Interfor Corporation
Third Quarter Report
For the three and nine months ended September 30, 2020

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations as at and for the three and nine months ended September 30, 2020 ("Q3'20" and "YTD'20", respectively). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2020, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of November 5, 2020.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2019 Annual Report.

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Third Quarter, 2020", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2019 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; the existence of a public health crisis (such as the current COVID-19 pandemic); and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2019 annual Management's Discussion and Analysis.

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

Overview of Third Quarter, 2020

Interfor recorded net earnings in Q3'20 of $121.6 million, or $1.81 per share, compared to $3.2 million, or $0.05 per share in Q2'20 and a net loss of $35.6 million, or $0.53 per share in Q3'19. Adjusted net earnings in Q3'20 were $140.0 million compared to $10.6 million in Q2'20 and an Adjusted net loss of $11.8 million in Q3'19.

Adjusted EBITDA was a record $221.7 million on sales of $644.9 million in Q3'20 versus $42.8 million on sales of $396.8 million in Q2'20.

Notable items in the quarter:

- Higher Lumber Prices
  - Interfor's average lumber selling price increased $264 per mfbm from Q2'20 to $910 per mfbm. The key benchmark prices rose significantly quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' benchmarks increasing by US$320, US$361 and US$349 per mfbm to US$748, US$711 and US$764 per mfbm, respectively. Interfor's average selling price lags the key benchmark price changes due to timing differences between orders and shipments.
  - While lumber prices fell sharply in the initial stages of COVID-19, industry-wide production curtailments in Q2'20 and growing demand from repair and renovation activities and U.S. housing starts contributed to the robust price environment during Q3'20.
- Strengthened Financial Position
  - Net debt ended the quarter at $88.7 million, or 8.3% of invested capital, resulting in available liquidity of $636.7 million.
  - Interfor generated $214.8 million of cash flow from operations before changes in working capital, or $3.19 per share.
  - Capital spending was $23.4 million, including $16.2 million on high-return discretionary projects, primarily in the U.S. South. US$84.6 million has been spent on the Company's Phase II strategic capital plan through September 30, 2020.
  - Reflecting its strengthened financial position and available internal investment opportunities with attractive returns, Interfor has revised its planned capital expenditures for 2020 and 2021 to now total approximately $115.0 million and $150.0 million, respectively.
- Production Increased to Meet Demand
  - Total lumber production in Q3'20 was 642 million board feet, representing an increase of 221 million board feet quarter-over-quarter. Production in the B.C. region increased to 193 million board feet from 115 million board feet in the preceding quarter. The U.S. South and U.S. Northwest regions accounted for 331 million board feet and 118 million board feet, respectively, compared to 230 million board feet and 76 million board feet in Q2'20.
  - Total lumber shipments were 618 million board feet, including agency and wholesale volumes, or 120 million board feet higher than Q2'20.
- Asset Write-downs and Restructuring Costs
  - Asset write-downs and restructuring costs in Q3'20 are $9.8 million (after-tax), or $13.0 million on a pre-tax basis. This includes $10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon. The sale was completed on October 29, 2020.
- Softwood Lumber Duties
  - Interfor expensed $19.7 million of duties in the quarter, representing the full amount of countervailing and anti-dumping duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%. Cumulative duties of US$121.1 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by U.S. Customs and Border Protection.

- On February 3, 2020 the U.S. Department of Commerce issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates remain preliminary, with final rate determinations not expected until November 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of September 30, 2020 to reflect the preliminary revised duty rates.

Normal Course Issuer Bid ("NCIB")

On November 5, 2020, the Company announced a NCIB commencing on November 11, 2020 and ending on November 10, 2021, for the purchase of up to 5,981,751 Common Shares. No Common Shares were purchased under the Company's prior NCIB that expired on March 6, 2020.

The Company believes that, from time to time, the market price of its Common Shares may be attractive and their purchase would represent a prudent allocation of capital.

Outlook

Near term lumber demand is expected to be impacted by uncertainties related to COVID-19 within the North American economy as well as a traditional fall/winter seasonal slowdown that can be weather dependent.

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

Interfor's strategy of maintaining a diversified portfolio of operations allows the Company to both reduce risk and maximize returns on invested 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 Highlights[1]

	Unit	For the 3 months ended Sept. 30 2020	Sept. 30 2019	Jun. 30 2020	For the 9 months ended Sept. 30 2020	Sept. 30 2019
Financial Highlights[2]						
Total sales	$MM	644.9	486.5	396.8	1,521.3	1,419.0
Lumber	$MM	562.4	403.5	322.1	1,263.8	1,190.9
Logs, residual products and other	$MM	82.5	83.0	74.7	257.5	228.1
Operating earnings (loss)	$MM	171.4	(44.8)	13.3	199.3	(79.8)
Net earnings (loss)	$MM	121.6	(35.6)	3.2	131.1	(62.1)
Net earnings (loss) per share, basic	$/share	1.81	(0.53)	0.05	1.95	(0.92)
Adjusted net earnings (loss)[3]	$MM	140.0	(11.8)	10.6	151.4	(40.7)
Adjusted net earnings (loss) per share, basic[3]	$/share	2.08	(0.17)	0.16	2.25	(0.60)
Operating cash flow per share (before working capital changes) [3]	$/share	3.19	0.03	0.56	4.32	0.43
Adjusted EBITDA[3]	$MM	221.7	16.8	42.8	301.1	45.8
Adjusted EBITDA margin[3]	%	34.4%	3.5%	10.8%	19.8%	3.2%
Total assets	$MM	1,731.9	1,421.0	1,538.8	1,731.9	1,421.0
Total debt	$MM	400.2	264.9	408.8	400.2	264.9
Net debt[3]	$MM	88.7	212.7	239.1	88.7	212.7
Net debt to invested capital[3]	%	8.3%	19.4%	21.6%	8.3%	19.4%
Annualized return on invested capital[3]	%	81.3%	6.1%	14.8%	37.7%	5.7%
Operating Highlights						
Lumber production	million fbm	642	685	421	1,690	1,978
Total lumber sales	million fbm	618	692	499	1,758	1,987
Lumber sales - Interfor produced	million fbm	609	681	488	1,729	1,955
Lumber sales - wholesale and commission	million fbm	9	11	11	29	32
Lumber - average selling price[4]	$/thousand fbm	910	583	646	719	599
Average USD/CAD exchange rate[5]	1 USD in CAD	1.3321	1.3204	1.3862	1.3541	1.3292
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.3339	1.3243	1.3628	1.3339	1.3243

