Interfor Corporation
Third Quarter Report
For the three and nine months ended September 30, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and nine months ended September 30, 2018 ("Q3'18" and "YTD'18", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and nine months ended September 30, 2018, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of November 8, 2018.

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 2017 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 2018", "Strategic Capital Plan Update", "Greenfield Decision Postponed Indefinitely", "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 2017 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 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; cyber-security measures; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2017 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 2018

Q3'18 Results

Interfor recorded net earnings in Q3'18 of $28.1 million, or $0.40 per share, compared to $63.8 million, or $0.91 per share in Q2'18 and $16.8 million, or $0.24 per share in Q3'17. Adjusted net earnings in Q3'18 were $28.2 million or $0.40 per share, compared to $68.9 million, or $0.98 per share in Q2'18 and $20.0 million, or $0.29 per share in Q3'17.

Adjusted EBITDA was $69.4 million on sales of $570.5 million in Q3'18 versus $123.8 million on sales of $619.9 million in Q2'18.

In comparison to the third quarter of 2017, Interfor posted improved results across most key metrics, including an $8.9 million or 15% improvement in Adjusted EBITDA, an $11.3 million or 67% increase in net earnings and a 29 million board foot rise in lumber production.

Notable items in the quarter included:

- Lower Lumber Prices
    - Key benchmark prices decreased quarter-over-quarter, with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' benchmark dropping by US$63, US$98 and US$94 per mfbm, respectively. Interfor's average lumber selling price fell $52 from Q2'18 to $701 per mfbm.
    - Lumber prices have experienced an unusual level of volatility in 2018. The logistics disruptions that occurred in Q1'18 led to a significant increase in lumber inventories being trapped at producer yards. This supply side constraint, combined with growing demand, contributed to an unprecedented rise in lumber prices during the early part of the year. As shipment levels increased, prices responded, falling in record amounts from late May through the end of September and dropping further in the early part of Q4'18. Notwithstanding the volatility experienced in 2018, Interfor believes that the underlying fundamental drivers of demand for its lumber products remain positive.
- Production Balanced With Shipments
    - Total lumber production was 674 million board feet or 14 million board feet lower than the prior quarter. Production in the U.S. South region of 313 million board feet was negatively impacted by several factors including preventative downtime ahead of Hurricane Florence and maintenance/project related downtime, which contributed to a 12 million board feet decrease from the preceding quarter. The B.C. and U.S. Northwest regions accounted for 224 million board feet and 137 million board feet, respectively, compared to 215 million board feet and 148 million board feet in Q2'18, respectively.
    - Total lumber shipments were 685 million board feet, of which 675 million board feet were Interfor produced volumes, with the balance of 10 million board feet being agency and wholesale volumes. Total lumber shipments were 15 million board feet lower than Q2'18, as Q3'18 shipments were negatively impacted by adverse weather in the U.S. South. The Company's lumber inventory was reduced 2 million board feet quarter-over-quarter.
    - Production in Q4'18 from Interfor's B.C. Interior operations will be impacted by a previously announced temporary curtailment. The curtailment is in response to the combination of declining lumber prices and escalating log costs and is expected to reduce the Company's production in the region by approximately 20% during the quarter.
- Higher Operating Costs
    - Interfor's production costs increased by $22 per mfbm of lumber sold in Q3'18 versus Q2'18, as a result of several factors, including: (i) higher stumpage and log hauling costs in the B.C. Interior; (ii) higher log and lumber inventory valuation adjustments due to the decline in lumber prices; (iii) higher maintenance spending in the U.S. South; and (iv) lower production due to the downtime from several maintenance projects and adverse weather in the U.S. South.

- Strong Cash Flows and Liquidity
  - Interfor generated $69.7 million of cash from operations before changes in working capital, or $1.00 per share. Total cash generated from operations was $85.0 million.
  - Net debt ended the quarter at $3.8 million, or 0.4% of invested capital, resulting in available liquidity of $567.2 million. The Company closed on its previously announced agreement to extend US$84 million of its 2021 to 2023 term debt maturities to 2027 to 2029, resulting in a weighted average fixed interest rate on its term debt of 4.47%.
  - Capital spending was $38.5 million on a mix of high-return discretionary, maintenance and woodlands projects. In addition, Interfor has US$12.6 million of deposits placed with key suppliers for capital equipment related to Phases I and II of its strategic capital plan.
  - Interfor purchased and cancelled 597,245 of its common shares at a total cost of $12.0 million. The Company's existing normal course issuer bid ("NCIB") permits the purchase of up to 3,500,000 common shares until its expiry on March 6, 2019.
- Softwood Lumber Duties
  - Interfor expensed $15.9 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$52.9 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. Of this total, US$3.2 million is recorded as a receivable in respect of overpayments arising from duty rate adjustments and US$49.7 million has been expensed and is not recorded on the balance sheet as a receivable.

