# Interfor Corporation
# First Quarter Report
# For the three months ended March 31, 2022

## Management's Discussion and Analysis

**This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three months ended March 31, 2022 ("Q1'22"). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three months ended March 31, 2022, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of May 11, 2022.**

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

### Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of First Quarter, 2022", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2021 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; the existence of a public health crisis; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2021 annual Management's Discussion and Analysis.

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

**Overview of First Quarter, 2022**

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

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

Notable items in the quarter:

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

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

## Outlook

North American lumber markets over the near term are expected to remain above historical trends driven by continued strong demand from new housing starts and repair and remodel activity, albeit with volatility as the North American economy adjusts to inflationary pressures, rising interest rates, logistics constraints and labour shortages.

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

Interfor's strategy of maintaining a diversified portfolio of operations in multiple regions allows the Company to both reduce risk and maximize returns on capital over the business cycle. Interfor is well positioned with its strong balance sheet and significant available liquidity to continue pursuing its strategic plans despite ongoing economic and geo-political uncertainty globally.

## Financial and Operating Highlights[1]

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

Notes:
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.

## Summary of First Quarter 2022 Financial Performance

### Sales

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

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

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

### Operations

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

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

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

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $35.8 million for Q1’22, up $23.4 million from Q1’21. The increase is due to higher lumber sales prices, higher shipments to the U.S. from Canadian sawmills and higher cash deposit rates as compared to Q1’21.

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

Corporate and Other

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

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

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

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

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

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

Income Taxes

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

Net Earnings

The Company recorded Net earnings of $397.0 million, or $6.69 per share, compared to $264.5 million, or $4.01 per share in Q1’21. Operating margins and Net earnings were positively impacted by higher lumber prices and higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company’s NCIB.

## Summary of Quarterly Results[1]

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

Notes:

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, in Q3'21 with the acquisition of the sawmills in Bay Springs, MS, Fayette, AL and Philomath, OR and in Q1'22 with the Acquired Eastern Canada Operations and the restart of the sawmill in DeQuincy, LA.

Asset impairments resulting from the sale of the sawmill in Gilchrist, OR affected results in Q4'20.

The gain on sale of property, plant and equipment at the Company's former Hammond sawmill affected results in Q3'21.

In Q2'20, results were impacted by production curtailments related to the pandemic outbreak of COVID-19.

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

## Liquidity

Balance Sheet

Interfor's Net debt at March 31, 2022 was $340.2 million, or 15.8% of invested capital, representing an increase of $503.1 million from the level of Net debt at December 31, 2021.

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

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

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

| | For the three months ended | | |
|---|---|---|---|
| Thousands of Dollars | **Mar. 31, 2022** | **Dec. 31, 2021** | **Mar. 31, 2021** |
| **Net debt** | | | |
| Net debt, period opening | $(162,886) | $(133,829) | $(75,432) |
| Revolving Term Line net drawings | 31,150 | 2,198 | - |
| Impact on U.S. Dollar denominated debt from strengthening CAD | (3,713) | (1,851) | (4,710) |
| Decrease (increase) in cash and cash equivalents | 478,203 | (31,623) | (162,167) |
| Impact on U.S. Dollar denominated cash and cash equivalents from (weakening) strengthening CAD | (2,574) | 2,219 | 6,343 |
| Net debt, period ending | $340,180 | $(162,886) | $(235,966) |

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

Cash Flow from Operating Activities

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

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

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

Cash Flow from Investing Activities

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

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

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

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

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

Cash Flow from Financing Activities

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

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

## Capital Resources

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

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

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

As of March 31, 2022, the Company had commitments for capital expenditures totaling $128.9 million for both maintenance and discretionary capital projects.

## Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three months ended March 31, 2022.

## Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At March 31, 2022, such instruments aggregated $82.0 million (December 31, 2021 - $61.4 million).

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

## Financial Instruments and Other Instruments

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q1'22 or Q1'21.

## Outstanding Shares

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

As of May 11, 2022, there were 514,396 stock options outstanding with exercise prices ranging from $9.77 to $37.68 per common share.

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

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

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

## Controls and Procedures

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

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

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the quarter ended March 31, 2022 that materially affected, or would be reasonably likely to materially affect, such controls.

## Critical Accounting Estimates

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended March 31, 2022. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2021, filed under the Company's profile on www.sedar.com.

## Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended March 31, 2022, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these are expected to have a significant effect on future financial statements.

