | 1 USD in CAD | 1.2678 | 1.2732 | 1.2741 | 1.2678 | 1.2732 | 1.2988 |

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 consolidated financial statements.
- Gross sales before duties.
- Based on Bank of Canada foreign exchange rates.

Summary of Fourth Quarter 2021 Financial PerformanceSales

Interfor recorded \$675.9 million of total sales, up 2.0% from \$662.3 million in the fourth quarter of 2020, driven by the sale of 719 million board feet of lumber at an average price of \$822 per mfbm. Average selling price decreased \$20 per mfbm, or 2.4%, while lumber sales volume increased by 36 million board feet, as compared to the same quarter of 2020.

Decreases in the average selling price of lumber reflect lower prices for Hem-Fir, partially offset by higher prices for Southern Yellow Pine. The KD HF Stud 2x4 9' benchmark decreased by US\$74 to US\$733 per mfbm while the Southern Yellow Pine benchmark increased by US\$41 to US\$644 per mfbm. The Western SPF Composite benchmark was relatively unchanged increasing by US\$1 per mfbm to US\$653 per mfbm.

Sales generated from logs, residual products and other decreased by \$2.9 million or 3.3% in Q4'21 compared to Q4'20 due mainly to a decrease in the availability of surplus logs, partially offset by an increase in volume of chips produced and sold.

Operations

Production costs increased by \$80.0 million, or 18.7%, compared to Q4'20 explained by a 5.3% increase in lumber sales volume, higher log stumpage rates in B.C., and a weaker Canadian Dollar on average.

Lumber production of 758 million board feet in Q4'21 was 71 million board feet higher than Q4'20.

Production from the Canadian operations decreased by 7 million board feet to 183 million board feet in Q4'21, compared to Q4'20 due to weather related disruptions in the B.C. Interior. Production from the Company's U.S. South and U.S Northwest sawmills totaled 409 million board feet and 166 million, respectively in Q4'21, up 48 million board feet and 30 million board feet, respectively compared to Q4'20. The increase in production is due primarily to the acquisition of four sawmill operations located in Summerville, SC, Bay Springs, MS, Fayette, AL and Philomath, OR.

CV and AD duty deposits totalled \$4.4 million in Q4 2021, comprised of \$8.7 million expensed on shipments from B.C. to the U.S. during the quarter, offset by a \$4.3 million recovery related to finalization of the CV and AD rates by the U.S. Department of Commerce for the year ended December 31, 2019.

Depreciation of plant and equipment was \$27.1 million in Q4'21, up \$5.1 million from Q4'20, due primarily to the start-up of completed capital projects in the U.S. South and the acquisition of sawmills in the first nine months of 2021. Depletion and amortization of timber, roads and other was \$8.4 million, down \$2.1 million from Q4'20, primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were \$13.7 million, up \$3.4 million from Q4'20 primarily as a result of costs related to various information technology system implementations and higher accruals for short term incentive compensation.

Long term incentive compensation expense was \$8.1 million in Q4'21, down \$2.2 million from Q4'20, primarily as a result of the impact of a 19.5% increase in the price of Interfor common shares used to value share-based awards during Q4'21 compared to a 58.8% increase during Q4'20.

Asset and goodwill write-downs and restructuring costs in Q4'21 were \$6.8 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 Q4'20 were \$1.8 million, primarily related to severance and other closure costs.

Finance costs increased to \$4.4 million in Q4'21 from \$1.9 million in Q4'20 primarily as a result of \$3.0 million of interest income accrued on the long-term receivable for the CV and AD duty rate finalization recognized in Q4'20.

Other foreign exchange loss of \$4.5 million in Q4'21 and \$8.2 million in Q4'20 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. The Company held higher U.S. Dollar cash balances on average during Q4'21 compared to Q4'20, though the Canadian Dollar weakened by 0.5% in Q4'21 compared to 4.6% in Q4'20.

Other income of \$7.8 million in Q4'21 relates primarily to a gain recognized as a result of compensation received on the sale of forest tenures in B.C. Other expense of \$0.1 million in Q4'20 resulted from the disposal of surplus and scrapped equipment.

Income Taxes

The Company recorded income tax expense of \$28.5 million in Q4'21 at an effective tax rate of 29%, comprised of \$1.9 million current income tax and \$26.6 million deferred tax. The Company recorded income tax expense of \$43.9 million in Q4'20 at an effective tax rate of 23%, comprised of \$5.4 million current income tax and \$38.5 million deferred tax. Current income tax expense for Q4'20 was limited by the use of non-capital tax loss carry-forwards in both Canada and the U.S.

Net Earnings

The Company recorded Net earnings of \$69.7 million, or \$1.15 per share, compared to Net earnings of \$149.1 million, or \$2.24 per share in Q4'20.

Summary of 2021 Financial Performance

Sales

Interfor recorded \$3.3 billion in total sales, up 50.6% from \$2.2 billion in 2020, driven by the sale of 2.9 billion board feet of lumber at an average price of \$1,026 per mfbm. Lumber sales volume increased 411 million board feet, or 16.8%, while average selling price increased \$273 per mfbm, or 36.3%, as compared to 2020.

The increase in the average selling price of lumber reflects higher prices across all key product benchmarks in 2021 as compared to 2020. The Western SPF Composite and SYP Composite benchmarks increased US\$324 to US\$847 per mfbm and US\$231 to US\$764 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark increased US\$412 to US\$1,016 per mfbm for 2021 as compared to 2020.

Sales generated from logs, residual products and other increased by \$18.0 million or 5.2% as compared to 2020 mainly due to an increase in volume of chips produced and sold, partially offset by reduced availability of surplus logs for sale.

Operations

Production costs increased by \$365.2 million or 23.1% as compared to 2020 explained primarily by an increase of 16.8% in lumber sales volume.

Lumber production of 2.9 billion board feet in 2021 was 514 million board feet higher than 2020.