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 Third Quarter 2020 Financial Performance

Sales

Interfor recorded $644.9 million of total sales, up 32.6% from $486.5 million in the third quarter of 2019, driven by the sale of 618 million board feet of lumber at an average price of $910 per mfbm. Average selling price increased $327 per mfbm, or 56.0%, while lumber sales volume decreased 74 million board feet, or 10.7%, as compared to the same quarter of 2019.

Increases in the average selling price of lumber reflect higher prices for Southern Yellow Pine, Western SPF and Hem-Fir in Q3'20 as compared to Q3'19. The SYP Composite benchmark increased by US$393 to US$748 per mfbm while the Western SPF Composite and the KD HF Stud 2x4 9' benchmarks increased by US$373 and US$427 to US$711 and US$764 per mfbm, respectively. Realized lumber prices in Canadian Dollar terms were also positively impacted by the weakening of the Canadian Dollar against the U.S. Dollar by 0.9% on average in Q3'20 as compared to Q3'19.

Sales generated from logs, residual products and other decreased by $0.5 million or 0.6% in Q3'20 compared to Q3'19 mainly due to a decrease in the average selling price of logs and a decrease in the sale of chips.

Operations

Production costs decreased by $53.8 million, or 12.0%, compared to Q3'19, explained primarily by a 10.7% decrease in lumber sales volume and a reduction in the net realizable value provision against log and lumber inventories.

Lumber production of 642 million board feet in Q3'20 was 43 million board feet lower than Q3'19. This decline is explained by the closure of the Hammond sawmill in Q4'19, project-related downtime in the U.S. South and the curtailment of the Gilchrist sawmill during the quarter.

Production from the Canadian operations decreased by 12 million board feet to 193 million board feet in Q3'20, compared to Q3'19. Production from the Company's U.S. South and Pacific Northwest operations totaled 331 million and 118 million board feet in Q3'20, down 17 million and 13 million board feet compared to Q3'19, respectively.

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 $19.7 million for Q3'20, up $7.6 million from Q3'19. The increase is due to higher lumber sales prices to the U.S. from Canadian sawmills as compared to Q3'19.

Depreciation of plant and equipment was $20.9 million in Q3'20, up $0.3 million from Q3'19. Depletion and amortization of timber, roads and other was $7.9 million, down $0.2 million from Q3'19.

Corporate and Other

Selling and administration expenses were $12.0 million, up $2.6 million from Q3'19 primarily as a result of accruals for short term incentive compensation partially offset by cost efficiencies realized during the COVID-19 pandemic.

The $5.6 million long term incentive compensation expense mostly reflects the impact of a 38.2% increase in the market price for Interfor Common Shares during the quarter, which is used to value incentives. The long term incentive compensation expense of $1.0 million in Q3'19 resulted primarily from a 2.6% increase in the market price for Interfor Common Shares.

Asset write-downs and restructuring costs in Q3'20 were $13.0 million. This includes $10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon. The sale was completed on October 29, 2020. The asset write-downs and restructuring costs in Q3'19 were $31.8 million. This included $14.0 million of non-cash impairments for asset write-downs on buildings, equipment and other assets related to the permanent closure of the Hammond sawmill and $17.8 million of accruals for the settlement of various human resource matters.

Finance costs increased to $4.9 million in Q3’20 from $3.8 million in Q3’19 due to the completion of the additional US$100 million Senior Secured Note financing with Prudential Private Capital on March 26, 2020. Q3’20 finance costs were also impacted by lower interest income rates as compared to Q3’19.

Other foreign exchange loss of $2.9 million in Q3’20 and other foreign exchange gain of $0.2 million in Q3’19 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 in Q3’20 compared to Q3’19 primarily due to the US$100 million Prudential Senior Secured Note issuance in Q1’20 and strong cash flow from operations during the quarter. The closing Canadian Dollar strengthened by 2.1% in Q3’20 compared to weakened by 1.2% in Q3’19.

Other expense in Q3’20 and Q3’19 was negligible.

Income Taxes

The Company recorded income tax expense of $41.9 million in Q3’20 at an effective tax rate of 26%, comprised of $1.5 million current income tax expense and $40.4 million deferred tax expense. The Company recorded an income tax recovery of $12.8 million in Q3’19 at an effective tax rate of 26%, comprised of $0.4 million in current income tax expense offset by a $13.2 million deferred tax recovery. Current income tax expense for Q3’20 was limited by the use of non-capital tax loss carry-forwards in both Canada and the U.S. Substantial non-capital tax loss carry-forward balances remain for both Canada and the U.S. as at September 30, 2020.

Net Earnings

The Company recorded net earnings of $121.6 million, or $1.81 per share, compared to a net loss of $35.6 million, or $0.53 per share in Q3’19. Operating margins and net earnings were positively impacted by higher lumber prices.

Summary of Year-to-Date 2020 Financial Performance

Sales

Interfor recorded $1.5 billion of total sales, up 7.2% from $1.4 billion in the first nine months of 2019, driven by the sale of 1.8 billion board feet of lumber at an average price of $719 per mfbm. Lumber sales volume decreased 229 million board feet, or 11.5%, while average selling prices increased $120 per mfbm, or 20.0%, as compared to the first nine months of 2019.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD’20 as compared to YTD’19. The Western SPF Composite and SYP Composite benchmarks increased US$140 to US$480 per mfbm and US$134 to US$509 per mfbm, respectively. The KD HF Stud 2x4 9’ benchmark increased US$193 to US$537 per mfbm for YTD’20 as compared to YTD’19. Realized lumber prices also increased in Canadian Dollar terms by the 1.9% weakening of the Canadian Dollar against the U.S. Dollar in YTD’20 as compared to YTD’19.