## Non-GAAP Measures

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

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

| Thousands of Canadian Dollars except number of shares and per share amounts | For the three months ended Mar. 31, 2022 | Mar. 31, 2021 | Dec. 31, 2021 |
|---|---|---|---|
| **Adjusted Net Earnings** | | | |
| Net earnings | $397,031 | $264,487 | $69,653 |
| Add: | | | |
| Asset write-downs and restructuring costs | 3,198 | 142 | 6,841 |
| Other foreign exchange (gain) loss | (12,823) | 2,346 | 4,468 |
| Long term incentive compensation expense | 3,671 | 7,670 | 8,058 |
| Other income excluding business interruption insurance | (395) | (1,996) | (7,816) |
| Post closure wind-down costs | - | 224 | - |
| Income tax effect of above adjustments | 1,794 | (2,229) | (3,036) |
| Adjusted net earnings | $392,476 | $270,644 | $78,168 |
| Weighted average number of shares - basic ('000) | *59,357* | *65,927* | *60,787* |
| Adjusted net earnings per share | $6.61 | $4.11 | $1.29 |
| **Adjusted EBITDA** | | | |
| Net earnings | $397,031 | $264,487 | $69,653 |
| Add: | | | |
| Depreciation of plant and equipment | 33,113 | 21,474 | 27,053 |
| Depletion and amortization of timber, roads and other | 9,124 | 6,968 | 8,397 |
| Finance costs | 5,169 | 4,524 | 4,425 |
| Income tax expense | 132,026 | 86,256 | 28,462 |
| EBITDA | 576,463 | 383,709 | 137,990 |
| Add: | | | |
| Long term incentive compensation expense | 3,671 | 7,670 | 8,058 |
| Other foreign exchange (gain) loss | (12,823) | 2,346 | 4,468 |
| Other income excluding business interruption insurance | (395) | (1,996) | (7,816) |
| Asset write-downs and restructuring costs | 3,198 | 142 | 6,841 |
| Post closure wind-down costs | - | 224 | - |
| Adjusted EBITDA | $570,114 | $392,095 | $149,541 |
| Sales | $1,349,038 | $849,307 | $675,895 |
| Adjusted EBITDA margin | 42.3% | 46.2% | 22.1% |
| **Net debt to invested capital** | | | |
| Net debt | | | |
| Total debt | $403,112 | $377,250 | $375,675 |
| Cash and cash equivalents | (62,932) | (613,216) | (538,561) |
| Total net debt | $340,180 | $(235,966) | $(162,886) |
| Invested capital | | | |
| Net debt | $340,180 | $(235,966) | $(162,886) |
| Shareholders' equity | 1,817,371 | 1,322,222 | 1,635,973 |
| Total invested capital | $2,157,551 | $1,086,256 | $1,473,087 |
| Net debt to invested capital[1] | 15.8% | (21.7%) | (11.1%) |
| **Operating cash flow per share (before working capital changes)** | | | |
| Cash provided by operating activities | $281,214 | $285,080 | $86,203 |
| Cash used in operating working capital | 97,567 | 92,604 | 46,852 |
| Operating cash flow (before working capital changes) | $378,781 | $377,684 | $133,055 |
| Weighted average number of shares - basic ('000) | *59,357* | *65,927* | *60,787* |
| Operating cash flow per share (before working capital changes) | $6.38 | $5.73 | $2.19 |
| **Annualized return on capital employed** | | | |
| Net earnings | $397,031 | $264,487 | $69,653 |
| Add: | | | |
| Finance costs | 5,169 | 4,524 | 4,425 |
| Income tax expense | 132,026 | 86,256 | 28,462 |
| Earnings before income taxes and finance costs | $534,226 | $355,267 | $102,540 |
| Capital employed | | | |
| Total assets | $3,081,351 | $2,159,692 | $2,603,510 |
| Current liabilities | (472,686) | (263,526) | (321,642) |
| Add: | | | |
| Bank indebtedness | - | - | 2,202 |
| Current portion of long term debt | 6,769 | 6,811 | 6,868 |
| Current portion of lease liabilities | 15,014 | 12,169 | 12,239 |
| Capital employed, end of period | $2,630,448 | $1,915,146 | $2,303,177 |
| Capital employed, beginning of period | 2,303,177 | 1,672,103 | 2,200,165 |
| Average capital employed | $2,466,812 | $1,793,624 | $2,251,671 |
| Earnings before income taxes and finance costs divided by average capital employed | 21.7% | 19.8% | 4.6% |
| Annualization factor | 4.0 | 4.0 | 4.0 |
| Annualized return on capital employed | 86.8% | 79.2% | 18.2% |

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

## Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: a public health crisis; price volatility; competition; availability and cost of log supply; natural or man-made disasters; currency exchange sensitivity; government regulation; allowable annual cut; indigenous peoples; softwood lumber trade; stumpage fees; environmental matters; labour disruptions; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2021, filed under the Company's profile on www.sedar.com.