Production from the Canadian operations increased by 61 million board feet to 746 million board feet in 2021, compared to 2020 during which temporary COVID-19 related curtailments were taken. Production from the Company's U.S. South sawmills totaled 1.5 billion board feet in 2021, up 311 million board feet compared to 2020, due to increased operating schedules related to market demand, the acquisition of sawmills in the first nine months of the year and the ramp-up of completed capital projects. Additionally, production from the U.S. South sawmills in 2020 was impacted by COVID-19 related curtailments. Production from the Company's U.S. Northwest operations totaled 600 million board feet in 2021, up 141 million board feet compared to 2020, due to increased operating schedules, higher productivity rates, the acquisition of the Philomath, OR sawmill in Q3'21 and COVID-19 related curtailments in 2020, partly offset by the sale of the sawmill in Gilchrist, OR in Q4'20.

CV and AD duty deposits totalled \$42.1 million in 2021, up \$28.3 million as compared to 2020, due primarily to a \$38.4 million recovery in 2020 related to finalization of the CV and AD rates by the U.S. Department of Commerce for the years ended December 31, 2017 and 2018.

Depreciation of plant and equipment was \$97.1 million, up 23.7% from 2020, due primarily to increased operating schedules, the start-up of completed capital projects in the U.S. South and the sawmills acquired in the first nine months of the year. Depletion and amortization of timber, roads and other was \$29.4 million, down \$7.6 million from 2020 primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were \$52.4 million, up \$11.5 million from 2020, primarily as a result of costs for various information technology system implementations, transaction costs related to acquisitions and other corporate development activities, and increased accruals for short term incentive compensation.

Long term incentive compensation expense was \$31.7 million, up \$19.2 million from 2020, primarily as a result of the impact of a 61.8% increase in the price of Interfor Common Shares used to value share-based awards during 2021 compared to a 57.3% increase during 2020. Additionally, the long term incentive compensation in 2021 included adjustments to awards to reflect the special cash dividend.

Asset write-downs and restructuring costs in 2021 totalled \$10.2 million, primarily related to non-cash impairments on certain plant and equipment in the U.S. South as part of strategic capital projects in the region, as well as severance and other closure costs. The asset write-downs and restructuring costs in 2020 were \$15.3 million. This included \$10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, OR.

Finance costs increased to \$17.8 million from \$16.0 million in 2020 primarily due to interest income relating to the long-term duties receivable recorded in 2020 as a result of the CV and AD duties rate finalization.

Other foreign exchange loss of \$2.4 million in 2021 and \$16.9 million in 2020 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding and cash held by Canadian operations.

Other income was \$31.3 million in 2021 and \$0.3 million in 2020. The 2021 amount primarily resulted from the sale of property, plant and equipment at the Company's former Hammond sawmill as well as compensation received for the sale of forest tenures in B.C..

Income Taxes

The Company recorded income tax expense of \$270.1 million in 2021 at an effective tax rate of 25%, comprised of \$205.5 million current tax and \$64.6 million in deferred tax. The 2020 income tax expense of \$89.6 million, representing an effective tax rate of 24% is comprised of \$7.1 million current tax and a \$82.5 million deferred tax. Current income tax expense for 2020 was limited by the use of non-capital tax loss carry-forwards in both Canada and the U.S.

Net Earnings

The Company recorded Net earnings of \$819.0 million, or \$12.88 per share, compared to Net earnings of \$280.3 million, or \$4.18 per share in 2020. Operating margins and Net earnings were positively impacted by higher lumber prices and higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company's NCIB.

Summary of Quarterly Results¹

| Unit | 2021 | | | | 2020 | | | | |
|---|-----------------|--------|--------|---------|--------|--------|--------|--------|--------|
| | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 | |
| Financial Performance² | | | | | | | | | |
| Total sales | \$MM | 675.9 | 664.3 | 1,099.7 | 849.3 | 662.3 | 644.9 | 396.8 | 479.6 |
| Lumber | \$MM | 591.5 | 559.6 | 1,012.9 | 762.4 | 575.0 | 562.4 | 322.1 | 379.3 |
| Logs, residual products and other | \$MM | 84.4 | 104.7 | 86.8 | 86.9 | 87.3 | 82.5 | 74.7 | 100.3 |
| Operating earnings | \$MM | 99.2 | 54.8 | 568.3 | 355.6 | 203.2 | 171.4 | 13.3 | 14.6 |
| Net earnings | \$MM | 69.7 | 65.6 | 419.2 | 264.5 | 149.1 | 121.6 | 3.2 | 6.3 |
| Net earnings per share, basic | \$/share | 1.15 | 1.05 | 6.45 | 4.01 | 2.24 | 1.81 | 0.05 | 0.09 |
| Adjusted net earnings ³ | \$MM | 78.2 | 46.7 | 433.5 | 270.6 | 164.7 | 140.0 | 10.6 | 0.7 |
| Adjusted net earnings per share, basic ³ | \$/share | 1.29 | 0.74 | 6.67 | 4.11 | 2.47 | 2.08 | 0.16 | 0.01 |
| Operating cash flow per share (before working capital changes) ³ | \$/share | 2.19 | 1.15 | 7.46 | 5.73 | 3.05 | 3.20 | 0.56 | 0.57 |
| Adjusted EBITDA ³ | \$MM | 149.5 | 93.9 | 611.3 | 392.1 | 248.6 | 221.7 | 42.8 | 36.6 |
| Adjusted EBITDA margin ³ | % | 22.1% | 14.1% | 55.6% | 46.2% | 37.5% | 34.4% | 10.8% | 7.6% |
| Annualized return on capital employed ³ | % | 18.2% | 16.0% | 110.8% | 79.2% | 48.4% | 45.6% | 2.4% | 4.0% |
| Shares outstanding - end of period | million | 60.8 | 60.8 | 63.6 | 65.3 | 66.0 | 67.3 | 67.3 | 67.3 |
| Shares outstanding - weighted average | million | 60.8 | 62.7 | 65.0 | 65.9 | 66.7 | 67.3 | 67.3 | 67.3 |
| Operating Performance | | | | | | | | | |
| Lumber production | million fbm | 758 | 731 | 716 | 687 | 687 | 642 | 421 | 627 |
| Lumber sales | million fbm | 719 | 753 | 714 | 666 | 683 | 618 | 499 | 641 |
| Lumber - average selling price ⁴ | \$/thousand fbm | 822 | 744 | 1,419 | 1,143 | 842 | 910 | 646 | 592 |
| Average USD/CAD exchange rate ⁵ | 1 USD in CAD | 1.2603 | 1.2600 | 1.2282 | 1.2660 | 1.3030 | 1.3321 | 1.3862 | 1.3449 |
| Closing USD/CAD exchange rate ⁵ | 1 USD in CAD | 1.2678 | 1.2741 | 1.2394 | 1.2575 | 1.2732 | 1.3339 | 1.3628 | 1.4187 |

Notes:

- 1 Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
- 2 Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
- 3 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.
- 4 Gross sales before duties.
- 5 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 and in Q3'21 with the acquisition of the sawmills in Bay Springs, MS, Fayette, AL and Philomath, OR.

