Interfor Corporation
First Quarter Report
For the three months ended March 31, 2019

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations as at and for the three months ended March 31, 2019 ("Q1'19"). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three months ended March 31, 2019, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of May 2, 2019.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2018 Annual Report.

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of First Quarter, 2019", "Strategic Capital Plan Update", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein and in Interfor's 2018 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2018 annual Management's Discussion and Analysis.

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

Overview of First Quarter, 2019

Interfor recorded a net loss in Q1'19 of $15.3 million, or $0.23 per share, compared to $13.5 million, or $0.20 per share in Q4'18 and net earnings of $32.7 million, or $0.47 per share in Q1'18. Adjusted net loss in Q1'19 was $12.7 million compared to $20.2 million in Q4'18 and Adjusted net earnings of $36.5 million in Q1'18.

Adjusted EBITDA was $16.3 million on sales of $451.2 million in Q1'19 versus $8.9 million on sales of $468.5 million in Q4'18. The Q1'19 Adjusted EBITDA included approximately $1.2 million of expenses that were refinements of prior estimates.

Other notable items in the quarter included:

- Marginally Higher Lumber Prices
  - The key benchmark prices improved marginally quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' increasing by US$10, US$41 and US$21 per mfbm, respectively. Interfor's average lumber selling price increased $14 from Q4'18 to $613 per mfbm.
- Increased Production/Reduced Shipments
  - Total lumber production was 646 million board feet, or 39 million board feet more than the prior quarter with a return to normal operating schedules after the holidays and the easing of temporary production curtailments in the B.C. Interior. Production in the U.S. South increased to 316 million board feet from 303 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 195 million board feet and 135 million board feet, respectively, compared to 174 million board feet and 130 million board feet in Q4'18.
  - Total lumber shipments were 621 million board feet, including agency and wholesale volumes, or 26 million board feet lower than Q4'18.
  - On April 25, 2019, the Company announced temporary reductions in operating hours at its sawmills in the B.C. Interior for the month of May 2019 due to a combination of weak lumber prices and continuing high log costs.
- Continued Strong Financial Position
  - Net debt ended the quarter at $172.7 million, or 15.6% of invested capital, resulting in available liquidity of $425.3 million.
  - On March 28, 2019, the Company completed a modernization of its credit facilities. The new facility replaces the U.S. Operating Line, Canadian Operating Line, and Revolving Term Line with one consolidated facility. The new facility increased credit availability to $350 million, which is in addition to the Company's US$200 million of Senior Secured Notes, and matures in March 2024.
  - The Company generated $17.1 million of cash flow from operations before changes in working capital, or $0.25 per share. During the quarter, working capital increased by $75.4 million as a result of the payment of 2018 incentive compensation as well as typical seasonal factors including a build up of lumber and log inventories in the B.C. Interior.
  - Capital investments of $43.8 million in Q1'19 included $32.1 million primarily on U.S. South focused high-return discretionary projects, with the remainder related to maintenance capital and woodlands projects.
  - Interfor purchased and cancelled 515,100 of its Common Shares ("Shares") at a cost of $7.8 million in Q1'19. The Company's normal course issuer bid ("NCIB") was renewed on March 4, 2019 and permits the purchase of up to 6,652,006 Shares until its expiry on March 6, 2020.
- Softwood Lumber Duties
  - Interfor expensed $11.1 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.

- Cumulative duties of US$68.7 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. Except for US$3.3 million recorded as a long-term receivable in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Strategic Capital Plan Update

- Interfor continues to make progress on previously announced Phase I and II strategic capital projects in the U.S. South.
- The Phase I projects at the Meldrim, Georgia and Monticello, Arkansas sawmills are scheduled for completion in May 2019. Total project costs are expected to be within a 10% variance of the original US$62.5 million budget. As of March 31, 2019, US$48.7 million has been capitalized.
- The Phase II projects at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina are on track for completion in various stages over the period of 2019 to 2021. As of March 31, 2019, US$21.7 million has been capitalized and the projects remain on budget.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term, particularly in the North American repair and renovation, residential and industrial segments, as well as in offshore markets.

Interfor's strategy of maintaining a diversified portfolio of lumber operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. Interfor will continue its disciplined approach to production, cost control, inventory management and capital spending. At the same time, Interfor will remain alert to growth opportunities to position the Company for long term success.

Financial and Operating Highlights [1]

	Unit	Mar. 31 2019	Mar. 31 2018 (restated)[2]	Dec. 31 2018 (restated)[2]
		For the three months ended		
Financial Highlights[3]				
Total sales	$MM	451.2	527.6	468.5
Lumber	$MM	380.5	445.9	387.7
Logs, residual products and other	$MM	70.7	81.7	80.8
Operating earnings (loss)	$MM	(16.8)	46.8	(16.9)
Net earnings (loss)	$MM	(15.3)	32.7	(13.5)
Net earnings (loss) per share, basic	$/share	(0.23)	0.47	(0.20)
Adjusted net earnings (loss)[3]	$MM	(12.7)	36.5	(20.2)
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.19)	0.52	(0.29)
Operating cash flow per share (before working capital changes)[4]	$/share	0.25	1.12	0.14
Adjusted EBITDA[4]	$MM	16.3	83.5	8.9
Adjusted EBITDA margin[4]	%	3.6%	15.8%	1.9%
Total assets	$MM	1,491.5	1,448.2	1,565.3
Total debt	$MM	267.3	257.9	272.8
Net debt[4]	$MM	172.7	127.1	63.8
Net debt to invested capital[4]	%	15.6%	12.4%	6.2%
Annualized return on invested capital[4]	%	6.1%	33.5%	3.6%
Operating Highlights				
Lumber production	million fbm	646	666	607
Total lumber sales	million fbm	621	648	647
Lumber sales - Interfor produced	million fbm	610	635	639
Lumber sales - wholesale and commission	million fbm	11	13	8
Lumber - average selling price[5]	$/thousand fbm	613	688	599
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3295	1.2647	1.3204
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3363	1.2894	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 consolidated financial statements.
5. Gross sales before duties.
6. Based on Bank of Canada foreign exchange rates.