Sales generated from logs, residual products and other increased by $29.4 million or 12.9% as compared to the same period of 2019 due mainly to the reconfiguration of the B.C. Coastal business resulting in increased availability of logs for sale partially offset by a decrease in the sale of chips.

Operations

Production costs decreased by $154.6 million or 11.8% over the first nine months of 2020, explained primarily by a decline of 11.5% in lumber sales volume.

Lumber production of 1.7 billion board feet in YTD’20 was 288 million board feet lower than YTD’19. This decline is explained by the closure of the Hammond sawmill in Q4’19, project-related downtime in the U.S. South, curtailment of the Gilchrist sawmill and the temporary COVID-19 related curtailments announced in March 2020.

Production from the Canadian operations decreased by 94 million board feet to 494 million in YTD'20, compared to YTD'19. Production from the Company's U.S. South and Pacific Northwest operations totaled 873 million and 323 million board feet in YTD'20, down 111 million and 83 million board feet compared to YTD'19, respectively.

Interfor expensed $37.7 million of U.S. CV and AD duty deposits in YTD'20, representing the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S. This expense increased by $3.7 million over the first nine months of 2020, attributable to higher lumber sales prices and higher shipment volume to the U.S. from Canadian sawmills as compared to YTD'19.

Depreciation of plant and equipment was $56.5 million, down 5.4% from the first nine months of 2019. This decrease is attributable to downtime related to capital projects at several of the U.S. South mills, COVID-19 related curtailments and the closure of the Hammond sawmill in Q4'19.

Depletion and amortization of timber, roads and other was $26.6 million, down $3.5 million from YTD'19 due to lower amortization rates of B.C. Coastal logging due to a lower depletable cost base associated with the cut blocks that were harvested during 2020, as well the absence of amortization on an intangible asset recognized on acquisition of certain sawmills in the U.S. South that became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $30.7 million, up $0.9 million from the first nine months of 2019, as a result of accruals for short term incentive compensation partially offset by cost efficiencies realized during the COVID-19 pandemic.

The $2.3 million long term incentive compensation expense reflects the impact of a 1.0% increase during YTD'20 in the price of Interfor Common Shares used to value share-based awards, partially offset by incentive awards maturing. The $2.2 million long term incentive compensation expense in YTD'19 mostly reflects the impact of a 2.6% year-to-date increase in the market price of Interfor Common Shares used to value share-based awards and incentive awards maturing.

Asset write-downs and restructuring costs in YTD'20 totalled $13.5 million. This includes $10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon. The sale was completed on October 29, 2020. The YTD'19 restructuring charges were $33.6 million. This included $15.8 million of non-cash impairments for asset write-downs on buildings, equipment and other assets primarily related to the permanent closure of Interfor's Hammond sawmill and $17.8 million of accruals for the settlement of various human resource matters.

Finance costs increased to $14.2 million from $11.3 million in the first nine months of 2019 primarily due to the completion of the additional US$100 million Senior Secured Note financing with Prudential Private Capital on March 26, 2020, partially offset by the write-off of unamortized deferred financing fees associated with extinguished credit facilities in Q1'19. Other foreign exchange losses of $8.7 million in YTD'20 and other foreign exchange gains of $0.2 million in YTD'19 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding, and cash held by Canadian operations. Interfor held higher U.S. Dollar cash balances on average in YTD'20 as compared to YTD'19 primarily due to the issuance of the US$100 million Prudential Senior Secured Notes in Q1'20 and higher U.S. Dollar sales during the year.

Other income of $0.4 million in YTD'20 and $6.2 million in YTD'19 relate primarily to gains recognized as a result of compensation received on the extinguishment of timber licenses on the BC. Coast.

Income Taxes

The Company recorded an income tax expense of $45.7 million in YTD’20 at an effective tax rate of 26%, comprised of a $1.7 million current tax expense and a $44.0 million deferred tax expense. The YTD’19 income tax recovery of $22.5 million, representing an effective tax rate of 27%, is comprised of a $0.8 million current tax expense offset by a $23.3 million deferred tax recovery. Substantial non-capital tax loss carry-forward balances remain for both Canada and the U.S. as at September 30, 2020.

Net Earnings (Loss)

The Company recorded net earnings of $131.1 million, or $1.95 per share, compared to net loss of $62.1 million, or $0.92 per share, in the same period of 2019. Operating margins and net earnings were positively impacted by higher lumber prices.

Summary of Quarterly Results[1]