Strategic Capital Plan Update

- Interfor continues to make progress on previously announced Phases I and II strategic capital projects in the U.S. South. The Phase I projects total US$65 million at the Meldrim, Georgia and Monticello, Arkansas sawmills. Both of these projects remain on budget, with completion set for the Meldrim project in Q1'19 and the Monticello project by Q2'19. The Phase II projects total US$240 million at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina. These projects are on track for completion in various stages over the period of 2019 to 2021.

Greenfield Decision Postponed Indefinitely

- Over the past year, Interfor has been assessing the feasibility of greenfield sawmill opportunities in the U.S. South. In that regard, the Company has completed a detailed engineering study, secured the rights to a well-located site and negotiated a number of ancillary arrangements in support of the project. However, based on prevailing market conditions for greenfield projects, including equipment lead times, contractor availability and projected capital costs, Interfor has concluded the project does not currently meet its criteria for discretionary investments and has postponed its decision on the project for an indefinite period.
- In the meantime, the Company intends to focus on the previously announced Phase I and II internal capital projects and on other capital investment alternatives. Any future decision on the greenfield project would likely result in that project being scheduled for construction, if at all, subsequent to the Phase I and II capital projects achieving substantial completion.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term, particularly in the North American repair & 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	For the 3 months ended Sept. 30 2018	Sept. 30 2017	Jun. 30 2018	For the 9 months ended Sept. 30 2018	Sept. 30 2017
Financial Highlights [2]						
Total sales	$MM	570.5	489.2	619.9	1,718.0	1,457.3
Lumber	$MM	480.3	410.2	527.0	1,453.2	1,233.4
Logs, residual products and other	$MM	90.2	79.0	92.9	264.8	223.9
Operating earnings	$MM	41.3	28.3	85.9	173.6	101.5
Net earnings	$MM	28.1	16.8	63.8	124.8	61.0
Net earnings per share, basic	$/share	0.40	0.24	0.91	1.78	0.87
Adjusted net earnings [3]	$MM	28.2	20.0	68.9	133.9	71.4
Adjusted net earnings per share, basic [3]	$/share	0.40	0.29	0.98	1.91	1.02
Operating cash flow per share (before working capital changes) [3]	$/share	1.00	0.82	1.76	3.83	2.72
Adjusted EBITDA [3]	$MM	69.4	60.5	123.8	274.2	198.2
Adjusted EBITDA margin [3]	%	12.2%	12.4%	20.0%	16.0%	13.6%
Total assets	$MM	1,539.5	1,296.3	1,536.0	1,539.5	1,296.3
Total debt	$MM	258.9	249.6	263.4	258.9	249.6
Net debt	$MM	3.8	176.9	34.4	3.8	176.9
Net debt to invested capital [3]	%	0.4%	17.8%	3.4%	0.4%	17.8%
Annualized return on invested capital [3]	%	27.7%	23.9%	48.5%	37.3%	25.5%
Operating Highlights						
Lumber production	million fbm	674	645	688	2,029	1,940
Total lumber sales	million fbm	685	671	700	2,033	1,991
Lumber sales - Interfor produced	million fbm	675	650	689	1,999	1,928
Lumber sales - wholesale and commission	million fbm	10	21	11	34	63
Lumber - average selling price [4]	$/thousand fbm	701	611	753	715	620
Average USD/CAD exchange rate [5]	1 USD in CAD	1.3070	1.2528	1.2911	1.2876	1.3074
Closing USD/CAD exchange rate [5]	1 USD in CAD	1.2945	1.2480	1.3168	1.2945	1.2480

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 consolidated financial statements.
(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

Summary of Third Quarter 2018 Financial Performance

Sales

Interfor recorded $570.5 million of total sales, up 16.6% from $489.2 million in the third quarter of 2017, driven by the sale of 685 million board feet of lumber at an average price of $701 per mfbm. Lumber sales volume increased 14 million board feet, or 2.1%, while average selling prices increased $90 per mfbm, or 14.7%, as compared to the same quarter of 2017.