Summary of First Quarter 2019 Financial Performance

Sales

Interfor recorded $451.2 million of total sales, down 14.5% from $527.6 million in the first quarter of 2018, driven by the sale of 621 million board feet of lumber at an average price of $613 per mfbm. Lumber sales volume decreased 27 million board feet, or 4.2%, while average selling price decreased $75 per mfbm, or 11.0%, as compared to the same quarter of 2018.

The decrease in the average selling price of lumber reflects significantly lower prices across all benchmark products in Q1'19 as compared to Q1'18. The Western SPF Composite decreased by US$113 to US$359 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite decreased US$111 to US$357 per mfbm and US$57 to US$396 per mfbm, respectively. The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the weakening of the Canadian Dollar against the U.S. Dollar by 5.1% on average in Q1'19 as compared to Q1'18.

Sales generated from logs, residual products and other decreased by $11.0 million or 13.5% compared to the same quarter of 2018 due mainly to reduced availability of surplus logs.

Operations

Production costs decreased by $4.2 million, or 1.0%, compared to Q1'18, explained primarily by a 4.2% drop in lumber sales volume partially offset by higher log costs, higher conversion costs in the U.S. South and a weaker Canadian Dollar.

Lumber production of 646 million board feet in Q1'19 was 20 million board feet lower than Q1'18. Production from Interfor's B.C.'s operations declined by 23 million board feet from Q1'18 to 195 million board feet as a result of reduced operating schedules and equipment maintenance in the B.C. Interior sawmills. Production from the Company's U.S. South sawmills totaled 316 million board feet, up 14 million board feet compared to Q1'18 which was impacted by poor weather. Production from the Company's U.S. Northwest operations totaled 135 million board feet, down 11 million board feet compared to Q1'18.

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 $11.1 million, down $1.8 million from Q1'18. The decrease is attributable to lower shipments and prices in Q1'19 as compared to Q1'18.

Depreciation of plant and equipment was $19.7 million, comparable to Q1'18. Depletion and amortization of timber, roads and other was $9.7 million, down $2.0 million from Q1'18, as a result of decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $10.6 million, down $3.3 million from Q1'18. The first quarter of 2018 included a higher accrual for short term incentive compensation and certain additional IT and human resource project costs.

The $2.0 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing, coupled with an 8.7% increase in the market price for Interfor Common Shares during the quarter. The Q1'18 long term incentive compensation expense of $4.9 million resulted primarily from the impact of incentive awards maturing and an 11.2% increase in the market price for Interfor Common Shares during that quarter.

Capital asset write-downs and restructuring costs in Q1'19 relate to non-cash impairments on equipment in the U.S. South that will be replaced in conjunction with the Company's strategic capital projects. The asset write-down in Q1'18 related to the impairment of certain software costs. Additional items in both quarters relate to the settlement of various human resource matters.

Finance costs increased to $4.2 million in Q1'19 from $3.4 million in Q1'18 as unamortized deferred financing fees associated with extinguished credit facilities were written off.

Other foreign exchange gains of $0.3 million in Q1'19 result primarily from unrealized gains on short-term intercompany funding. Other foreign exchange gains of $0.1 million in Q1'18 results primarily from gains on U.S. cash held by Canadian operations slightly offset by unrealized losses on short-term intercompany funding.

Other expense of $0.2 million in Q1'19 and $0.2 million in Q1'18 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of $5.5 million in Q1'19, comprised of $0.2 million in current income tax and a $5.7 million deferred tax recovery.

Net Earnings

The Company recorded a Net loss of $15.3 million, or $0.23 per share, compared to Net earnings of $32.7 million, or $0.47 per share in the comparable period of 2018. Adjusted net loss was $12.7 million, or $0.19 per share, compared with Adjusted net earnings of $36.5 million, or $0.52 per share in Q1'18.

Summary of Quarterly Results [1]

		2019	2018 (restated)[2]				2017 (restated)[2]		
	Unit	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial Performance[3]									
Total sales	$MM	451.2	468.5	570.5	619.9	527.6	532.8	489.2	511.4
Lumber	$MM	380.5	387.7	480.3	527.0	445.9	446.0	410.2	433.7
Logs, residual products and other	$MM	70.7	80.8	90.2	92.9	81.7	86.8	79.0	77.7
Operating earnings (loss)	$MM	(16.8)	(16.9)	41.9	86.2	46.8	48.3	29.4	42.9
Net earnings (loss)	$MM	(15.3)	(13.5)	28.2	63.7	32.7	36.0	16.9	24.8
Net earnings (loss) per share, basic	$/share	(0.23)	(0.20)	0.40	0.91	0.47	0.52	0.24	0.35
Adjusted net earnings (loss)[4]	$MM	(12.7)	(20.2)	28.3	68.9	36.5	44.8	20.1	29.0
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.19)	(0.29)	0.40	0.98	0.52	0.64	0.29	0.41
Operating cash flow per share (before working capital changes)[4]	$/share	0.25	0.14	1.04	1.80	1.12	1.22	0.85	1.08
Adjusted EBITDA[4]	$MM	16.3	8.9	72.5	123.8	83.5	91.8	63.6	79.3
Adjusted EBITDA margin[4]	%	3.6%	1.9%	12.7%	20.0%	15.8%	17.2%	13.0%	15.5%
Annualized return on invested capital[4]	%	6.1%	3.6%	29.1%	49.9%	33.5%	37.5%	24.9%	30.0%
Shares outstanding - end of period	million	67.3	67.8	69.4	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	67.3	68.9	69.9	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	646	607	674	688	666	655	645	655
Total lumber sales	million fbm	621	647	685	700	648	686	671	675
Lumber sales - Interfor produced	million fbm	610	639	675	689	635	666	650	654
Lumber sales - wholesale and commission	million fbm	11	8	10	11	13	20	21	21
Lumber - average selling price[5]	$/thousand fbm	613	599	701	753	688	650	611	642
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3295	1.3204	1.3070	1.2911	1.2647	1.2713	1.2528	1.3449
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3363	1.3642	1.2945	1.3168	1.2894	1.2545	1.2480	1.2977