		2020			2019				2018[2]
	Unit	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Performance[3]									
Total sales	$MM	644.9	396.8	479.6	456.8	486.5	481.3	451.2	468.5
Lumber	$MM	562.4	322.1	379.3	385.2	403.5	406.9	380.5	387.7
Logs, residual products and other	$MM	82.5	74.7	100.3	71.6	83.0	74.4	70.7	80.8
Operating earnings (loss)	$MM	171.4	13.3	14.6	(49.0)	(44.8)	(18.2)	(16.8)	(16.9)
Net earnings (loss)	$MM	121.6	3.2	6.3	(41.7)	(35.6)	(11.2)	(15.3)	(13.5)
Net earnings (loss) per share, basic	$/share	1.81	0.05	0.09	(0.62)	(0.53)	(0.17)	(0.23)	(0.20)
Adjusted net earnings (loss)[4]	$MM	140.0	10.6	0.7	(17.4)	(11.8)	(16.2)	(12.7)	(20.2)
Adjusted net earnings (loss) per share, basic[4]	$/share	2.08	0.16	0.01	(0.26)	(0.17)	(0.24)	(0.19)	(0.29)
Operating cash flow per share (before working capital changes)[4]	$/share	3.19	0.56	0.57	0.24	0.03	0.15	0.25	0.14
Adjusted EBITDA[4]	$MM	221.7	42.8	36.6	17.6	16.8	12.6	16.3	8.9
Adjusted EBITDA margin[4]	%	34.4%	10.8%	7.6%	3.9%	3.5%	2.6%	3.6%	1.9%
Annualized return on invested capital[4]	%	81.3%	14.8%	12.9%	6.6%	6.1%	4.6%	6.1%	3.6%
Shares outstanding - end of period	million	67.3	67.3	67.3	67.3	67.3	67.3	67.3	67.8
Shares outstanding - weighted average	million	67.3	67.3	67.3	67.3	67.3	67.3	67.3	68.9
Operating Performance									
Lumber production	million fbm	642	421	627	668	685	647	646	607
Total lumber sales	million fbm	618	499	641	681	692	674	621	647
Lumber sales - Interfor produced	million fbm	609	488	632	671	681	664	610	639
Lumber sales - wholesale and commission	million fbm	9	11	9	10	11	10	11	8
Lumber - average selling price[5]	$/thousand fbm	910	646	592	566	583	603	613	599
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3321	1.3862	1.3449	1.3200	1.3204	1.3377	1.3295	1.3204
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3339	1.3628	1.4187	1.2988	1.3243	1.3087	1.3363	1.3642

Notes:

1 Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
2 Financial information has been restated for implementation of IFRS 16, *Leases*.
3 Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
4 Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company’s unaudited condensed consolidated interim financial statements.
5 Gross sales before duties.
6 Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by seasonality, levels of lumber production, log costs, market prices for lumber, the USD/CAD foreign currency exchange rate and long-term asset impairments and restructuring charges.

Logging operations are seasonal due to several factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and the first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest in the winter season due to reduced construction and renovation activities.

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Pacific Northwest in Q1'19 and in the U.S. South in Q1'19. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. The Hammond sawmill closure reduced lumber production and sales commencing in Q4'19.

Asset and goodwill impairments and other costs resulting from the B.C. Coastal reorganization and other restructuring activities affected results in Q3'19 and Q4'19.

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

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

Liquidity

Balance Sheet

Interfor's net debt at September 30, 2020 was $88.7 million, or 8.3% of invested capital, representing a decrease of $136.2 million since December 31, 2019.

As at September 30, 2020 the Company had net working capital of $452.8 million and available liquidity of $636.7 million, based on the full borrowing capacity under its $350 million Revolving Term Line.

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

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

	For the 3 months ended Sept. 30,		**For the 9 months ended Sept. 30,**	
Thousands of Dollars	**2020**	**2019**	**2020**	**2019**
Net debt				
Net debt, period opening	$239,114	$198,209	$224,860	$63,825
Issuance of Senior Secure Notes	-	-	140,770	-
Term Line net drawings (repayments)	(23)	-	(82)	755
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(8,647)	3,120	(278)	(8,735)
Decrease (increase) in cash and cash equivalents	(144,849)	11,747	(285,473)	110,665
Decrease in marketable securities	-	-	-	41,766
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	3,110	(402)	8,908	4,398
Net debt, period ending	$88,705	$212,674	$88,705	$212,674

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 $290.8 million of cash flow from operations before changes in working capital in YTD'20, for an increase of $261.6 million over YTD'19. There was a net cash inflow from operations after changes in working capital of $296.8 million in YTD'20, with $6.0 million of cash generated from operating working capital.

A focused effort to reduce log and lumber inventories contributed to the $57.4 million inflow from inventories and higher accruals for short-term incentive compensation contributed to the $46.7 million inflow from trade accounts payable and provisions. Increased sales contributed to the $100.5 million outflow related to trade receivables.

In YTD'19, $29.3 million of cash was generated from operations before changes in working capital, with $25.7 million of cash invested in operating working capital.

Cash Flow from Investing Activities

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

Discretionary mill improvements of $56.3 million in YTD'20 include several projects in the U.S., the most significant of which relate to the modernization of the Eatonton sawmill in Georgia, the upgrade of the Georgetown sawmill in South Carolina and the installation of a twin infeed at the Molalla sawmill in Oregon.

Maintenance capital investments excluding roads totaled $9.4 million in YTD'20.

In YTD'19, investing activities were $88.6 million, with capital spending of $126.9 million for plant and equipment, timber licenses and other intangibles and $17.3 million for development of roads offsetting $47.1 million in net proceeds from maturing Marketable securities and deposits and $8.4 million in proceeds on disposal of plant, equipment, and other. Discretionary and maintenance mill improvements totaled $108.5 million and $18.3 million, respectively, in YTD'19, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

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

The net cash outflow of $25.7 million in YTD'19 included $7.8 million used to purchase Common Shares under the Company's NCIB, interest payments of $8.8 million, lease liability payments of $8.7 million and debt refinancing costs of $1.2 million slightly offset by $0.8 million in short term funding activities under the Revolving Term Line.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2020:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	$350,000	$400,170	$750,170
Less:			
Drawings	-	400,170	400,170
Outstanding letters of credit included in line utilization	24,773	-	24,773
Unused portion of facility	$325,227	$ -	325,227
Add:			
Cash and cash equivalents			311,465
Available liquidity at September 30, 2020			$636,692

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

As of September 30, 2020, the Company had commitments for capital expenditures totaling $37.8 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and nine months ended September 30, 2020.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At September 30, 2020, such instruments aggregated $71.5 million (December 31, 2019 - $67.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q3'20 or Q3'19.

Outstanding Shares

As of November 5, 2020, Interfor had 67,274,878 Common Shares issued and outstanding. These Common Shares are listed on the Toronto Stock Exchange under the symbol IFP.

On November 5, 2020, the Company announced a NCIB whereby it can purchase for cancellation up to 5,981,751 Common Shares. No Common Shares were purchased under the Company's prior NCIB that expired on March 6, 2020.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three and nine months ended September 30, 2020, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Interfor has adopted work-from-home measures in accordance with public health authority directives driven by the COVID-19 pandemic and certain ICFR which were performed manually onsite are now being performed remotely by electronic means. The effectiveness of these changes in ICFR has been aided by the deployment of enhanced technology to allow for productive and secure remote access to IT systems by employees.