## Additional Information

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

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## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
**For the three months ended March 31, 2022 and 2021 (unaudited)**

| (thousands of Canadian Dollars except earnings per share) | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| **Sales (note 14)** | $ 1,349,038 | $ 849,307 |
| **Costs and expenses:** | | |
| Production | 733,830 | 432,167 |
| Selling and administration | 17,628 | 12,879 |
| Long term incentive compensation expense | 3,671 | 7,670 |
| U.S. countervailing and anti-dumping duty deposits (note 16) | 35,817 | 12,390 |
| Depreciation of plant and equipment (note 9) | 33,113 | 21,474 |
| Depletion and amortization of timber, roads and other (note 9) | 9,124 | 6,968 |
| | 833,183 | 493,548 |
| **Operating earnings before asset write-downs and restructuring costs** | 515,855 | 355,759 |
| Asset write-downs and restructuring costs (note 10) | 3,198 | 142 |
| **Operating earnings** | 512,657 | 355,617 |
| Finance costs (note 11) | (5,169) | (4,524) |
| Other foreign exchange gain (loss) | 12,823 | (2,346) |
| Other income (note 12) | 8,746 | 1,996 |
| | 16,400 | (4,874) |
| **Earnings before income taxes** | 529,057 | 350,743 |
| Income tax expense: | | |
| Current | 122,580 | 83,173 |
| Deferred | 9,446 | 3,083 |
| | 132,026 | 86,256 |
| **Net earnings** | $ 397,031 | $ 264,487 |
| **Net earnings per share** | | |
| Basic (note 13) | $ 6.69 | $ 4.01 |
| Diluted (note 13) | $ 6.66 | $ 4.00 |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
**For the three months ended March 31, 2022 and 2021 (unaudited)**

| (thousands of Canadian Dollars) | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| **Net earnings** | $ 397,031 | $ 264,487 |
| **Other comprehensive loss:** | | |
| **Items that will not be recycled to Net earnings:** | | |
| Defined benefit plan actuarial gain, net of tax | 2,786 | 4,472 |
| **Items that are or may be recycled to Net earnings:** | | |
| Foreign currency translation differences for foreign operations, net of tax | (24,729) | (8,887) |
| **Total other comprehensive loss, net of tax** | (21,943) | (4,415) |
| **Comprehensive income** | $ 375,088 | $ 260,072 |

**See accompanying notes to consolidated financial statements.**

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## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the three months ended March 31, 2022 and 2021 (unaudited)**

| (thousands of Canadian Dollars) | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| **Cash provided by (used in):** | | |
| **Operating activities:** | | |
| **Net earnings** | $ 397,031 | $ 264,487 |
| **Items not involving cash:** | | |
| Depreciation of plant and equipment (note 9) | 33,113 | 21,474 |
| Depletion and amortization of timber, roads and other (note 9) | 9,124 | 6,968 |
| Deferred income tax expense | 9,446 | 3,083 |
| Current income tax expense | 122,580 | 83,173 |
| Finance costs (note 11) | 5,169 | 4,524 |
| Other assets | (40) | (431) |
| Reforestation liability | 1,736 | 496 |
| Provisions and other liabilities | (12,910) | 495 |
| Stock options | 241 | 196 |
| Write-down of plant and equipment (note 10) | 1,223 | - |
| Unrealized foreign exchange loss | 1,808 | 3,011 |
| Other income | (8,746) | (1,996) |
| **Income taxes paid** | (180,994) | (7,796) |
| | 378,781 | 377,684 |
| **Cash generated from (used in) operating working capital:** | | |
| Trade accounts receivable and other | (64,651) | (67,859) |
| Inventories | (24,434) | (24,352) |
| Prepayments | (162) | (3,348) |
| Trade accounts payable and provisions | (8,320) | 2,955 |
| | 281,214 | 285,080 |
| **Investing activities:** | | |
| Additions to property, plant and equipment | (51,023) | (26,331) |
| Additions to roads and bridges | 155 | (2,885) |
| Acquisitions (note 5) | (537,679) | (73,630) |
| Proceeds on disposal of property, plant and equipment | 1,190 | 5,693 |
| Net proceeds from investments and other assets | 392 | 157 |
| | (586,965) | (96,996) |
| **Financing activities:** | | |
| Issuance of share capital, net of expenses (note 8) | 377 | 1,945 |
| Share repurchases (note 8) | (194,308) | (20,303) |
| Interest payments | (5,012) | (4,258) |
| Lease liability payments | (4,470) | (3,301) |
| Debt refinancing costs | (189) | - |
| Term line net repayments (note 7) | (2,209) | - |
| Additions to long-term debt (note 7) | 328,720 | - |
| Repayment of long-term debt (note 7) | (295,361) | - |
| | (172,452) | (25,917) |
| **Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency** | 2,574 | (6,343) |
| **(Decrease) increase in cash** | (475,629) | 155,824 |
| **Cash and cash equivalents, beginning of period** | 538,561 | 457,392 |
| **Cash and cash equivalents, end of period** | $ 62,932 | $ 613,216 |