Notes:

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

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

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'17, Q1'18 and Q1'19 and in the U.S. South in Q3'18 and Q1'19. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

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

Liquidity

Balance Sheet

Interfor's net debt at March 31, 2019 was $172.7 million, or 15.6% of invested capital, representing an increase of $108.9 million from the level at December 31, 2018. This increase includes funding of capital projects, short term incentive compensation payments, inventory builds, share capital repurchases, and finance and leasing costs.

Net debt was negatively impacted by a weaker Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars; this was partially hedged by the Company's U.S. Dollar cash balances.

	For the three months ended		
Thousands of Dollars	Mar. 31, 2019	Dec. 31, 2018	Mar. 31, 2018
Net debt			
Net debt, period opening	$63,825	$3,800	$119,300
Net drawing (repayment) on credit facilities	750	(1)	(1)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(6,330)	13,941	6,981
Decrease in cash and cash equivalents	68,890	7,286	2,509
Decrease in marketable securities	41,766	49,871	-
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	3,845	(11,072)	(1,725)
Net debt, period ending, CAD	$172,746	$63,825	$127,064

On March 28, 2019, the Company completed a modernization of its credit facilities. The new facility replaces the U.S. Operating Line, Canadian Operating Line, and Revolving Term Line with one consolidated facility. The new facility increased credit availability to $350 million and matures in March 2024.

As at March 31, 2019, the Company had net working capital of $306.8 million and available liquidity of $425.3 million, including cash and borrowing capacity on its term line facility.

These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have enough liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $17.1 million of cash flow from operations before changes in working capital in Q1’19, representing a $61.0 million decrease compared to Q1’18. There was a net cash outflow from operations after changes in working capital of $58.4 million in Q1’19, with $75.4 million of cash invested in operating working capital. Payment of incentive compensation in Q1’19 contributed to the $30.5 million outflow related to payables, while increased B.C. lumber inventory levels contributed to the $27.2 million total inventories outflow. In Q1’18, $78.1 million of cash was generated from operations with $56.9 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities generated $3.1 million with $46.8 million in proceeds from maturing Marketable securities and deposits offsetting capital spending of $36.0 million for plant and equipment, timber licenses and other intangibles and $7.8 million for development of roads in Q1’19. Discretionary mill improvements of $32.1 million in Q1’19 include a number of projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello, Meldrim, Eatonton, and Thomaston sawmills and installation of a kiln at the sawmill in Perry, Georgia. Maintenance capital investments excluding roads totaled $3.9 million in Q1’19, of which the majority was spent on U.S. South operations.

In Q1’18, investing activities totaled $18.5 million, net of $0.1 million in proceeds on the disposal of property, plant and equipment. Spending included $12.0 million for property, plant and equipment, timber and other intangible assets, and $6.1 million for development of roads. Discretionary and maintenance mill improvements totaled $7.6 million and $4.4 million, respectively, in Q1’18, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of $13.6 million in Q1’19 resulted from $7.8 million used to purchase shares under the Company’s NCIB, interest payments of $2.6 million, lease liability payments of $3.0 million, and debt refinancing costs of $1.0 million slightly offset by $0.8 million in short term funding activities under the Revolving Term Line.

Cash used for financing activities totaled $5.1 million in Q1’18, including interest payments of $3.0 million and lease liability payments of $2.2 million, slightly offset by 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, 2019:

Thousands of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit	$350,000	$267,260	$617,260
Maximum borrowing available	$350,000	$267,260	$617,260
Less:			
Drawings	-	267,260	267,260
Outstanding letters of credit included in line utilization	19,249	-	19,249
Unused portion of facility	$330,751	$ -	330,751
Add:			
Cash and cash equivalents			94,514
Available liquidity at March 31, 2019			$425,265

As of March 31, 2019, the Company had commitments for capital expenditures totaling $154.4 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, 2019.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At March 31, 2019, such instruments aggregated $66.6 million (December 31, 2018 - $64.7 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

The Company purchases high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. Primary considerations in selecting investments for the temporary employment of surplus funds are safety of principal and liquidity, with yield a secondary consideration.

In addition, from time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts except lumber futures are the Company's bankers who are highly-rated and, hence, the risk of credit loss on the instruments is mitigated.

Lumber futures are traded through a well-established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time, the risk of credit loss on these instruments is considered low.

The Company did not trade any foreign exchange contracts or lumber futures in Q1'19.

Outstanding Shares

As of May 2, 2019, Interfor had 67,251,487 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 5,965 Shares during Q1'19 as a result of share option exercises.

On March 4, 2019, Interfor renewed its NCIB through March 6, 2020, whereby it can purchase for cancellation up to 6,652,006 Common Shares. During Q1'19, Interfor purchased 515,100 Shares at a cost of $7.8 million. All Shares repurchased were cancelled.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2019, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2019. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2018, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Effective January 1, 2019, the Company adopted IFRS 16, *Leases,* using the full retrospective approach with restatement of each prior reporting period presented.