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 the latter part of Q1'20 and majority of 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 December 31, 2021 was \$(162.9) million, or (11.1%) of invested capital, representing a decrease of \$87.5 million from the level of Net debt at December 31, 2020.

As at December 31, 2021 the Company had net working capital of \$644.1 million and available liquidity of \$1.0 billion, 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 net debt to total capitalization ratios, and an EBITDA interest coverage ratio.

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

| Thousands of Dollars | For the three months ended | | | For the year ended | |
|--|----------------------------|------------------|-------------------|--------------------|------------------|
| | Dec. 31, 2021 | Dec. 31, 2020 | Sept. 30, 2021 | Dec. 31, 2021 | Dec. 31, 2020 |
| Net debt | | | | | |
| Net debt, period opening | \$(133,829) | \$88,705 | \$(490,682) | \$(75,432) | \$224,860 |
| (Repayment) issuance of Senior Secure Notes | - | - | - | (6,671) | 140,770 |
| Revolving Term Line net drawings (repayments) | 2,198 | - | 1 | 2,199 | (82) |
| Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD | (1,851) | (18,210) | 10,221 | (1,813) | (18,488) |
| (Increase) decrease in cash and cash equivalents | (31,623) | (165,294) | 365,553 | (79,639) | (450,767) |
| Impact on U.S. Dollar denominated cash and cash equivalents from strengthening (weakening) CAD | 2,219 | 19,367 | (18,922) | (1,530) | 28,275 |
| Net debt, period ending | \$(162,886) | \$(75,432) | \$(133,829) | \$(162,886) | \$(75,432) |

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

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

Cash Flow from Operating Activities

The Company generated \$1.1 billion of cash flow from operations before changes in working capital in 2021, for an increase of \$572.5 million over 2021. There was a net cash inflow from operations after changes in working capital of \$1.1 billion in 2021, with \$15.1 million of cash invested in operating working capital.

A build-up of lumber inventories in the B.C. Interior and U.S. Northwest as a result of weather-related issues in December 2021 contributed to the \$53.2 million outflow from inventories, while increased sales contributed to the \$29.2 million outflow related to receivables. Higher accruals for short-term incentive compensation contributed to the \$65.4 million inflow from trade accounts payable and provisions.

In 2020, \$526.8 million of cash was generated from operations with \$31.8 million of cash generated from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled \$656.5 million, with \$539.9 million for the acquisition of five sawmills, \$160.2 million for plant and equipment and \$16.5 million for development of roads and bridges, partially offset by \$60.2 million in proceeds on disposal of property, plant and equipment, and other.

Discretionary mill improvements of \$108.0 million in 2021 include several projects, the most significant of which relate to a new planer at the Castlegar, BC sawmill, upgrades at the Perry, GA sawmill and the ongoing multi-year rebuild of the Eatonton, GA sawmill.

Maintenance capital investments excluding roads totaled \$52.2 million in 2021.

In 2020, investing activities were \$162.6 million, with \$56.6 million for the acquisition from Canadian Forest Products Ltd. ("Canfor") of timber licences and other assets, net of assumed liabilities, \$95.9 million for plant and equipment, and other intangibles and \$14.7 million for development of roads and bridges partially offset by \$4.5 million in proceeds on disposal of property, plant and equipment, and other.

Discretionary and maintenance mill improvements totaled \$78.1 million and \$17.6 million, respectively, in 2020, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of \$316.2 million in 2021 resulted from the \$130.6 million special cash dividend payment, \$152.9 million used to purchase shares under the Company's NCIB, and \$6.7 million for repayments of Senior Secured Notes. Interest and lease liability payments were \$16.8 million and \$13.3 million, respectively.

The net cash inflow of \$86.6 million in 2020 resulted from US\$100 million Senior Secured Notes financing with Prudential Private Capital, partly offset by \$24.4 million used to purchase shares under the Company's NCIB, as well as interest and lease liability payments of \$17.6 million and \$12.3 million, respectively.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2021, including debt and interest payments and major capital commitments are summarized as follows:

| Thousands of Canadian Dollars | Total | Payments due by Period | | | |
|---------------------------------------|--------------------|------------------------|------------------|------------------|------------------|
| | | Up to 1 Year | 2-3 Years | 4-5 Years | After 5 Years |
| Operating Line | \$2,202 | \$2,202 | \$ - | \$ - | \$ - |
| Trade accounts payable and provisions | 198,457 | 198,457 | - | - | - |
| Income taxes payable | 64,838 | 64,838 | - | - | - |
| Reforestation liability | 47,937 | 16,670 | 13,102 | 7,343 | 10,822 |
| Lease liabilities | 44,419 | 13,479 | 15,016 | 6,117 | 9,807 |
| Long term debt | 456,556 | 21,947 | 77,260 | 105,904 | 251,445 |
| Provisions and other liabilities | 71,402 | 18,797 | 23,460 | 2,762 | 26,383 |
| Capital commitments and other | 712,966 | 710,199 | 1,870 | 797 | 100 |
| Total obligations | \$1,598,777 | \$1,046,589 | \$130,708 | \$122,923 | \$298,557 |

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2021:

| Thousands of Canadian Dollars | Revolving Term Line | Senior Secured Notes | Total |
|--|---------------------------|----------------------------|-------------|
| Available line of credit and maximum borrowing available | \$500,000 | \$373,473 | \$873,473 |
| Less: | | | |
| Drawings | 2,202 | 373,473 | 375,675 |
| Outstanding letters of credit included in line utilization | 23,246 | - | 23,246 |
| Unused portion of facility | \$474,552 | \$ - | 474,552 |
| Add: | | | |
| Cash and cash equivalents | | | 538,561 |
| Available liquidity at December 31, 2021 | | | \$1,013,113 |

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

As of December 31, 2021, the Company had commitments for capital expenditures totaling \$124.3 million for both maintenance and discretionary capital projects and \$490 million for the acquisition of EACOM. In addition, Interfor will assume EACOM's CV and AD duty deposits at closing, for consideration equal to 55% of the total deposits on an after-tax basis.