Critical Accounting Estimates

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended September 30, 2020. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended September 30, 2020, 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 (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 Return on invested capital 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 unaudited condensed consolidated interim financial statements prepared in accordance with IFRS:

Thousands of Canadian Dollars except number of shares and per share amounts	For the 3 months ended Sept. 30 2020	Sept. 30 2019	Jun. 30 2020	For the 9 months ended Sept. 30 2020	Sept. 30 2019
Adjusted Net Earnings (Loss)					
Net earnings (loss)	$121,604	$(35,648)	$3,235	$131,148	$(62,109)
Add:					
Asset write-downs and restructuring costs	12,985	31,814	115	13,471	33,566
Other foreign exchange loss (gain)	2,907	(216)	4,963	8,719	(235)
Long term incentive compensation expense	5,576	1,049	5,629	2,259	2,181
Other (income) expense	43	100	(586)	(428)	(6,223)
Post closure wind-down costs	3,085	-	-	3,085	-
Income tax effect of above adjustments	(6,206)	(8,867)	(2,712)	(6,875)	(7,876)
Adjusted net earnings (loss)	$139,994	$(11,768)	$10,644	$151,379	$(40,696)
Weighted average number of shares - basic ('000)	*67,270*	*67,253*	*67,260*	*67,263*	*67,284*
Adjusted net earnings (loss) per share	$2.08	$(0.17)	$0.16	$2.25	$(0.60)
Adjusted EBITDA					
Net earnings (loss)	$121,604	$(35,648)	$3,235	$131,148	$(62,109)
Add:					
Depreciation of plant and equipment	20,850	20,595	15,601	56,512	59,727
Depletion and amortization of timber, roads and other	7,922	8,142	8,108	26,560	30,080
Asset write-downs and restructuring costs	12,985	31,814	115	13,471	33,566
Finance costs	4,907	3,784	5,185	14,188	11,284
Other foreign exchange loss (gain)	2,907	(216)	4,963	8,719	(235)
Income tax expense (recovery)	41,916	(12,804)	563	45,684	(22,508)
EBITDA	213,091	15,667	37,770	296,282	49,805
Add:					
Long term incentive compensation expense	5,576	1,049	5,629	2,259	2,181
Other (income) expense	43	100	(586)	(428)	(6,223)
Post closure wind-down costs	2,967	-	-	2,967	-
Adjusted EBITDA	$221,677	$16,816	$42,813	$301,080	$45,763
Sales	$644,884	$486,494	$396,778	$1,521,308	$1,419,002
Adjusted EBITDA margin	34.4%	3.5%	10.8%	19.8%	3.2%
Net debt to invested capital					
Net debt					
Total debt	$400,170	$264,860	$408,840	$400,170	$264,860
Cash and cash equivalents	(311,465)	(52,186)	(169,726)	(311,465)	(52,186)
Total net debt	$88,705	$212,674	$239,114	$88,705	$212,674
Invested capital					
Net debt	$88,705	$212,674	$239,114	$88,705	$212,674
Shareholders' equity	983,225	880,854	869,443	983,225	880,854
Total invested capital	$1,071,930	$1,093,528	$1,108,557	$1,071,930	$1,093,528
Net debt to invested capital[1]	8.3%	19.4%	21.6%	8.3%	19.4%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$175,492	$29,658	$103,003	$296,837	$3,610
Cash used in (generated from) operating working capital	39,346	(27,336)	(65,439)	(6,013)	25,656
Operating cash flow (before working capital changes)	$214,838	$2,322	$37,564	$290,824	$29,266
Weighted average number of shares - basic ('000)	*67,270*	*67,253*	*67,260*	*67,263*	*67,284*
Operating cash flow per share (before working capital changes)	$3.19	$0.03	$0.56	$4.32	$0.43
Annualized return on invested capital					
Adjusted EBITDA	$221,677	$16,816	$42,813	$301,080	$45,763
Invested capital, beginning of period	$1,108,557	$1,109,618	$1,204,953	$1,055,842	$1,032,591
Invested capital, end of period	1,071,930	1,093,528	1,108,557	1,071,930	1,093,528
Average invested capital	$1,090,244	$1,101,573	$1,156,755	$1,063,886	$1,063,060
Adjusted EBITDA divided by average invested capital	20.3%	1.5%	3.7%	28.3%	4.3%
Annualization factor	4.0	4.0	4.0	1.3	1.3
Annualized return on invested capital	81.3%	6.1%	14.8%	37.7%	5.7%

Notes:

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: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; labour disruptions; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

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.

Additional Information

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

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Sales (note 13)	$ 644,884	$ 486,494	$ 1,521,308	$ 1,419,002
Costs and expenses:				
Production	394,463	448,214	1,154,825	1,309,440
Selling and administration	11,992	9,383	30,664	29,756
Long term incentive compensation expense	5,576	1,049	2,259	2,181
U.S. countervailing and anti-dumping duty deposits (note 15)	19,719	12,081	37,706	34,043
Depreciation of plant and equipment (note 9)	20,850	20,595	56,512	59,727
Depletion and amortization of timber, roads and other (note 9)	7,922	8,142	26,560	30,080
	460,522	499,464	1,308,526	1,465,227
Operating earnings (loss) before write-downs and restructuring costs	184,362	(12,970)	212,782	(46,225)
Asset write-downs and restructuring costs (note 10)	12,985	31,814	13,471	33,566
Operating earnings (loss)	171,377	(44,784)	199,311	(79,791)
Finance costs (note 11)	(4,907)	(3,784)	(14,188)	(11,284)
Other foreign exchange gain (loss)	(2,907)	216	(8,719)	235
Other income (expense)	(43)	(100)	428	6,223
	(7,857)	(3,668)	(22,479)	(4,826)
Earnings (loss) before income taxes	163,520	(48,452)	176,832	(84,617)
Income tax expense (recovery)				
Current	1,515	416	1,651	809
Deferred	40,401	(13,220)	44,033	(23,317)
	41,916	(12,804)	45,684	(22,508)
Net earnings (loss)	$ 121,604	$ (35,648)	$ 131,148	$ (62,109)
Net earnings (loss) per share, basic and diluted (note 12)	$ 1.81	$ (0.53)	$ 1.95	$ (0.92)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Net earnings (loss)	$ 121,604	$ (35,648)	$ 131,148	$ (62,109)
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial loss, net of tax	(109)	(1,151)	(1,365)	(1,018)
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	(8,027)	6,020	21,656	(17,581)
Total other comprehensive income (loss), net of tax	(8,136)	4,869	20,291	(18,599)
Comprehensive income (loss)	$ 113,468	$ (30,779)	$ 151,439	$ (80,708)