**See accompanying notes to consolidated financial statements.**

**CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**March 31, 2022 and December 31, 2021 (unaudited)**

| (thousands of Canadian Dollars) | Mar. 31, 2022 | Dec. 31, 2021 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 62,932 | $ 538,561 |
| Trade accounts receivable and other | 338,946 | 147,764 |
| Income tax receivable | - | 12,776 |
| Inventories (notes 5 and 6) | 511,993 | 250,481 |
| Prepayments | 21,215 | 16,125 |
| | 935,086 | 965,707 |
| **Employee future benefits** | 22,945 | 8,338 |
| **Deposits and other assets (note 16)** | 141,026 | 52,221 |
| **Right of use assets** | 43,510 | 33,547 |
| **Property, plant and equipment (note 5)** | 1,398,693 | 1,067,754 |
| **Roads and bridges** | 34,140 | 27,101 |
| **Timber licences** | 105,114 | 106,136 |
| **Goodwill and other intangible assets (note 5)** | 399,601 | 342,291 |
| **Deferred income taxes** | 1,236 | 415 |
| | $ 3,081,351 | $ 2,603,510 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Bank indebtedness | $ - | $ 2,202 |
| Trade accounts payable and provisions | 308,934 | 218,825 |
| Current portion of long term debt (notes 7 and 15) | 6,769 | 6,868 |
| Reforestation liability | 16,749 | 16,670 |
| Lease liabilities | 15,014 | 12,239 |
| Income taxes payable | 125,220 | 64,838 |
| | 472,686 | 321,642 |
| **Reforestation liability** | 31,091 | 29,250 |
| **Lease liabilities** | 33,090 | 26,850 |
| **Long term debt (notes 7 and 15)** | 396,343 | 366,605 |
| **Employee future benefits** | 10,595 | 9,069 |
| **Provisions and other liabilities** | 35,094 | 43,686 |
| **Deferred income taxes** | 285,081 | 170,435 |
| **Equity:** | | |
| Share capital (note 8) | 444,573 | 484,721 |
| Contributed surplus | 4,773 | 4,694 |
| Translation reserve | 33,691 | 58,420 |
| Retained earnings | 1,334,334 | 1,088,138 |
| | 1,817,371 | 1,635,973 |
| | $ 3,081,351 | $ 2,603,510 |

**U.S. countervailing and anti-dumping duty deposits (note 16).**
**Subsequent events (notes 8 and 17).**

**See accompanying notes to consolidated financial statements.**

Approved on behalf of the Board of Directors:

*"L. Sauder"* — Director

*"T.V. Milroy"* — Director

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## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
**For the three months ended March 31, 2022 and 2021 (unaudited)**

| (thousands of Canadian Dollars) | Share Capital | Contributed Surplus | Translation Reserve | Retained Earnings | Total |
|---|---|---|---|---|---|
| **Balance at December 31, 2021** | $ 484,721 | $ 4,694 | $ 58,420 | $ 1,088,138 | $ 1,635,973 |
| **Net earnings:** | - | - | - | 397,031 | 397,031 |
| **Other comprehensive income (loss):** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax | - | - | (24,729) | - | (24,729) |
| Defined benefit plan actuarial gain, net of tax | - | - | - | 2,786 | 2,786 |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 8) | 539 | (162) | - | - | 377 |
| Share repurchases (note 8) | (40,687) | - | - | (153,621) | (194,308) |
| Stock options (note 8) | - | 241 | - | - | 241 |
| **Balance at March 31, 2022** | $ 444,573 | $ 4,773 | $ 33,691 | $ 1,334,334 | $ 1,817,371 |
| **Balance at December 31, 2020** | $ 523,605 | $ 5,157 | $ 49,846 | $ 501,704 | $ 1,080,312 |
| **Net earnings:** | - | - | - | 264,487 | 264,487 |
| **Other comprehensive income (loss):** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax | - | - | (8,887) | - | (8,887) |
| Defined benefit plan actuarial loss, net of tax | - | - | - | 4,472 | 4,472 |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 8) | 2,798 | (853) | - | - | 1,945 |
| Share repurchases (note 8) | (6,252) | - | - | (14,051) | (20,303) |
| Stock options (note 8) | - | 196 | - | - | 196 |
| **Balance at March 31, 2021** | $ 520,151 | $ 4,500 | $ 40,959 | $ 756,612 | $ 1,322,222 |

**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, Quebec, Ontario, 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 1600 – 4720 Kingsway, Burnaby, British Columbia, Canada, V5H 4N2.

These unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2022 and 2021 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, 2021.

These financial statements were approved by Interfor's Board of Directors on May 11, 2022.

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

(ii) Equity-settled share-based compensation is measured at fair value at the grant date;

(iii) 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

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

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

### (c) Critical accounting estimates:

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant changes during the quarter ended March 31, 2022. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2021, filed under the Company's profile on www.sedar.com.

## 3. Significant accounting policies:

These financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2021 annual consolidated financial statements, which are available on www.sedar.com.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2022, 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 the first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior, Quebec and Ontario 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.

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

## 5. Acquisitions:

### a) Acquisition of Eastern Canada Operations:

On February 22, 2022, a wholly-owned subsidiary of Interfor completed the transaction to acquire 100% of the equity interests of EACOM Timber Corporation ("EACOM") from an affiliate of Kelso & Company. The acquisition includes seven sawmills, an I-Joist plant and a value-added remanufacturing plant. The Company has paid estimated consideration totaling US$573,653,000 ($730,891,000), which remains subject to a post-closing working capital adjustment. The purchase price was funded from cash on hand and drawings on the Revolving Term Line (Note 7).

The acquisition has been accounted for as a business combination and the estimated value of the consideration transferred is allocated on a preliminary basis as follows:

| | |
|---|---|
| Assets Acquired: | |
| Cash and cash equivalents | $ 193,212 |
| Current assets including inventories | 379,957 |
| Countervailing and anti-dumping duties receivable and related interest (note 16) | 90,944 |
| Property, plant and equipment | 339,847 |
| Goodwill, intangibles and other assets | 78,447 |
| | $ 1,082,407 |
| Liabilities Assumed: | |
| Current liabilities | (237,482) |
| Other long-term liabilities | (8,770) |
| Deferred income taxes | (104,977) |
| | $ 731,178 |
| Consideration funded by: | |
| Cash and cash equivalents | 584,370 |
| Revolving Term Line | 146,521 |
| | 730,891 |
| Preliminary working capital adjustment | 287 |
| | $ 731,178 |

The above is a preliminary estimate of the value of the assets acquired and liabilities assumed. The estimate will remain preliminary until the Company is able to (i) complete an external valuation of the property, plant and equipment acquired; (ii) complete a valuation of significant intangible assets acquired; and (iii) evaluate the fair value of other assets acquired and liabilities assumed. The final determination of the value of assets acquired and liabilities assumed, which is expected to be no later than one year from the acquisition date, could differ significantly from the amounts presented above.

Cash and cash equivalents includes $5,730,000 of restricted cash, which represents deposits held as collateral by the U.S. Department of Commerce in relation to the duties on the Eastern Canada operations shipments to the U.S.

Goodwill, intangibles and other assets represents the excess of the purchase consideration compared to the estimated fair values of the identifiable assets acquired and liabilities assumed. The goodwill, if any, arising from the acquisition is expected not to be deductible for tax purposes.

The Company incurred acquisition related transaction costs of approximately $431,000 for the three months ended March 31, 2022, which are included in Selling and administration in the Statements of Earnings.

For the three months ended March 31, 2022, the acquired operations contributed sales of $157,539,000 and net earnings before tax of $1,738,000, which is net of $68,009,000 recorded in Production costs in the Statements of Earnings related to fair value adjustments recognized at the acquisition date. If the acquisition had occurred on January 1, 2022, management estimates that the Company's consolidated sales would have been approximately $1,521,180,000 and net earnings before tax would have been approximately $536,151,000 for the three months ended March 31, 2022.

### b) Acquisitions of U.S. sawmills:

On July 9, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of four sawmill operations located in Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR from Georgia-Pacific Wood Products LLC and GP Wood Products LLC (collectively "Georgia-Pacific"), pursuant to an Asset Purchase Agreement. The Company paid total consideration of US$371,859,000 ($466,311,000), which was funded from cash on hand.

On March 12, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of sawmill operations in Summerville, SC from WestRock Company, pursuant to an Asset Purchase Agreement for total consideration of US$58,618,000 ($73,630,000). The cash purchase price was funded from cash on hand.