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 year ended December 31, 2021.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At December 31, 2021, such instruments aggregated \$61.4 million (December 31, 2020 - \$62.8 million).

Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company purchases high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. The Company did not purchase or hold any marketable securities in 2021 or 2020.

In addition, the Company utilizes 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. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes.

The Company did not trade any foreign exchange contracts, interest rate derivatives or lumber futures in 2021 and 2020.

Borrowings

As at December 31, 2021, Interfor had \$2.2 million outstanding on its Revolving Term Line and US\$294.6 million of fixed rate debt of Senior Secured Notes outstanding.

The Company's Revolving Term Line bears interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at SOFR for U.S. Dollar loans, in all cases dependent upon a financial ratio of net debt to total capitalization.

The Company's Senior Secured Notes have a weighted average fixed interest rate of 4.08%.

During 2021, the Company had minimal borrowings subject to variable interest rates under its Revolving Term Line. As a result, based on the Company's average debt level during 2021, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

Foreign Currency

Certain of the Company's subsidiaries have a functional currency of the U.S. Dollar. Unrealized gains and losses arising upon translation of these net foreign currency investment positions, together with any gain or losses arising from hedges of such positions, are recognized in Other comprehensive income, and recorded to the Translation reserve in Equity. Foreign currency translation differences residing in the Translation reserve will be released to Net earnings upon the reduction of the net investment in foreign operations through the sale, reduction or substantial liquidation of an investment position.

As at December 31, 2021, the Company had designated the US\$294.6 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded an \$8.6 million after-tax unrealized foreign exchange gain on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2021 (2020 - \$6.9 million loss).

Outstanding Shares

As of February 3, 2022, Interfor had 60,804,177 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of February 3, 2022, there were 488,033 stock options outstanding with exercise prices ranging from \$9.78 to \$26.19 per common share.

On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares, which represents 10% of the Company's public float. No common shares under this NCIB were purchased in 2021.

On November 5, 2020, the Company announced a NCIB whereby it can purchase for cancellation up to 5,981,751 common shares. On September 16, 2021, the Company announced an amendment to its NCIB increasing the maximum number of common shares that may be purchased by an additional 690,906 common shares. The amended NCIB allowed for the purchase of up to 6,672,658 common shares. As at December 31, 2021, the Company had purchased all of the common shares permitted under this NCIB.

During 2021, Interfor purchased 5,345,238 common shares at a cost of \$152.9 million. During 2020, Interfor purchased 1,327,420 common shares at a cost of \$24.4 million. No common shares were purchased in 2020 under the Company's prior NCIB that expired on March 6, 2020.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2021.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2021.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2021, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

The Company's financial statements include critical accounting estimates made by management, as described below. The use of different assumptions could have a material impact on the Company's financial condition and performance.

Business Combinations. Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired property, plant and equipment generally require the most judgment and include replacement cost new estimates and physical depreciation assumptions. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

Valuation of Inventories. Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a specific boom or sort basis. The unit net realizable value for lumber inventories and for B.C. Coast log inventories is determined by reference to the average sales values by specific product in the period immediately following the reporting date. The unit net realizable value for B.C. Interior and U.S. log inventories is determined by reference to the value of the projected lumber and residual outturns. The unit cost for lumber is based on a three month moving average cost, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment. The unit cost for B.C. Coast logs is based on a twelve month moving average cost lagged one month and for B.C. Interior logs is based on the three month moving average cost lagged one month, both adjusted for abnormal costs. Log inventories purchased from external sources are valued at acquisition cost. The Company records a charge to operating earnings when net realizable value is lower than carrying value. Downward movements in commodity prices could result in a material write-down of log and/or lumber inventories at any given time.

Recoverability of Property, Plant and Equipment, Roads and Bridges, Timber licences, Other Intangible Assets, and Goodwill. Interfor's assessment of recoverability is made with reference to projections of future cash flows expected to be generated by specific assets and/or cash-generating units. Projected cash flows are discounted to estimate the recoverable amount of the related assets.

The Company conducts a review of external and internal sources of information to assess existence of any impairment indicators. External factors include adverse changes in expected future prices, costs and other market and economic factors. Internal factors include changes in the expected useful life of the asset or changes to the planned capacity of the asset.

Key assumptions used are based on industry sources as well as management estimates. Significant assumptions include future sales volume, commodity prices, production costs and discount rates. Other assumptions include applicable foreign exchange rates, operating rates of the assets, the level of sales to the U.S. from Canada, the CV and AD duty rates, future capital required to maintain the assets in their current operating condition, and other items.

A high degree of uncertainty exists in these assumptions and, as such, any significant change in assumptions could result in a conclusion that the carrying value of these assets may not be recovered, which could necessitate a material charge against operating earnings.

Appropriate discount rates are determined by reference to current market conditions, specific company factors and asset specific factors. The inflation rates applied within the cash flow projections represent the published Bank of Canada consumer price index and the published Bureau of Labor Statistics consumer price index.

Interfor assesses the recoverability of Right of Use assets, Property, Plant and Equipment, Roads and Bridges, Timber Licences and Other Intangible Assets whenever events or circumstances indicate that the carrying value may not be recoverable. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist.

The Company assessed the recoverability of goodwill as at December 31, 2021 and 2020 and concluded that there was no impairment.