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and nine months ended September 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 121,604	$ (35,648)	$ 131,148	$ (62,109)
Items not involving cash:				
Depreciation of plant and equipment (note 9)	20,850	20,595	56,512	59,727
Depletion and amortization of timber, roads and other (note 9)	7,922	8,142	26,560	30,080
Deferred income tax expense (recovery)	40,401	(13,220)	44,033	(23,317)
Current income tax expense	1,515	416	1,651	809
Finance costs (note 11)	4,907	3,784	14,188	11,284
Other assets	355	202	841	523
Reforestation liability	(139)	(1,834)	(1,989)	(2,577)
Provisions and other liabilities	4,638	6,210	(662)	5,206
Stock options	123	224	613	541
Write-down of plant, equipment and other (note 10)	9,807	14,583	9,754	16,394
Unrealized foreign exchange loss (gain)	2,812	(150)	8,603	10
Other expense (income)	43	(982)	(428)	(7,305)
	214,838	2,322	290,824	29,266
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(69,994)	(4,741)	(100,548)	(25,189)
Inventories	(9,919)	37,647	57,404	28,082
Prepayments	(209)	(1,340)	1,698	(7,082)
Trade accounts payable and provisions	40,035	(3,933)	46,706	(20,595)
Income tax refund (payment)	741	(297)	753	(872)
	175,492	29,658	296,837	3,610
Investing activities:				
Additions to property, plant and equipment	(19,736)	(31,951)	(65,724)	(126,781)
Additions to roads and bridges	(3,686)	(3,767)	(8,829)	(17,272)
Additions to intangible assets	-	(5)	-	(77)
Acquisition of timber license, roads and other assets, net of assumed liabilities (note 5)	-	-	(56,606)	-
Proceeds on disposal of property, plant and equipment and other	229	309	1,096	8,449
Net proceeds from marketable securities, deposits and other assets	25	370	123	47,130
	(23,168)	(35,044)	(129,940)	(88,551)
Financing activities:				
Issuance of share capital, net of expenses (note 8)	191	-	191	80
Share repurchases (note 8)	-	-	-	(7,825)
Interest payments	(4,583)	(3,431)	(13,092)	(8,848)
Lease liability payments	(3,052)	(2,927)	(9,060)	(8,692)
Debt refinancing costs	(8)	(3)	(151)	(1,194)
Operating line net drawings (repayments)	(23)	-	(82)	5
Additions to long term debt (note 7)	-	-	140,770	197,925
Repayments of long term debt (note 7)	-	-	-	(197,175)
	(7,475)	(6,361)	118,576	(25,724)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(3,110)	402	(8,908)	(3,301)
Increase (decrease) in cash	141,739	(11,345)	276,565	(113,966)
Cash and cash equivalents, beginning of period	169,726	63,531	34,900	166,152
Cash and cash equivalents, end of period	$ 311,465	$ 52,186	$ 311,465	$ 52,186

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2020 and December 31, 2019 (unaudited)

(thousands of Canadian Dollars)	Sept. 30, 2020	Dec. 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 311,465	$ 34,900
Trade accounts receivable and other	189,357	86,608
Income tax receivable	76	1,995
Inventories (note 6)	128,987	181,577
Prepayments	19,421	20,449
	649,306	325,529
Employee future benefits	110	673
Deposits and other assets (note 15)	8,632	9,296
Right of use assets	38,788	32,780
Property, plant and equipment	752,173	739,515
Roads and bridges	20,615	24,353
Timber licences (note 5)	115,888	60,596
Goodwill and other intangible assets	145,238	142,214
Deferred income taxes	1,131	6,961
	$ 1,731,881	$ 1,341,917
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 159,370	$ 114,358
Current portion of long term debt (notes 7 and 14)	7,225	-
Reforestation liability	16,673	13,021
Lease liabilities	12,579	10,105
Income taxes payable	626	163
	196,473	137,647
Reforestation liability	29,753	27,401
Lease liabilities	31,251	27,718
Long term debt (notes 7 and 14)	392,945	259,760
Employee future benefits	12,842	11,843
Provisions and other liabilities	19,390	18,957
Deferred income taxes	66,002	27,609
Equity:		
Share capital (note 8)	533,958	533,685
Contributed surplus	5,002	4,471
Translation reserve	78,415	56,759
Retained earnings	365,850	236,067
	983,225	830,982
	$ 1,731,881	$ 1,341,917

U.S. countervailing and anti-dumping duty deposits (note 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2019	$ 533,685	$ 4,471	$ 56,759	$ 236,067	$ 830,982
Net earnings:	-	-	-	131,148	131,148
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	21,656	-	21,656
Defined benefit plan actuarial loss, net of tax	-	-	-	(1,365)	(1,365)
Contributions:					
Stock issuance, net of expenses (note 8)	273	(82)	-	-	191
Stock options	-	613	-	-	613
Balance at September 30, 2020	$ 533,958	$ 5,002	$ 78,415	$ 365,850	$ 983,225
Balance at December 31, 2018	$ 537,534	$ 3,851	$ 84,393	$ 342,988	$ 968,766
Net loss:	-	-	-	(62,109)	(62,109)
Other comprehensive loss:					
Foreign currency translation differences for foreign operations, net of tax	-	-	(17,581)	-	(17,581)
Defined benefit plan actuarial loss, net of tax	-	-	-	(1,018)	(1,018)
Contributions and distributions:					
Share issuance, net of expenses (note 8)	115	(35)	-	-	80
Share repurchases	(4,086)	-	-	(3,739)	(7,825)
Stock options	-	541	-	-	541
Balance at September 30, 2019	$ 533,563	$ 4,357	$ 66,812	$ 276,122	$ 880,854

See accompanying notes to consolidated financial statements

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

1. Nature of operations:

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

Interfor Corporation exists under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office are located at 1600 – 4720 Kingsway, Burnaby, British Columbia, Canada, V5H 4N2.