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

## 5. Acquisitions (continued):

### b) Acquisitions of U.S. sawmills (continued):

The acquisitions have been accounted for as business combinations and the value of the consideration transferred is allocated as follows:

| | Summerville | Georgia-Pacific | Total |
|---|---|---|---|
| Cash purchase price | $ 73,630 | $ 466,311 | $ 539,941 |
| Assets acquired: | | | |
| Inventory | $ 10,174 | $ 27,290 | $ 37,464 |
| Property, plant and equipment | 55,414 | 245,711 | 301,125 |
| Goodwill | 8,137 | 194,089 | 202,226 |
| | 73,725 | 467,090 | 540,815 |
| Current liabilities assumed | (95) | (779) | (874) |
| | $ 73,630 | $ 466,311 | $ 539,941 |

## 6. Inventories:

| | Mar. 31, 2022 | Dec. 31, 2021 |
|---|---|---|
| Lumber and other wood products | $ 303,280 | $ 139,208 |
| Logs | 152,556 | 71,795 |
| Other | 56,157 | 39,478 |
| | $ 511,993 | $ 250,481 |

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at March 31, 2022 was $5,486,000 (December 31, 2021 - $6,537,000).

## 7. Borrowings:

| March 31, 2022 | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit | $ 500,000 | $ 368,112 | $ 868,112 |
| Drawings | 35,000 | 368,112 | 403,112 |
| Outstanding letters of credit | 44,606 | - | 44,606 |
| Unused portion of Revolving Term Line | $ 420,394 | $ - | $ 420,394 |

| December 31, 2021 | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit | $ 500,000 | $ 373,473 | $ 873,473 |
| Drawings | 2,202 | 373,473 | 375,675 |
| Outstanding letters of credit | 23,246 | - | 23,246 |
| Unused portion of Revolving Term Line | $ 474,552 | $ - | $ 474,552 |

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

| | |
|---|---|
| Twelve months ending | |
| March 31, 2023 | $ 6,769 |
| March 31, 2024 | 48,422 |
| March 31, 2025 | 41,653 |
| March 31, 2026 | 41,654 |
| March 31, 2027 | 35,000 |
| Thereafter | 229,614 |
| | $ 403,112 |

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

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Drawings at opening | $ 375,675 | $ 381,960 |
| Revolving Term Line net repayments | (2,209) | - |
| Additions to long term debt | 328,720 | - |
| Repayments of long term debt | (295,361) | - |
| Effects of changes in foreign exchange rate | (3,713) | (4,710) |
| Drawings at March 31 | $ 403,112 | $ 377,250 |

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

**7. Borrowings (continued):**

**(a) Revolving Term Line:**

On December 17, 2021, the Company completed an early renewal and expansion of its Revolving Term Line (the "Term Line"). The commitment under the Term Line was increased by $150,000,000 to a total of $500,000,000 and the term was extended from March 28, 2024 to December 17, 2026.

The Term 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 SOFR based loans plus a margin, and in all cases dependent upon a financial ratio of net debt to total capitalization.

The Term Line is secured by a general security agreement and mortgage security on certain of the Company's Canadian assets and is subject to certain financial covenants including a maximum ratio of net debt to total capitalization.

As at March 31, 2022, including letters of credit, the Term Line was drawn by $56,189,000 (December 31, 2021 - $20,430,000) and US$18,740,000 (December 31, 2021 - US$3,959,000), revalued at the quarter-end exchange rate to $23,417,000 (December 31, 2021 - $5,018,000), for total borrowings of $79,606,000 (December 31, 2021 - $25,448,000).

The US dollar drawings under the Term Line have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $1,641,000 in the first quarter, 2022 (Quarter 1, 2021 - nil) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

**(b) Senior Secured Notes:**

As at March 31, 2022, the Company's Senior Secured Notes consisted of the following:

| | Mar. 31, 2022 | Dec. 31, 2021 |
|---|---|---|
| Series A (US$2,966,667) bearing interest at 4.33% | $ 3,707 | $ 3,762 |
| Series B (US$7,866,667) bearing interest at 4.02% | 9,830 | 9,973 |
| Series C (US$100,000,000) bearing interest at 4.17% | 124,960 | 126,780 |
| Series D (US$45,550,000) bearing interest at 4.95% | 56,920 | 57,748 |
| Series E (US$38,200,000) bearing interest at 4.82% | 47,735 | 48,430 |
| Series F (US$50,000,000) bearing interest at 3.34% | 62,480 | 63,390 |
| Series G (US$50,000,000) bearing interest at 3.25% | 62,480 | 63,390 |
| | $ 368,112 | $ 373,473 |

The Senior Secured Notes have a weighted average fixed interest rate of 4.08% and maturities from June 26, 2022 to March 26, 2030.