Reforestation and Other Forestry-related Liabilities. Crown legislation requires the Company to complete reforestation activities on its forest and timber tenures. Accordingly, Interfor records the estimated liability for reforestation as timber is cut and includes these expenses in the cost of current production. The estimate of future reforestation costs is based on detailed prescriptions of reforestation as prepared by Registered Professional Foresters employed or contracted by the Company. Considerations include the specifics of the areas logged and the treatments prescribed for those areas, as well as the timing and success rates of the planned activities. Estimates of reforestation liabilities could be materially impacted by forest fires, wildlife grazing, unfavourable weather conditions, changing legislative requirements and standards, or inaccurate projections, which could result in a material charge against operating earnings.

The Company also has a legal obligation to deactivate certain roads constructed for access to timber, once that access is no longer required. Accordingly, Interfor accrues the cost of road deactivation as related timber is cut, including those expenses in the cost of current production. The estimate of future road deactivation cost is based on comprehensive plans prepared by Professional Foresters and Engineers employed by Interfor and includes such considerations as road structure and terrain. Estimates of road deactivation liabilities could be materially impacted by unfavourable terrain, changing legislative requirements and standards, or inaccurate projections, which could result in a material charge against operating earnings. Each of these estimates is reviewed on an ongoing basis.

Pension and Other Post-retirement Benefits. The Company sponsors two defined benefit pension plans for certain hourly employees not covered by forest industry union plans. It also sponsors two post-retirement medical and life insurance plans and a non-contributory defined benefit pension plan for a former senior executive.

The Company retains independent actuarial consultants to value the defined pension benefit obligations, the post-retirement medical and life insurance obligations and related plan asset values. Actuarial assumptions used in the valuation of plan obligations and assets include the discount rate used in calculations of net present value of obligations, expected rates of return on plan assets to be used to fund obligations, assumed rates of increase for employee compensation and health care costs, and mortality rates. Actual experience can vary materially from estimates and could result in a material charge to Other comprehensive income as well as necessitate a current cash funding requirement.

Income Taxes. The Company's provision for income taxes, both current and deferred, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for income taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits.

Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2021, and have not been applied in preparing the Company's audited consolidated 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 (loss), Adjusted net earnings (loss) 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:

| Thousands of Canadian Dollars except number of shares and per share amounts | For the three months ended | | | For the year ended Dec. 31, | | |
|--|----------------------------|-----------------|------------------|-----------------------------|-------------|-------------|
| | Dec. 31 2021 | Dec. 31 2020 | Sept. 30 2021 | 2021 | 2020 | 2019 |
| Adjusted Net Earnings (Loss) | | | | | | |
| Net earnings (loss) | \$69,653 | \$149,148 | \$65,630 | \$819,011 | \$280,296 | \$(103,785) |
| Add: | | | | | | |
| Asset and goodwill write-downs and restructuring costs | 6,841 | 1,793 | 997 | 10,193 | 15,264 | 63,982 |
| Other foreign exchange loss (gain) | 4,468 | 8,162 | (9,104) | 2,355 | 16,881 | 275 |
| Long term incentive compensation expense | 8,058 | 10,254 | 4,809 | 31,682 | 12,513 | 3,446 |
| Other (income) expense | (7,816) | 92 | (22,571) | (31,338) | (336) | (5,925) |
| Post closure wind-down costs (recoveries) | - | 949 | (24) | 451 | 4,034 | - |
| Income tax effect of above adjustments | (3,036) | (5,652) | 6,956 | (3,300) | (12,527) | (16,117) |
| Adjusted net earnings (loss) | \$78,168 | \$164,746 | \$46,693 | \$829,054 | \$316,125 | \$(58,124) |
| Weighted average number of shares - basic ('000) | 60,787 | 66,687 | 62,741 | 63,593 | 67,119 | 67,277 |
| Adjusted net earnings (loss) per share | \$1.29 | \$2.47 | \$0.74 | \$13.04 | \$4.71 | \$(0.86) |
| Adjusted EBITDA | | | | | | |
| Net earnings (loss) | \$69,653 | \$149,148 | \$65,630 | \$819,011 | \$280,296 | \$(103,785) |
| Add: | | | | | | |
| Depreciation of plant and equipment | 27,053 | 21,947 | 25,899 | 97,143 | 78,459 | 80,438 |
| Depletion and amortization of timber, roads and other | 8,397 | 10,511 | 7,396 | 29,430 | 37,071 | 44,294 |
| Finance costs | 4,425 | 1,891 | 4,444 | 17,830 | 16,079 | 15,024 |
| Income tax expense (recovery) | 28,462 | 43,889 | 16,439 | 270,079 | 89,573 | (34,359) |
| EBITDA | 137,990 | 227,386 | 119,808 | 1,233,493 | 501,478 | 1,612 |
| Add: | | | | | | |
| Long term incentive compensation expense | 8,058 | 10,254 | 4,809 | 31,682 | 12,513 | 3,446 |
| Other foreign exchange loss (gain) | 4,468 | 8,162 | (9,104) | 2,355 | 16,881 | 275 |
| Other (income) expense | (7,816) | 92 | (22,571) | (31,338) | (336) | (5,925) |
| Asset and goodwill write-downs and restructuring costs | 6,841 | 1,793 | 997 | 10,193 | 15,264 | 63,982 |
| Post closure wind-down costs (recoveries) | - | 947 | (24) | 451 | 3,914 | - |
| Adjusted EBITDA | \$149,541 | \$248,634 | \$93,915 | \$1,246,836 | \$549,714 | \$63,390 |
| Sales | \$675,895 | \$662,301 | \$664,274 | \$3,289,146 | \$2,183,609 | \$1,875,821 |
| Adjusted EBITDA margin | 22.1% | 37.5% | 14.1% | 37.9% | 25.2% | 3.4% |
| Net debt to invested capital | | | | | | |
| Net debt | | | | | | |
| Total debt | \$375,675 | \$381,960 | \$375,328 | \$375,675 | \$381,960 | \$259,760 |
| Cash and cash equivalents | (538,561) | (457,392) | (509,157) | (538,561) | (457,392) | (34,900) |
| Total net debt | \$(162,886) | \$(75,432) | \$(133,829) | \$(162,886) | \$(75,432) | \$224,860 |
| Invested capital | | | | | | |
| Net debt | \$(162,886) | \$(75,432) | \$(133,829) | \$(162,886) | \$(75,432) | \$224,860 |
| Shareholders' equity | 1,635,973 | 1,080,312 | 1,567,063 | 1,635,973 | 1,080,312 | 830,982 |
| Total invested capital | \$1,473,087 | \$1,004,880 | \$1,433,234 | \$1,473,087 | \$1,004,880 | \$1,055,842 |
| Net debt to invested capital ¹ | (11.1%) | (7.5%) | (9.3%) | (11.1%) | (7.5%) | 21.3% |
| Operating cash flow per share (before working capital changes) | | | | | | |
| Cash provided by operating activities | \$86,203 | \$229,947 | \$196,375 | \$1,052,381 | \$526,784 | \$28,252 |
| Cash used in (generated from) operating working capital | 46,852 | (26,514) | (124,114) | 15,093 | (31,774) | 16,740 |
| Operating cash flow (before working capital changes) | \$133,055 | \$203,433 | \$72,261 | \$1,067,474 | \$495,010 | \$44,992 |
| Weighted average number of shares - basic ('000) | 60,787 | 66,687 | 62,741 | 63,593 | 67,119 | 67,277 |
| Operating cash flow per share (before working capital changes) | \$2.19 | \$3.05 | \$1.15 | \$16.79 | \$7.38 | \$0.67 |