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2020 and 2019 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 of 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, 2019.

These financial statements were approved by Interfor's Board of Directors on November 5, 2020.

(b) Basis of measurement:

These financial statements are prepared on the historical cost basis except for the following items:

(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 cashflows.

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

(c) Critical accounting estimates:

Potential impacts of the COVID-19 pandemic on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended September 30, 2020. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2019, 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, 2019 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 September 30, 2020, 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 a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest during the winter season due to reduced construction and renovation activities.

5. Acquisition of B.C. Interior cutting rights:

On March 9, 2020, the Company completed the acquisition of two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior from Canadian Forest Products Ltd. The Company accounted for this transaction as an asset acquisition and the purchase price was allocated to the assets acquired and liabilities assumed on a relative fair value basis as follows:

Cash purchase price	$	56,606
Net assets acquired:		
Timber licenses	$	57,937
Roads		1,707
Other assets		1,139
Liabilities assumed		(4,177)
	$	56,606

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

6. Inventories:

	Sept. 30, 2020	Dec. 31, 2019
Lumber	$ 70,815	$ 91,702
Logs	33,014	70,422
Other	25,158	19,453
	$ 128,987	$ 181,577

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at September 30, 2020 was $2,957,000 (December 31, 2019 - $17,515,000).

7. Borrowings:

September 30, 2020	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 400,170	$ 750,170
Drawings	-	400,170	400,170
Outstanding letters of credit	24,773	-	24,773
Unused portion of Revolving Term Line	$ 325,227	$ -	$ 325,227

December 31, 2019	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 259,760	$ 609,760
Drawings	-	259,760	259,760
Outstanding letters of credit	21,752	-	21,752
Unused portion of Revolving Term Line	$ 328,248	$ -	$ 328,248

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

Twelve months ending	
September 30, 2021	$ 7,225
September 30, 2022	7,224
September 30, 2023	7,226
September 30, 2024	44,463
September 30, 2025	44,463
Thereafter	289,569
	$ 400,170

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

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Drawings at opening	$ 408,840	$ 261,740	$ 259,760	$ 272,840
Term Line net repayments (drawings)	(23)	-	(82)	5
Additions to long term debt	-	-	140,770	197,925
Repayments of long term debt	-	-	-	(197,175)
Effects of changes in foreign exchange rates	(8,647)	3,120	(278)	(8,735)
Drawings at September 30	$ 400,170	$ 264,860	$ 400,170	$ 264,860

(a) Revolving Term Line and Operating Line:

The Revolving Term Line (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 LIBOR-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 September 30, 2020, including outstanding letters of credit, the Term Line was drawn by $19,468,000 (December 31, 2019 - $18,890,000) and US$3,977,000 (December 31, 2019 - US$2,204,000) revalued at the quarter-end exchange rate to $5,305,000 (December 31, 2019 - $2,863,000) for total borrowings of $24,773,000 (December 31, 2019 - $21,752,000). During the first nine months of 2019, certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations and a foreign exchange gain of $750,000 was recognized in Foreign currency translation differences in Other comprehensive income.

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

7. Borrowings (continued):

(b) Senior Secured Notes:

As at September 30, 2020, the Company's Senior Secured Notes consisted of the following:

	Sept. 30, 2020	Dec. 31, 2019
Series A (US$4,450,000) bearing interest at 4.33% with Payments of US$1,483,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	$ 5,936	$ 5,780
Series B (US$11,800,000) bearing interest at 4.02% with Payments of US$3,933,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	15,740	15,326
Series C (US$100,000,000) bearing interest at 4.17% with Payments of US$33,333,000 due on March 26, 2024 and 2025 and the balance due on March 26, 2026	133,390	129,880
Series D (US$45,550,000) bearing interest at 4.95% with Payments of US$15,183,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	60,759	59,160
Series E (US$38,200,000) bearing interest at 4.82% with Payments of US$12,733,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	50,955	49,614
Series F (US$50,000,000) bearing interest at 3.34% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	66,695	-
Series G (US$50,000,000) bearing interest at 3.25% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	66,695	-
	$ 400,170	$ 259,760

On March 26, 2020, the Company issued US$50,000,000 of Series F and US$50,000,000 of Series G Senior Secured Notes with interest rates and payment terms described in the table above.

The Senior Secured Notes have a weighted average fixed interest rate of 4.08% and maturities from June 26, 2021 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 an unrealized foreign exchange gain of $360,000 in the first nine months, 2020 (first nine months, 2019 - $7,980,000) and an unrealized foreign exchange gain of $8,670,000 in the third quarter, 2020 (Quarter 3, 2019 - $3,120,000 loss) 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, 2018	67,760,622	$ 537,534	$ 3,851
Exercise of stock options	14,437	237	(72)
Share repurchases	(515,100)	(4,086)	-
Stock options	-	-	692
Balance, December 31, 2019	67,259,959	$ 533,685	$ 4,471
Exercise of stock options	14,919	273	(82)
Stock options	-	-	613
Balance, September 30, 2020	67,274,878	$ 533,958	$ 5,002

During the first nine months of 2020, the Company did not have any common share repurchases (first nine months, 2019 – 515,100 common shares at an average price of $15.19 for a cost of $7,825,000 of which $4,086,000 was charged against Share capital based on the average per share amount for shares in that account as at the transaction date, and the balance to Retained earnings.)