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 $5,361,000 in the first quarter, 2022 (Quarter 1, 2021 - $4,710,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

**8. Share capital:**

The transactions in share capital are described below:

| | Number | Amount | Contributed Surplus |
|---|---|---|---|
| Balance, December 31, 2020 | 65,964,153 | $ 523,605 | $ 5,157 |
| Exercise of stock options | 185,262 | 4,304 | (1,327) |
| Repurchase of common shares | (5,345,238) | (43,188) | - |
| Stock options | - | - | 864 |
| Balance, December 31, 2021 | 60,804,177 | $ 484,721 | $ 4,694 |
| Exercise of stock options | 25,165 | 539 | (162) |
| Repurchase of common shares | (5,026,305) | (40,687) | - |
| Stock options | - | - | 241 |
| Balance, March 31, 2022 | 55,803,037 | $ 444,573 | $ 4,773 |

On November 5, 2020, the Company announced a normal course issuer bid ("NCIB") commencing on November 11, 2020 and ending on November 10, 2021, for the purchase of 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 the NCIB.

During 2021, Interfor purchased 5,345,238 common shares at an average price of $28.59 per share for a cost of $152,869,000 with $43,188,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $109,681,000 to Retained earnings.

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

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

**8. Share capital (continued):**

During the first three months of 2022, Interfor purchased 5,026,305 common shares at an average price of $38.65 per share for a cost of $194,308,000 with $40,687,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $153,621,000 to Retained earnings. 4,672,836 of these common shares were cancelled as at March 31, 2022, with the remaining 353,469 common shares cancelled in April 2022.

In April 2022, Interfor purchased 1,015,396 common shares at an average price of $32.42 per share for a cost of $32,929,000. The purchased common shares were cancelled in April 2022. This completed the purchase of all 6,041,701 common shares allowable at an average price of $37.60 per share for a cost of $227,237,000.

**9. Depreciation, depletion and amortization:**

Depreciation, depletion and amortization by function is as follows:

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Production | $ 41,771 | $ 27,968 |
| Selling and administration | 466 | 474 |
| | $ 42,237 | $ 28,442 |

**10. Asset write-downs and restructuring costs:**

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Write-down of plant and equipment | $ 1,223 | $ - |
| Severance and other closure costs | 1,975 | 142 |
| | $ 3,198 | $ 142 |

**11. Finance costs:**

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Interest expense on: | | |
| Borrowings | $ 4,788 | $ 4,158 |
| Lease liabilities | 358 | 411 |
| Pension obligations | 406 | 566 |
| Duty deposits | 20 | - |
| Interest revenue from: | | |
| Duty deposits and other | (294) | (391) |
| Pension assets | (370) | (355) |
| Unwind of discount on provisions | 119 | 56 |
| Amortization of deferred finance costs | 142 | 79 |
| | $ 5,169 | $ 4,524 |

**12. Other income:**

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Business interruption insurance | $ 8,351 | $ - |
| Gain on disposal of property, plant and equipment and other | 139 | 1,989 |
| Gain on lease modifications | 256 | 7 |
| | $ 8,746 | $ 1,996 |

The Company expects to receive $8,351,000 of insurance proceeds from a business interruption claim related to fire damage at one of its operations in Eastern Canada which occurred prior to its acquisition.

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

## 13. Net earnings per share:

Net earnings 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:

| | Three Months Mar. 31, 2022 | | | Three Months Mar. 31, 2021 | | |
|---|---|---|---|---|---|---|
| | Net earnings | Weighted average number of shares | Per share | Net earnings | Weighted average number of shares | Per share |
| Issued shares at December 31 | | 60,804,177 | | | 65,964,153 | |
| Effect of shares issued | | 10,458 | | | 45,559 | |
| Effect of shares repurchased | | (1,458,117) | | | (82,267) | |
| Basic earnings per share | $ 397,031 | 59,356,518 | $ 6.69 | $ 264,487 | 65,927,445 | $ 4.01 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 228,211 | | | 154,287 | |
| Diluted earnings per share | $ 397,031 | 59,584,729 | $ 6.66 | $ 264,487 | 66,081,732 | $ 4.00 |

## 14. 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, Quebec and Ontario in Canada and the Northwest and South regions of the U.S.

Sales by market are as follows:

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| United States | $ 1,180,917 | $ 719,417 |
| Canada | 127,672 | 98,439 |
| Japan | 14,089 | 10,825 |
| China/Taiwan | 5,510 | 8,994 |
| Other export | 20,850 | 11,632 |
| | $ 1,349,038 | $ 849,307 |

Sales by product line are as follows:

| | Three Months Mar. 31, 2022 | Three Months Mar. 31, 2021 |
|---|---|---|
| Lumber and other wood products | $ 1,240,148 | $ 762,362 |
| Logs | 40,361 | 33,138 |
| Wood chips and other by-products | 61,253 | 40,226 |
| Other | 7,276 | 13,581 |
| | $ 1,349,038 | $ 849,307 |

## 15. Financial instruments:

At March 31, 2022, the fair value of the Company's Long term debt exceeded its carrying value by $1,762,000 (December 31, 2021 - $26,710,000) 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.