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

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all risks and rewards of ownership. Under IFRS 16, Interfor now assesses whether a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

ROU assets are accounted for under IAS 16, *Property, Plant and Equipm*ent, and are initially measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Lease liabilities are initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, Interfor's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Interfor is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

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

		Adjustment as at December 31, 2018
Statement of Financial Position		
Prepayments	Decrease	$ (474)
Right of use asset	Increase	37,778
Property, plant and equipment	Decrease	(1,493)
Deferred income tax asset	Increase	1
Total assets	Increase	$ 35,812
Trade accounts payable and provisions	Decrease	$ (565)
Current portion, lease liability	Increase	10,158
Long term lease liability	Increase	33,954
Provisions and other liabilities	Decrease	(992)
Deferred income tax	Decrease	(1,444)
Equity	Decrease	(5,299)
Total liabilities and shareholders' equity	Increase	$ 35,812

		Adjustment for the year ended December 31, 2018
Statement of Earnings		
Production costs	Decrease	$ 10,235
Selling ad administration	Decrease	980
Depreciation of plant and equipment	Decrease	208
Depletion and amortization of timber, roads and other	Increase	(10,100)
Finance costs	Increase	(2,042)
Deferred income tax expense	Decrease	99
Net earnings	Decrease	$ (620)
Net earnings per share	Decrease	$ (0.01)
Statement of Cash Flows		
Cash provided by:		
Operating activities	Increase	12,000
Financing activities	Decrease	(12,000)

Application of the new standard did not have a negative impact on any bank covenant calculations.

Non-GAAP Measures

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

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

Thousands of Canadian Dollars except number of shares and per share amounts	For the three months ended Mar. 31, 2019	Mar. 31, 2018	Dec. 31, 2018
		(restated)[1]	(restated)[1]
Adjusted Net Earnings (Loss)			
Net earnings (loss)	$(15,302)	$32,665	$(13,512)
Add:			
Restructuring costs and capital asset write-downs	1,665	236	4,551
Other foreign exchange gain	(340)	(111)	(3,330)
Long term incentive compensation expense (recovery)	1,983	4,858	(9,180)
Other income (expense)	164	178	(1,254)
Post closure wind-down costs and losses	-	4	-
Income tax effect of above adjustments	(875)	(1,374)	2,530
Adjusted net earnings (loss)	$(12,705)	$36,456	$(20,195)
Weighted average number of shares - basic ('000)	*67,348*	*70,033*	*68,884*
Adjusted net earnings (loss) per share	$(0.19)	$0.52	$(0.29)
Adjusted EBITDA			
Net earnings (loss)	$(15,302)	$32,665	$(13,512)
Add:			
Depreciation of plant and equipment	19,722	20,021	19,241
Depletion and amortization of timber, roads and other	9,737	11,764	11,229
Restructuring costs and capital asset write-downs	1,665	236	4,551
Finance costs	4,176	3,411	2,758
Other foreign exchange gain	(340)	(111)	(3,330)
Income tax expense (recovery)	(5,508)	10,467	(1,553)
EBITDA	14,150	78,453	19,384
Add:			
Long term incentive compensation expense (recovery)	1,983	4,858	(9,180)
Other income (expense)	164	178	(1,254)
Post closure wind-down costs and losses	-	4	-
Adjusted EBITDA	$16,297	$83,493	$8,950
Sales	451,163	527,644	468,544
Adjusted EBITDA margin	3.6%	15.8%	1.9%
Net debt to invested capital			
Net debt			
Total debt	$267,260	$257,880	$272,840
Cash and cash equivalents	(94,514)	(130,816)	(166,152)
Marketable securities	-	-	(42,863)
Total net debt	$172,746	$127,064	$63,825
Invested capital			
Net debt	$172,746	$127,064	$63,825
Shareholders' equity	933,509	896,215	968,766
Total invested capital	$1,106,255	$1,023,279	$1,032,591
Net debt to invested capital[2]	15.6%	12.4%	6.2%
Operating cash flow per share (before working capital changes)			
Cash (used in) provided by operating activities	$(58,350)	$21,073	$21,096
Cash used in (generated from) operating working capital	75,435	57,050	(11,253)
Operating cash flow (before working capital changes)	$17,085	$78,123	$9,843
Weighted average number of shares - basic ('000)	*67,348*	*70,033*	*68,884*
Operating cash flow per share (before working capital changes)	$0.25	$1.12	$0.14
Return on invested capital			
Adjusted EBITDA	$16,297	$83,493	$8,950
Invested capital, beginning of period	$1,032,591	$968,853	$984,189
Invested capital, end of period	1,106,255	1,023,279	1,032,591
Average invested capital	$1,069,423	$996,066	$1,008,390
Adjusted EBITDA divided by average invested capital	1.5%	8.4%	0.9%
Annualization factor	4.0	4.0	4.0
Return on invested capital	6.1%	33.5%	3.6%

Notes:

1 Financial information has been restated for implementation of IFRS 16, *Leases*.

2 Net debt to invested capital as of the period end.

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; labour disruptions; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2018, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the three month period ended March 31, 2019.