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. No common shares were purchased under the Company's prior NCIB that expired on March 6, 2020.

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Production	$ 28,145	$ 28,068	$ 81,173	$ 86,601
Selling and administration	627	669	1,899	3,206
	$ 28,772	$ 28,737	$ 83,072	$ 89,807

10. Asset write-downs and restructuring costs:

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Write-down of plant, equipment and other	$ 9,807	$ 14,583	$ 9,754	$ 16,394
Severance and other closure costs	2,036	17,850	2,592	17,791
Lease modifications	-	(1,081)	-	(1,081)
Write-down of parts inventory	1,142	462	1,125	462
	$ 12,985	$ 31,814	$ 13,471	$ 33,566

On September 14, 2020, the Company announced that it had entered into an agreement with Neiman Enterprises Inc. to sell its specialty sawmill located in Gilchrist, Oregon. In relation to the sale, the Company has recognized $10,759,000 in impairment losses on the remeasurement of the property, plant and equipment and parts inventory to the lower of their carrying amount and the fair value less costs to sell. The sale was completed on October 29, 2020.

11. Finance costs:

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Interest expense on:				
Borrowings	$ 4,485	$ 3,575	$ 12,789	$ 9,973
Lease liabilities	410	495	1,377	1,526
Pension obligations	604	690	1,808	2,095
Interest revenue from:				
Marketable securities and other	(330)	(685)	(976)	(2,313)
Pension assets	(388)	(484)	(1,296)	(1,466)
Unwind of discount on provisions	45	116	247	420
Amortization of deferred finance costs	81	77	239	1,049
	$ 4,907	$ 3,784	$ 14,188	$ 11,284

12. Net earnings (loss) per share:

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

	3 Months Sept. 30, 2020			3 Months Sept. 30, 2019		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at June 30		67,259,959			67,252,973	
Effect of shares issued in quarter		10,223			-	
Basic earnings (loss) per share	$ 121,604	67,270,182	$ 1.81	$ (35,648)	67,252,973	$ (0.53)
Effect of dilutive securities:						
Stock options		26,555			22,757	
Diluted earnings (loss) per share	$ 121,604	67,296,737	$ 1.81	$ (35,648)	67,252,973*	$ (0.53)

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

12. Net earnings (loss) per share (continued):

	9 Months Sept. 30, 2020			9 Months Sept. 30, 2019		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,259,959			67,760,622	
Effect of shares issued in first nine months		3,433			5,773	
Effect of shares repurchased in first nine months		-			(482,229)	
Basic earnings (loss) per share	$ 131,148	67,263,392	$ 1.95	$ (62,109)	67,284,166	$ (0.92)
Effect of dilutive securities:						
Stock options		9,555			25,083	
Diluted earnings (loss) per share	$ 131,148	67,272,947	$ 1.95	$ (62,109)	67,284,166*	$ (0.92)

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

13. Segmented information:

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

Sales by market are as follows:

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
United States	$ 538,262	$ 341,578	$ 1,162,476	$ 1,009,054
Canada	70,040	77,995	232,030	206,414
Japan	16,234	27,686	58,478	83,712
China/Taiwan	10,079	16,374	37,103	43,834
Other export	10,269	22,861	31,221	75,988
	$ 644,884	$ 486,494	$ 1,521,308	$ 1,419,002

Sales by product line are as follows:

	3 Months Sept. 30, 2020	3 Months Sept. 30, 2019	9 Months Sept. 30, 2020	9 Months Sept. 30, 2019
Lumber	$ 562,371	$ 403,508	$ 1,263,802	$ 1,190,879
Logs	32,636	36,816	130,932	91,829
Wood chips and other by-products	40,858	44,565	111,473	128,680
Freight and other	9,019	1,605	15,101	7,614
	$ 644,884	$ 486,494	$ 1,521,308	$ 1,419,002

14. Financial instruments:

At September 30, 2020, the fair value of the Company's Long term debt exceeded its carrying value by $24,720,000 (December 31, 2019 - $19,958,000) 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 September 30, 2020, the Company had no outstanding obligations under derivative financial instruments.

15. U.S. countervailing and anti-dumping duty deposits:

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, and subsequently amended to 6.04%. As a result, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at September 30, 2020 (December 31, 2019 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,251,000 (December 31, 2019 - $4,139,000).

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

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

On February 3, 2020, the DoC issued its preliminary revised CV and AD duty rates based on completion of its first administrative review of shipments for the years ended December 31, 2017 and 2018. The following table summarizes the cash deposit rates currently in effect and the issued preliminary revised rates:

Year ended December 31	Cash deposit rates in effect	Preliminary revised rates
2017		
AD	6.04%	1.66%
CV	14.19%	6.71%
Total	20.23%	8.37%
2018		
AD	6.04%	1.66%
CV	14.19%	6.55%
Total	20.23%	8.21%

The DoC may further amend these preliminary revised duty rates at any time, with final rate determinations expected to be published in November 2020. At such time, the final rates determined and published will be applied to new lumber shipments. Cash deposit payments until then continue at a rate of 20.23%.

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018, US$33,765,000 in 2019, and US$26,851,000 in the first nine months of 2020, all of which remain held in trust by U.S. Customs and Border Protection. All duty deposits except US$3,265,000 (December 31, 2019 – US$3,265,000) noted above have been expensed at the cash deposit rates currently in effect with no adjustments recorded to reflect the preliminary revised rates.

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.

INTERFOR

Interfor Corporation
Metrotown II 1600 – 4720 Kingsway
Burnaby, B.C. Canada V5H 4N2
Telephone: (604) 689-6800 Fax: (604) 688-0313

Contact: Richard Pozzebon, Senior Vice President and Chief Financial Officer

Web Site: www.interfor.com