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

| Thousands of Canadian Dollars | For the three months ended | | | For the year ended Dec. 31, | | |
|---|----------------------------|-----------------|------------------|-----------------------------|-------------|-------------|
| | Dec. 31 2021 | Dec. 31 2020 | Sept. 30 2021 | 2021 | 2020 | 2019 |
| Annualized return on capital employed | | | | | | |
| Net earnings (loss) | \$69,653 | \$149,148 | \$65,630 | \$819,011 | \$280,296 | \$(103,785) |
| Add: | | | | | | |
| Finance costs | 4,425 | 1,891 | 4,444 | 17,830 | 16,079 | 15,024 |
| Income tax expense (recovery) | 28,462 | 43,889 | 16,439 | 270,079 | 89,573 | (34,359) |
| Earnings (loss) before income taxes and finance costs | \$102,540 | \$194,928 | \$86,513 | \$1,106,920 | \$385,948 | \$(123,120) |
| Capital Employed | | | | | | |
| Total assets | \$2,603,510 | \$1,843,187 | \$2,488,693 | \$2,603,510 | \$1,843,187 | \$1,341,917 |
| Current liabilities | (321,642) | (189,726) | (307,349) | (321,642) | (189,726) | (137,647) |
| Add: | | | | | | |
| Bank indebtedness | 2,202 | - | - | 2,202 | - | - |
| Current portion of long term debt | 6,868 | 6,897 | 6,901 | 6,868 | 6,897 | - |
| Current portion of lease liabilities | 12,239 | 11,745 | 11,921 | 12,239 | 11,745 | 10,105 |
| Capital employed, end of period | \$2,303,177 | \$1,672,103 | \$2,200,166 | \$2,303,177 | \$1,672,103 | \$1,214,375 |
| Capital employed, beginning of period | 2,200,165 | 1,555,212 | 2,142,778 | 1,672,103 | 1,214,375 | 1,396,144 |
| Average capital employed | \$2,251,671 | \$1,613,658 | \$2,171,472 | \$1,987,640 | \$1,443,239 | \$1,305,260 |
| Earnings (loss) before income taxes and finance costs divided by average capital employed | 4.6% | 12.1% | 4.0% | 55.7% | 26.7% | (9.4%) |
| Annualization factor | 4.0 | 4.0 | 4.0 | 1.0 | 1.0 | 1.0 |
| Annualized return on capital employed | 18.2% | 48.4% | 16.0% | 55.7% | 26.7% | (9.4%) |

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to the factors described below.

Public Health Crisis

In Q1'20, the Company identified a previously undisclosed risk of the existence of a public health crisis (such as the current global COVID-19 pandemic). The future emergence and spread of pathogens similar to COVID-19 could have an adverse impact on global economic conditions. In turn, such a public health crisis could have adverse consequences on Interfor's operations, financial results and liquidity. Areas of potential impact include the health and safety of its employees and contractors, product demand and pricing, availability of logs and operating supplies, availability of logistics and increased cyber-security risk. Given the ongoing and dynamic nature of the COVID-19 outbreak, it is difficult to accurately predict the severity of its impact on the Company. The extent of such impact will depend upon future developments, which are highly uncertain, including the rate of spread and severity of COVID-19 and government actions taken to mitigate its impact, among others.

Price Volatility

The Company's operating results are affected by fluctuations in the selling prices for lumber, logs and wood chips. Prices are affected by such factors as the general level of economic activity in the markets in which the Company sells its products, interest rates, construction activity (in particular, housing starts in the United States, Canada, Japan and China), duty rates, supply shortages due to weather or logistical issues, and log and chip supply/demand relationships. The Company's financial results may be significantly affected by changes in the selling prices of its products.

Competition

The global markets for the Company's products are highly competitive, primarily on the basis of price. In addition, a majority of the Company's lumber production is sold in markets where the Company competes against several producers of approximately the same or larger capacity. Some of the Company's competitors have greater financial resources and may be, in certain product lines, lower-cost producers.

Factors which could affect the Company's competitive position include: (i) its industry-relative costs for logs, labour and other manufacturing inputs; (ii) its ability to access the U.S. and foreign markets, including the existence of duties; (iii) the strength of the U.S. Dollar relative to the Canadian Dollar and certain foreign currencies; (iv) the availability and cost of trucks, railcars and vessels for shipment of lumber; (v) product quality and fit with end-user demand; and (vi) the availability and price of substitute products.

If the Company is unable to successfully compete on a global basis, its financial condition could suffer.