Additional Information

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three months ended March 31, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars except earnings per share)	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
		(note 3(a))
Sales (note 12)	$ 451,163	$ 527,644
Costs and expenses:		
Production	413,183	417,397
Selling and administration	10,565	13,829
Long term incentive compensation expense	1,983	4,858
U.S. countervailing and anti-dumping duty deposits (note 14(a))	11,118	12,929
Depreciation of plant and equipment (note 8)	19,722	20,021
Depletion and amortization of timber, roads and other (note 8)	9,737	11,764
	466,308	480,798
Operating earnings (loss) before write-downs and restructuring	(15,145)	46,846
Capital asset write-downs and restructuring costs (note 9)	1,665	236
Operating earnings (loss)	(16,810)	46,610
Finance costs (note 10)	(4,176)	(3,411)
Other foreign exchange gain	340	111
Other expense	(164)	(178)
	(4,000)	(3,478)
Earnings (loss) before income taxes	(20,810)	43,132
Income tax expense (recovery):		
Current	160	770
Deferred	(5,668)	9,697
	(5,508)	10,467
Net earnings (loss)	$ (15,302)	$ 32,665
Net earnings (loss) per share, basic and diluted (note 11)	$ (0.23)	$ 0.47

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months ended March 31, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
		(note 3(a))
Net earnings (loss)	$ (15,302)	$ 32,665
Other comprehensive income (loss):		
Items that will not be recycled to Net earnings (loss):		
Defined benefit plan actuarial gain, net of tax	572	885
Items that are or may be recycled to Net earnings (loss):		
Foreign currency translation differences for foreign operations, net of tax	(12,873)	12,833
Total other comprehensive income (loss), net of tax	(12,301)	13,718
Comprehensive income (loss)	$ (27,603)	$ 46,383

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
		(note 3(a))
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ (15,302)	$ 32,665
Items not involving cash:		
Depreciation of plant and equipment (note 8)	19,722	20,021
Depletion and amortization of timber, roads and other (note 8)	9,737	11,764
Income tax expense	(5,508)	10,467
Finance costs (note 10)	4,176	3,411
Other assets	17	(295)
Reforestation liability	2,507	2,289
Provisions and other liabilities	(203)	(2,816)
Stock options	108	137
Write-down of plant, equipment and intangibles (note 9)	1,723	219
Unrealized foreign exchange loss (gain)	(56)	83
Other expense	164	178
	17,085	78,123
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(14,575)	(10,748)
Inventories	(27,170)	(34,037)
Prepayments	(2,869)	(4,255)
Trade accounts payable and provisions	(30,524)	(7,839)
Income taxes paid	(297)	(171)
	(58,350)	21,073
Investing activities:		
Additions to property, plant and equipment	(35,926)	(12,039)
Additions to roads and bridges	(7,844)	(6,082)
Additions to timber licenses and other intangible assets	(52)	13
Proceeds on disposal of property, plant and equipment	108	109
Net proceeds from (additions to) marketable securities, deposits and other assets	46,771	(502)
	3,057	(18,501)
Financing activities:		
Issuance of share capital, net of expenses	63	143
Share repurchases	(7,825)	-
Interest payments	(2,580)	(3,033)
Lease liability payments	(2,986)	(2,189)
Debt refinancing costs	(1,019)	(1)
Change in operating line components of long term debt (note 6)	-	(1)
Additions to long term debt (note 6)	197,925	-
Repayments of long term debt (note 6)	(197,175)	-
	(13,597)	(5,081)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(2,748)	1,725
Decrease in cash and cash equivalents	(71,638)	(784)
Cash and cash equivalents, beginning of period	166,152	131,600
Cash and cash equivalents, end of period	$ 94,514	$ 130,816

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2019, December 31, 2018 and January 1, 2018 (unaudited)

(thousands of Canadian Dollars)	Mar. 31, 2019	Dec. 31, 2018	Jan. 1, 2018
		(note 3(a))	(note 3(a))
Assets			
Current assets:			
Cash and cash equivalents	$ 94,514	$ 166,152	$ 131,600
Marketable securities	-	42,863	-
Trade accounts receivable and other	104,528	90,384	112,470
Income tax receivable	2,938	3,008	1,289
Inventories (note 5)	235,231	209,178	165,156
Prepayments	19,513	16,833	12,186
	456,724	528,418	422,701
Employee future benefits	1,058	303	502
Deposits and other assets	11,362	16,842	6,404
Right of use assets	38,220	37,778	38,600
Property, plant and equipment	726,778	723,773	669,165
Roads and bridges	32,776	29,829	24,092
Timber licences	63,549	64,153	66,589
Other intangible assets	4,358	5,288	14,170
Goodwill	155,819	158,799	147,081
Deferred income taxes	872	133	253
	$ 1,491,516	$ 1,565,316	$ 1,389,557
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	$ 124,945	$ 154,869	$ 152,355
Reforestation liability	14,212	13,947	12,873
Lease liability	10,577	10,158	8,019
Income taxes payable	202	356	224
	149,936	179,330	173,471
Reforestation liability	30,879	28,235	27,535
Lease liability	33,660	33,954	36,165
Long term debt (notes 6 and 13)	267,260	272,840	250,900
Employee future benefits	8,880	8,687	8,249
Provisions and other liabilities	16,252	16,421	25,808
Deferred income taxes	51,140	57,083	17,877
Equity:			
Share capital (note 7)	533,539	537,534	555,388
Contributed surplus	3,931	3,851	8,582
Translation reserve	71,520	84,393	40,733
Retained earnings	324,519	342,988	244,849
	933,509	968,766	849,552
	$ 1,491,516	$ 1,565,316	$ 1,389,557