As at March 31, 2022, the Company had no outstanding obligations under derivative financial instruments.

## 16. 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. 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.

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

**16. U.S. countervailing and anti-dumping duty deposits (continued):**

The following table summarizes the cash deposit rates that were in effect and the preliminary and final revised rates for those periods:

| Year ended December 31<br>First administrative review | | Cash deposit rate in effect | Final rates |
|---|---|---|---|
| 2017 | | | |
| AD | | 6.04% | 1.57% |
| CV | | 14.19% | 7.26% |
| Total | | 20.23% | 8.83% |
| 2018 | | | |
| AD | | 6.04% | 1.57% |
| CV | | 14.19% | 7.42% |
| Total | | 20.23% | 8.99% |
| Second administrative review | | Cash deposit rates in effect | Final rates |
| 2019 | | | |
| AD | | 6.04% | 11.59% |
| CV | | 14.19% | 6.32% |
| Total | | 20.23% | 17.91% |
| Third administrative review | Cash deposit rates in effect Jan to Nov | Cash deposit rates in effect Dec | Preliminary rates |
| 2020 | | | |
| AD | 6.04% | 1.57% | 4.76% |
| CV | 14.19% | 7.42% | 6.88% |
| Total | 20.23% | 8.99% | 11.64% |

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.

The finalization of the first administrative review rates in 2020 indicated an overpayment of duty deposits in 2017 and 2018 of US$32,931,000 of which US$3,187,000 was recorded in 2019 and US$29,744,000 in 2020. The impact to the Statements of Earnings in 2020 was a reduction to the U.S. countervailing and anti-dumping duty deposits of $38,434,000.

The finalization of the second administrative review rates in the fourth quarter of 2021 and amended in the first quarter 2022 indicated an overpayment of duty deposits in 2019 of US$3,226,000. The impact to the Statements of Earnings in 2021 was a reduction to the U.S. countervailing and anti-dumping duty deposits of $4,281,000.

On January 31, 2022, the DoC issued its preliminary revised CV and AD duty rates based on completion of its third administrative review of shipments for the year ended December 31, 2020. The table above summarizes the cash deposit rates that were in effect for the year ended December 31, 2020 and the issued preliminary revised rates.

The DoC may further amend the preliminary revised 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.

Duties paid by period and held in trust by U.S. Customs and Border Protection are as follows:

| Amounts in US dollars | |
|---|---|
| 2017 | $ 18,424 |
| 2018 | 42,016 |
| 2019 | 33,765 |
| 2020 | 39,761 |
| 2021 | 36,478 |
| 2022 | 30,530 |
| Assumed rights to EACOM duty deposits (note 5) | 161,169 |
| | $ 362,143 |

Interfor has recorded the duty deposits as an expense, with the exception of US$104,668,000 recorded as a long term receivable as at March 31, 2022 (December 31, 2021- US$36,157,000) in Deposits and other assets on the Statements of Financial Position. The long term receivable was revalued at the quarter-end exchange rate to $130,793,000 (December 31, 2021 - $45,839,000). Interfor has recorded interest on the long term receivable of US$5,831,000 (December 31, 2021 - US$2,629,000) in Deposits and other assets on the Statements of Financial Position, revalued at the quarter-end exchange rate to $7,286,000 (December 31, 2021 - $3,333,000). The long term receivable includes $87,102,000 of CV and AD duties receivable and $3,842,000 interest on the long term receivable acquired as part of the acquisition of the Eastern Canada operations described in Note 5.

**16. U.S. countervailing and anti-dumping duty deposits (continued):**

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to defend its position 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, USMCA or WTO panels to which the DoC and ITC determinations may be appealed.

**17. Subsequent events:**

On April 12, 2022, the Company announced it had reached an agreement to sell its Acorn specialty sawmill located near Vancouver, British Columbia to an affiliate of San Industries Ltd. The completion of the transaction is subject to customary conditions and is expected to close in the second quarter of 2022.

On May 2, 2022, a wholly-owned subsidiary of Interfor acquired a total of 28,684,433 common shares in the capital of GreenFirst Forest Products Inc. ("GreenFirst") from Rayonier A.M. Canada G.P., which represents approximately 16.2% of GreenFirst's issued and outstanding common shares. The Company paid total cash consideration of $55,648,000.

INTERFOR

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