Availability and Cost of Log Supply

The log requirements of the Company's sawmills are met using logs harvested from its timber tenures, by long term trade and purchase agreements and by purchases on the open market and through timber sale bids and economic partnership agreements with First Nations and other parties. Logs produced but unsuitable for use in the Company's sawmills are either traded for suitable logs or sold on the open market. Operating at normal capacity, the Company's Canadian sawmills generally purchase less than 40% of their log requirements either through purchase agreements or on the open market. The Company relies almost entirely on purchased fibre through purchase agreements for its U.S. based sawmills. As a result, fluctuations in the price, quality or availability of log supply can have a material effect on the Company's business, financial position, results of operations and cash flow. In addition, weather-related issues can restrict timely access to log supply as well as increase cost for available logs.

The Company relies on third-party independent contractors to harvest timber in areas over which it holds timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase the Company's timber harvesting costs.

Additionally, in order to ensure uninterrupted access to logs harvested from its timber tenures in Canada, the Company must also focus on the continuous development of road networks. This encompasses an integrated plan by foresters, engineers and logging operations personnel to identify future logging areas and develop the engineering for roads. The Company also relies on third-party independent contractors to construct roads in areas over which it holds timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase the Company's timber harvesting costs.

The Company expects to fund its ongoing road development with cash generated from operations and through utilization of its existing credit facilities.

Natural or Man-Made Disasters

The Company's operations are subject to adverse natural or man-made events such as forest fires, severe weather conditions, climate change, timber disease and insect infestation and earthquake activity. These events could damage or destroy the Company's physical facilities or timber supply and similar events could also affect the operations of the Company's suppliers or customers, including the availability of freight. Any such damage or disruption could adversely affect the Company's financial results due to decreased production output or increased operating costs. Although management believes it has reasonable insurance arrangements in place to cover certain of such incidents, there can be no assurance that these arrangements will be sufficient to fully protect the Company against such losses. As is common in the industry, the Company does not insure loss of standing timber for any cause.

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 75% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen.

While the Canadian operations also incur some U.S. Dollar-denominated expenses, primarily for ocean freight and other transportation, CV and AD duties, and for equipment operating leases, most expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

An increase in the value of the Canadian Dollar relative to the U.S. Dollar would reduce the amount of revenue in Canadian Dollars realized by the Company from lumber sales made in U.S. Dollars. This would reduce the Company's operating margin and the cash flow available to fund operations. Consequently, a significant strengthening of the Canadian Dollar against the U.S. Dollar could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

Government Regulation

The Company's operations are subject to extensive provincial, state, federal or other laws and regulations that apply to most aspects of its business activities. Where applicable, the Company is required to obtain approvals, permits and licences for its operations as a condition to operate.

From time to time, changes in government policy or regulation may impact the Company's operations. Until the details of all such changes are announced and implemented, the full impact of these changes on the Company's production, costs, financial position and results of operations cannot be determined.

Allowable Annual Cut ("AAC")

The Company currently holds cutting rights in the province of B.C. that represent an AAC of approximately of 3.63 million cubic metres. Of this amount, 3.58 million cubic metres is in the form of long-term replaceable tenures (5 Tree Farm Licences and 29 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

In March 2020, the Company received regulatory approval for the transfer of tenures in the Kamloops Region from Canfor with a combined AAC of 349,000 cubic metres.

In November 2021, the Company received regulatory approval for the transfer of tenures with a combined AAC of 40,000 cubic metres in the Kamloops Region to Simpcw First Nation.

In December 2021, the Company received regulatory approval for the transfer of a tenure with an AAC of 67,000 cubic metres in the Great Bear Rainforest North Timber Supply Area to the Wuikinuxv Nation.

The volume of timber harvested under Company tenures varies from year to year however there are legislated requirements that limit harvest over a five-year period to a maximum of 110% of the AAC. The Company is in compliance with the terms and conditions of its tenures.

The AAC is set by the Ministry of Forests, Lands, Natural Resource Operations and Rural Development through a formal Timber Supply Review ("TSR") process. The TSR determinations set sustainable harvest levels for each management unit across the province at 10-year intervals. Many factors affect the AAC, such as timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

The amount of timber available for harvest in the south-central portion of the B.C. Interior is declining as the surplus of dead pine stands from the pine beetle epidemic deteriorate and are no longer useable. In 2018, we had a reduction of approximately 4% of our AAC from our Interior tenures due to new timber supply determinations in the Kamloops Region. Although there may be further modest AAC declines in the years ahead to account for various forest management considerations, a material impact on our internal supply is not expected.

In 2019 the B.C. government commissioned an independent panel to develop a new approach to how old growth forests are managed. In September 2020, the panel released the Old Growth Strategic Review ("Review") report, which included 14 recommendations to develop and implement an old-growth strategy. At the same time, the government announced the temporary deferral of old forest harvesting in nine areas throughout the province totaling 353,000 hectares. Three of the deferred areas overlap portions of the Company's tenures however there are little to no impacts to our AAC.

The B.C. government continues to work towards implementation of the 14 recommendations from the Review and on November 2, 2021 the province announced their intention to work in partnership with First Nations to defer harvest of up to 2.6 million hectares of old growth forests. To date, proposed deferral areas impacting the Company's operations have not been implemented by the province. The Company continues to work closely with First Nations to ensure old growth values are adequately managed. Interfor does not currently anticipate any significant impact on its lumber production volumes in B.C. as a result of the proposed old growth deferrals, though other impacts may arise depending on the nature and alignment of decisions by First Nations.

There are approximately 11.1 million hectares of old growth forests in B.C., which is roughly 20% of the publicly managed forest area in the province. Of these 11.1 million hectares, approximately 25% is within the timber harvesting land base that supports the AAC. The remaining 75% is either protected or will not be harvested due to various constraints.

Indigenous Peoples

Indigenous peoples have claimed rights and title over substantial portions of B.C., including areas where the Company's forest tenures are situated. This has created much uncertainty as to the status of competing rights over the Crown land base and its resources. Both the provincial and federal governments have been seeking to negotiate settlements with Indigenous peoples throughout B.C. and Canada to resolve their rights and title claims. Such settlements, interim measures, or other agreements that may result could involve a combination of cash, resources, grants of conditional rights to resources on public lands, and rights of self-government. The impact of Indigenous peoples claims or treaty settlements on the Company's forest tenures or the amounts of compensation to the Company, if any, cannot be estimated at this time.