Contingencies (note 14)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at January 1, 2018 (note 3(a))	**$ 555,388**	**$ 8,582**	**$ 40,733**	**$ 244,849**	**$ 849,552**
Net earnings:	**-**	**-**	**-**	**111,058**	**111,058**
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	**-**	**-**	**43,660**	**-**	**43,660**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**508**	**508**
Contributions and distributions:					
Share issuance, net of expenses (note 7)	**(18,068)**	**(5,434)**	**-**	**(13,427)**	**(36,929)**
Share repurchases (note 7)	**214**	**(71)**	**-**	**-**	**143**
Stock options (note 7)	**-**	**774**	**-**	**-**	**774**
Balance at December 31, 2018 (note 3(a))	**$ 537,534**	**$ 3,851**	**$ 84,393**	**$ 342,988**	**$ 968,766**
Net loss:	**-**	**-**	**-**	**(15,302)**	**(15,302)**
Other comprehensive earnings (loss):					
Foreign currency translation differences for foreign operations, net of tax	**-**	**-**	**(12,873)**	**-**	**(12,873)**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**572**	**572**
Contributions and distributions:					
Share issuance, net of expenses (note 7)	**91**	**(28)**	**-**	**-**	**63**
Share repurchases (note 7)	**(4,086)**	**-**	**-**	**(3,739)**	**(7,825)**
Stock options (note 7)	**-**	**108**	**-**	**-**	**108**
Balance at March 31, 2019	**$ 533,539**	**$ 3,931**	**$ 71,520**	**$ 324,519**	**$ 933,509**
Balance at January 1, 2018 (note 3(a))	**$ 555,388**	**$ 8,582**	**$ 40,733**	**$ 244,849**	**$ 849,552**
Net earnings:	**-**	**-**	**-**	**32,665**	**32,665**
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	**-**	**-**	**12,833**	**-**	**12,833**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**885**	**885**
Contributions and distributions:					
Share issuance, net of expenses (note 7)	**214**	**(71)**	**-**	**-**	**143**
Stock options (note 7)	**-**	**137**	**-**	**-**	**137**
Balance at March 31, 2018 (note 3(a))	**$ 555,602**	**$ 8,648**	**$ 53,566**	**$ 278,399**	**$ 896,215**

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements ("financial statements") as at March 31, 2019, December 31, 2018 and January 1, 2018, and for the three months ended March 31, 2019 and 2018 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These interim 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 information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2018.

This is the first set of financial statements in which IFRS 16, *Leases*, has been applied. Changes in significant accounting polices are described in note 3(a).

These interim financial statements were approved by Interfor's Board of Directors on May 2, 2019.

(b) Basis of measurement:

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

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

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

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

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

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

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

3. Significant accounting policies:

Except as described below, these interim 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, 2018 annual consolidated financial statements, which are available on www.sedar.com.

(a) Changes in significant accounting policies:

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

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

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

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

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

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

3. Significant accounting policies (continued):

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

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Interfor is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

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

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

	As previously reported	Adjustment	As adjusted
Consolidated Statement of Earnings for the three months ended March 31, 2018:			
Sales	$ 527,644	$ -	$ 527,644
Costs and expenses			
Production	419,582	(2,185)	417,397
Selling and administration	14,073	(244)	13,829
Long term incentive compensation	4,858	-	4,858
U.S. countervailing and anti-dumping duty deposits	12,929	-	12,929
Depreciation of plant and equipment	20,068	(47)	20,021
Depletion and amortization of timber, roads and other	9,417	2,347	11,764
	480,927	(129)	480,798
Operating earnings before write downs and restructuring	46,717	129	46,846
Capital assets write-downs and restructuring costs	236	-	236
Operating earnings	46,481	129	46,610
Finance costs	(2,905)	(506)	(3,411)
Other foreign exchange gain	111	-	111
Other expense	(178)	-	(178)
	(2,972)	(506)	(3,478)
Earnings before income taxes	43,509	(377)	43,132
Income tax expense			
Current	770	-	770
Deferred	9,763	(66)	9,697
	10,533	(66)	10,467
Net earnings	$ 32,976	$ (311)	$ 32,665
Net earnings per share, basic and diluted	$ (0.47)	$ (0.00)	$ (0.47)
Consolidated Statement of Comprehensive Income for the three months ended March 31, 2018:			
Net earnings	$ 32,976	$ (311)	$ 32,665
Other comprehensive income:			
Items that will not be recycled to Net earnings:			
Defined benefit plan actuarial gain, net of tax	885	-	885
Items that are or may be recycled to Net earnings:			
Foreign currency translation differences for foreign operations, net of tax	12,847	(14)	12,833
Total other comprehensive income, net of tax	13,732	(14)	13,718
Comprehensive income	$ 46,708	$ (325)	$ 46,383

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

3. Significant accounting policies (continued):

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

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

Consolidated Statement of Cash Flows for the three months ended March 31, 2018:			
Cash provided by (used in):			
Operating activities:			
Net earnings	$ 32,976	$ (311)	$ 32,665
Depreciation of plant and equipment	20,068	(47)	20,021
Depletion and amortization of timber, roads and other	9,417	2,347	11,764
Income tax expense	10,533	(66)	10,467
Finance costs	2,905	506	3,411
Provisions and other liabilities	(2,842)	26	(2,816)
Unrealized foreign exchange loss (gain)	(101)	184	83
Cash generated by operations before working capital changes	75,484	2,639	78,123
Trade accounts receivable and other	(10,896)	148	(10,748)
Prepayments	(4,325)	70	(4,255)
Trade accounts payable and provisions	(7,544)	(295)	(7,839)
Cash generated by operating activities	18,511	2,562	21,073
Investing activities:			
Net additions to marketable securities, deposits and other assets	(486)	(16)	(502)
Cash used in investing activities	(18,485)	(16)	(18,501)
Financing activities:			
Interest payments	(2,676)	(357)	(3,033)
Payment of lease liabilities	-	(2,189)	(2,189)
Cash used in financing activities	(2,535)	(2,546)	(5,081)

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

3. Significant accounting policies (continued):

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

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

	As previously Reported	Adjustment	As adjusted	As previously Reported	Adjustment	As adjusted
Consolidated Statement of Financial Position:	**As at January 1, 2018:**			**As at December 31, 2018:**		
Prepayments and other	$ 12,562	$ (376)	$ 12,186	$ 17,307	$ (474)	$ 16,833
Total current assets	423,077	(376)	422,701	528,892	(474)	528,418
Right of use assets	-	38,600	38,600	-	37,778	37,778
Property, plant and equipment	670,830	(1,665)	669,165	725,266	(1,493)	723,773
Deferred income tax asset	251	2	253	132	1	133
Total assets	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316
Trade accounts payable and provisions	$ 152,854	$ (499)	$ 152,355	$ 155,434	$ (565)	$ 154,869
Lease liability	-	8,019	8,019	-	10,158	10,158
Total current liabilities	165,951	7,520	173,471	169,737	9,593	179,330
Long term lease liability	-	36,165	36,165	-	33,954	33,954
Provisions and other liabilities	26,976	(1,168)	25,808	17,413	(992)	16,421
Deferred income tax payable	19,197	(1,320)	17,877	58,527	(1,444)	57,083
Translation reserve	40,720	13	40,733	84,423	(30)	84,393
Retained earnings	249,498	(4,649)	244,849	348,257	(5,269)	342,988
Total equity	854,188	(4,636)	849,552	974,065	(5,299)	968,766
Total liabilities and shareholders' equity	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316
Consolidated Statements of Changes in Equity:	**As at March 31, 2018:**			**As at December 31, 2018:**		
Balance at January 1, 2018						
Translation reserve	$ 40,720	$ 13	$ 40,733	$ 40,720	$ 13	$ 40,733
Retained earnings	249,498	(4,649)	244,849	249,498	(4,649)	244,849
Total equity	854,188	(4,636)	849,552	854,188	(4,636)	849,552
Net earnings	32,976	(311)	32,665	111,678	(620)	111,058
Foreign currency translation differences for foreign operations, net of tax	12,847	(14)	12,833	43,703	(43)	43,660
Balance at end of period						
Translation reserve	53,567	(1)	53,566	84,423	(30)	84,393
Retained earnings	283,359	(4,960)	278,399	348,257	(5,269)	342,988
Total equity	901,176	(4,961)	896,215	974,065	(5,299)	968,766

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

3. Significant accounting policies (continued):

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

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

Right of use assets:

Cost	Property	Facilities	Mobile Equipment	Foreshore and Other Rights	Total
Balance at December 31, 2017	$ 21,414	$ 11,430	$ 21,090	$ 5,207	$ 59,141
Additions	134	241	7,531	557	8,463
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	7	337	1,174	-	1,518
Balance at December 31, 2018	$ 21,555	$ 11,976	$ 27,964	$ 5,723	$ 67,218

Accumulated Depreciation	Property	Facilities	Mobile Equipment	Foreshore and Other Rights	Total
Balance at December 31, 2017	$ 6,701	$ 3,174	$ 8,206	$ 2,460	$ 20,541
Depreciation	1,162	1,457	6,964	517	10,100
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	1	111	591	-	703
Balance at December 31, 2018	$ 7,864	$ 4,710	$ 13,930	$ 2,936	$ 29,440
Net book value at December 31, 2018	$ 13,691	$ 7,266	$ 14,034	$ 2,787	$ 37,778

Lease liabilities:

Maturity analysis - contractual undiscounted cash flows:	Dec. 31, 2018
Due within one year	$ 11,168
One to five years	19,758
More than five years	14,225
Total undiscounted lease liabilities	$ 45,151
Current	$ 10,158
Non-current	33,954
Lease liabilities in Statement of Financial Position	$ 44,112

Amounts recognised in Statement of Earnings before income tax:

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

Amounts recognised in the Statement of Cash Flows:

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

(b) New standard and interpretations not yet adopted:

Several new standards and amendments to standards and interpretations are not yet effective for the quarter ended March 31, 2019 and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

Quarterly operating results of the Company reflect the seasonality of its operations and markets. Logging operations are seasonal due to 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 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.

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

5. Inventories:

	Mar. 31, 2019	Dec. 31, 2018
Lumber	$ 113,209	$ 95,563
Logs	104,848	98,018
Other	17,174	15,597
	$ 235,231	$ 209,178

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at March 31, 2019 was $15,534,000 (December 31, 2018 - $19,631,000).

6. Borrowings:

March 31, 2019	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 267,260	$ 617,260
Maximum borrowing available	350,000	267,260	617,260
Drawings	-	267,260	267,260
Outstanding letters of credit included in line utilization	19,249	-	19,249
Unused portion of line	$ 330,751	$ -	$ 330,751

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

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

Twelve months ending	
March 31, 2020	$ -
March 31, 2021	7,238
March 31, 2022	7,238
March 31, 2023	7,239
March 31, 2024	44,543
Thereafter	201,002
	$ 267,260

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

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
Drawings at December 31	$ 272,840	$ 250,900
Operating line net drawings (repayments)	-	(1)
Additions to long term debt	197,925	-
Repayments of long term debt	(197,175)	-
Effect of changes in foreign exchange rates	(6,330)	6,981
Drawings at March 31	$ 267,260	$ 257,880

(a) Revolving Term Line and Operating Line:

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

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

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

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

As at March 31, 2019, including outstanding letters of credit, the Line was drawn by $16,304,000 (December 31, 2018 – $14,771,000) and US$2,204,000 (December 31, 2018 - US$64,000) revalued at the quarter-end exchange rate to $2,945,000 (December 31, 2018 - $87,000) for total borrowings of $19,249,000 (December 31, 2018 - $14,858,000).