The B.C. Government passed new legislation in November 2019 to reconcile B.C. laws with the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP"). This new legislation will provide, over time, a mechanism for consent-based decision making, which will increase the role of First Nations in resource-based activities. While the Province retains authority for making decisions in the public interest, UNDRIP will result in an increased role of First Nations in resource-based activities.

Furthermore, in June 2021, the federal government passed legislation respecting UNDRIP. The UNDRIP Act affirms UNDRIP as a universal international human rights instrument with application in Canadian law and provides a framework for the government of Canada to implement the Declaration. This framework will guide the changes required for implementation of federal laws to be consistent with the Declaration and the establishment of an action plan to achieve UNDRIP's objectives.

The courts have also established that the Crown has a duty to consult with Indigenous peoples and, where appropriate, accommodate their interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long-standing and complex issues. The government of B.C. has been working to improve the functional relationship between the Crown and Indigenous peoples prior to treaty settlement.

The Province of B.C. and some Indigenous peoples of B.C. have signed Reconciliation Protocols that provide a shared decision-making process for resource and land use, as well as new forest sector opportunities. These agreements overlap portions of the Company's tenures, and as First Nations become larger participants in the forest sector, it is expected Reconciliation Protocols will be signed across other areas of B.C. These agreements will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market. Interfor's shipments to the U.S. from Canadian operations represent approximately 15% of Company-wide lumber production. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking CV and 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. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards. The CV duties cash deposit rate was initially imposed at 19.88% and subsequently amended to 14.19%. The AD duties cash deposit rate was initially imposed at 6.87% and subsequently amended to 6.04%. During the fourth quarter 2020, the DoC published the final CV and AD duties rates based on the results of its first administrative review of shipments for the years ended December 31, 2017 and 2018. During the fourth quarter 2021, the DoC published the final CV and AD duties rates based on the results of its second administrative review of shipments for the year ended December 31, 2019.

The final AD and CV duties rates for the first administrative review were published November 30, 2020 and December 1, 2020 respectively, and starting on these dates the final first administrative review AD and CV duty rates of 1.57% and 7.42% respectively, were applied as the cash deposit rates to new lumber shipments.

The final AD and CV duties rates for the second administrative review were published on December 2, 2021 and starting on this date the final second administrative review AD and CV duty rates of 11.59% and 6.31% respectively, were applied as the cash deposit rates to new lumber shipments. On January 10, 2022, the final CV duty rate was amended to 6.32% by the DoC.

On January 31, 2022, the DoC issued its preliminary CV and AD duty rates based on completion of its third administrative review of shipments for the year ended December 31, 2020. The cash deposit rate for CV duty was 14.19% from January 1, 2020 to November 30, 2020 and 7.42% from December 1, 2020 to December 31, 2020. The cash deposit rate for AD duty was 6.04% from January 1, 2020 to December 1, 2020 and 1.57% from December 2, 2020 to December 31, 2020. The preliminary revised CV and AD duty rates are 6.88% and 4.76% respectively, for a combined rate of 11.64%.

The DoC may further amend the preliminary duty rates at any time, with final rate determinations expected to be published in August, 2022. At such time, the final rates determined and published for 2020 will be applied to new lumber shipments.

Cumulative duties of US\$170.4 million have been paid by Interfor since inception of the current trade dispute and are held in trust by the U.S. pending all administrative reviews and conclusion of all appeals of U.S. decisions. Interfor has recorded the majority of these duty deposits as an expense, except for US\$36.2 million which are recorded as a long-term receivable due to a reduction in rates as a result of the first and second administrative reviews and other process corrections. Interfor is seeking to recover these deposits following successful appeals or through settlement.

The Government of Canada is appealing the U.S. findings and will defend itself against claims of unfair trade practices made by the U.S. As in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time.

It is unclear at this time when, if any, duty amounts deposited will be recovered.

Stumpage Fees

The province of B.C. charges stumpage fees to companies that harvest timber from Crown land. Stumpage payments for a harvesting area are based on a competitive market pricing system ("MPS") that has been established for each of the Coast and Interior regions of B.C.

The stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the U.S. MPS uses results and stand characteristics of competitively sold B.C. Timber Sales auctions of timber to develop regression equations that predict the market value of Crown timber harvested, and upon which stumpage rates are based. The regression model in each region is updated annually to reflect actual bid data and any changes required to other operational and administrative factors. Stumpage rates are also adjusted quarterly to reflect, among other factors, changes in lumber prices.

Periodic changes in the provincial government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that future changes will not have a material impact on stumpage rates.

Environment

The Company has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of its environmental performance. The Company may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with an unforeseen environmental liability in the future. This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on the Company's financial condition and results of operations.

Labour Disruptions

Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on the Company's business. The Company believes that its current labour relations are stable and does not anticipate any significant related disruptions to its operations in the foreseeable future.

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The agreement with the USW for the Southern Interior has an expiry date of June 30, 2023, while the B.C. Coast USW agreement has an expiry date of June 14, 2024.

The Company also has 20 employees in the B.C. Interior who are members of the Canadian Merchant Service Guild ("CMSG"). The collective agreement with the CMSG expired on September 30, 2021, with negotiations ongoing. Employees under the CMSG agreement have continued to work under the terms of the expired agreement with no workplace disruptions.

Workers at the Longview, Washington sawmill are represented by the International Association of Machinist and Aerospace Workers ("IAM"). The IAM collective agreement expires on November 15, 2024.

Information Systems Security

The Company's operations and administration are dependent on both internal and third-party information technology ("IT") systems. The impact of a cyber-security breach or the unavailability of a key Company IT system could be significant, including but not limited to operational delays, financial loss, reputational damage or unauthorized access to, or loss of confidential or sensitive information.

The Company's Audit Committee, in conjunction with management, is responsible for reviewing cyber-security risks and ensuring that an effective risk management strategy is in place. The Company has implemented controls, processes and practices to reduce its risk of a cyber-security breach and the impact on business continuity. These include staying updated on the latest threats, threat agents and attack vectors, the use of firewall and monitoring software as well as regular system back-up protocols. However, the nature of cyber threats continues to evolve and the Company's exposure to this risk cannot be fully mitigated.

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.