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

6. Borrowings (continued):

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

As at March 31, 2019, $330,751,000 of the Line was unused (December 31, 2018 - $250,142,000). As U.S. Dollar drawings under the Line have been designated as a hedge against the Company's investment in its U.S. operations, the Company recognized a foreign exchange gain of $750,000 (Quarter 1, 2018 - $1,000 loss) in Foreign currency translation differences in Other comprehensive income for the first quarter, 2019.

(b) Senior Secured Notes:

As at March 31, 2019, the Company's Senior Secured Notes consisted of the following:

	Mar. 31, 2019	Dec. 31, 2018
Series A (US$4,450,000)	$ 5,947	$ 6,071
Series B (US$11,800,000)	15,768	16,098
Series C (US$100,000,000)	133,630	136,420
Series D (US$45,550,000)	60,868	52,112
Series E (US$38,200,000)	51,047	62,139
	$ 267,260	$ 272,840

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

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of net debt to total capitalization and a minimum net worth calculation. On March 29, 2019, the Company amended the financing agreement to reduce the security requirements, financial covenants and certain other restrictions.

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 $5,580,000 in the first quarter, 2019 (Quarter 1, 2018 - $6,980,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

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

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

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2017	70,030,455	$ 555,388
Exercise of stock options	7,707	214
Repurchase of common shares	(2,277,540)	(18,068)
Balance, December 31, 2018	67,760,622	$ 537,534
Exercise of stock options in first quarter, 2019	5,965	91
Repurchase of common shares in first quarter, 2019	(515,100)	(4,086)
Balance, March 31, 2019	67,251,487	$ 533,539

On March 4, 2019, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 6,652,006 common shares, representing approximately 10% of its common shares issued and outstanding as at March 4, 2019. This NCIB began on March 7, 2019 and expires on March 6, 2020. During the first three months of 2019, Interfor purchased and cancelled 515,100 common shares (Quarter 1, 2018 – no share repurchases) at an average price of $15.19 for a cost of $7,825,000.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
Production	$ 27,622	$ 29,735
Selling and administration	1,837	2,050
	$ 29,459	$ 31,785

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

9. Capital asset write-downs and restructuring costs:

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
Write-down of equipment and intangibles	$ 1,723	$ 219
Severance and legal (recovery)	(53)	17
Site closure costs (recovery)	(5)	-
	$ 1,665	$ 236

The Company recorded asset write-downs primarily equipment to be replaced in conjunction with capital projects to rebuild and modernize certain of its sawmills in the U.S. in the first quarter of 2019. The asset write-down in the first quarter of 2018 related to impairment of certain software costs.

10. Finance costs:

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
Interest expense on:		
Borrowings	$ 2,912	$ 2,938
Lease liabilities	520	506
Defined benefit obligations	724	563
Interest revenue from:		
Marketable securities and other	(551)	(460)
Defined benefit assets	(492)	(454)
Unwind of discount on provisions	161	163
Amortization of deferred finance costs	902	155
	$ 4,176	$ 3,411

11. Net earnings (loss) per share:

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

	Three Months Mar. 31, 2019			Three Months Mar. 31, 2018		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,760,622			70,030,455	
Effect of shares issued in first three months		3,188			2,669	
Effect of shares repurchased in first three months		(415,393)			-	
Basic earnings (loss) per share	$ (15,302)	67,348,417	$ (0.23)	$ 32,665	70,033,124	$ 0.47
Effect of dilutive securities:						
Stock options		30,135			88,371	
Diluted earnings (loss) per share	$ (15,302)	67,348,417*	$ (0.23)	$ 32,665	70,121,495	$ 0.47

* Where the addition of stock options to the total shares outstanding has an anti-dilutive income 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.

12. Segmented information:

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

Sales to both foreign and domestic markets are as follows:

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
United States	$ 322,872	$ 377,819
Canada	61,750	71,145
Japan	26,350	29,959
China/Taiwan	11,579	24,092
Other export	28,612	24,629
	$ 451,163	$ 527,644

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

12. Segmented information (continued):

Sales by product line are as follows:

	Three Months Mar. 31, 2019	Three Months Mar. 31, 2018
Lumber	$ 380,525	$ 445,891
Logs	24,281	39,799
Wood chips and other by-products	42,194	40,176
Freight and other	4,163	1,778
	$ 451,163	$ 527,644

13. Financial instruments:

At March 31, 2019, the fair value of the Company's Long term debt exceeded its carrying values by $7,576,000 (December 31, 2018 - $1,639,000) measured based on the level 2 of the fair value hierarchy.

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

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

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

The Company did not trade any foreign exchange contracts or lumber futures in the first quarter of 2019 or 2018.

14. Contingencies:

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

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially calculated at 19.88%, and subsequently retroactively amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially calculated at 6.87%, and subsequently retroactively 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 March 31, 2019 (December 31, 2018 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,258,000 (December 31, 2018 - $4,347,000).

Cumulative duties of US$68,713,000 paid by Interfor since the inception of the current trade dispute remain held in trust by the U.S pending the First Administrative Review and conclusion of all appeals of U.S decisions. Except for US$3,265,000 (December 31, 2018 – US$3,265,000) recorded as a long term receivable, Interfor has recorded the duty deposits as an expense.

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

All duties paid remain held in trust by the U.S. pending the First Administrative Review and conclusion of all appeals of U.S. decisions.

(b) Timber licences:

Three timber licences held by Interfor for harvesting within the B.C. Coast region (the “Licences”) were cancelled by the Government of B.C., following the passing into law of the Great Bear Rainforest (Forest Management) Act and regulations, which took effect January 1, 2017.

Interfor is entitled to compensation from the Government based upon the value of harvesting rights under the Licences and initiated arbitration proceedings in 2017. The Company has negotiated a settlement for the Licences, but has not yet recognized a gain as the settlement is conditional upon final approval by the Government.

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