The increase in the average selling price of lumber reflects significantly higher prices across all key commodity grade benchmarks in Q3'18 as compared to Q3'17. The Western SPF Composite improved by US$31 to US$435 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US$67 to US$468 per mfbm and US$77 to US$463 per mfbm, respectively. The positive impact of increased U.S. Dollar lumber prices was somewhat enhanced by the weakening of the Canadian Dollar against the U.S. Dollar by 4.3% on average in Q3'18 as compared to Q3'17.

Sales generated from logs, residual products and other increased by $11.2 million or 14.2% compared to the same quarter of 2017. Most of this increase is related to higher chip sales and prices, higher log prices, and the weakened Canadian Dollar in Q3'18 versus Q3'17.

Operations

Production costs increased by $65.1 million, or 16.0% over Q3’17, explained primarily by an increase in lumber sales volume of 14 million board feet, market driven log cost increases including higher stumpage rates in B.C and higher average conversion costs per mfbm.

Lumber production of 674 million board feet in Q3’18 was 29 million board feet higher than Q3’17.

Production from the Company’s nine U.S. South sawmills totaled 313 million board feet in Q3’18, up 32 million board feet compared to Q3’17, as the Company increased operating schedules at several mills. Production from the Company’s U.S. Northwest operations and Canadian operations totaled 137 million board feet and 224 million board feet, respectively, in Q3’18, down 1 million and 2 million board feet, respectively, compared to Q3’17.

Interfor expensed the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $15.9 million for Q3’18, up $6.5 million from Q3’17. This increase is attributable to increased shipments and prices, somewhat offset by lower rates in Q3’18. In addition, U.S. CV duties were only levied for a portion of Q3’17, having been suspended on August 26, 2017.

Depreciation of plant and equipment was $20.1 million, up by $1.2 million versus Q3’17. This increase is attributable to a full quarter’s depreciation on capital projects completed in 2017, increased operating hours in Q3’18, and the weakening of the Canadian Dollar.

Depletion and amortization of timber, roads and other was $9.7 million, down $0.7 million from Q3’17, with reduced conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $12.8 million, up $0.9 million from the third quarter of 2017. Q3’18 included higher accruals for short term incentive compensation and certain non-recurring costs not reflected in the Q3’17 comparative.

The $7.5 million long term incentive compensation recovery mostly reflects the impact of a 24.3% decrease during the quarter in the price of Interfor Common Shares used to value share-based awards, coupled with incentive awards maturing. The $3.0 million long term incentive compensation expense in Q3’17 resulted primarily from the impact of incentive awards maturing and a 6.5% increase in the market price for Interfor Common Shares during that quarter.

Finance costs were $2.5 million, or $0.8 million lower than the third quarter of 2017, due mainly to a lower average level of debt outstanding and increased interest revenue on investments.

Capital asset write-downs and restructuring costs in Q3’18 relate to non-cash impairments of certain equipment in the U.S. South related to legacy buildings and equipment that will be replaced through the Company’s strategic capital projects. Q3’17 charges relate to adjustments to prior period accruals partially offset by the settlement of various human resource matters.

Other foreign exchange loss of $1.8 million in Q3’18 results primarily from losses on U.S. Dollar cash held by Canadian operations and short-term intercompany funding as the Canadian Dollar strengthened by 1.7% over the quarter and the Company significantly increased its U.S. Dollar cash balances. Q3’17 losses of $1.4 million reflect unrealized losses on short-term intercompany funding affected by a 3.8% stronger Canadian Dollar over the quarter.

Income Taxes

The Company recorded an income tax expense of $9.0 million in Q3’18, comprised of a $0.7 million current tax expense and an $8.3 million deferred tax expense. The Company recorded an income tax expense of $6.6 million in Q3’17, comprised almost entirely of deferred tax expense. As a result of U.S. Tax Reform enacted December 22, 2017, the Company’s effective tax rate is reduced in Q3’18 as compared to the comparable quarter of 2017.

Net Earnings

The Company recorded net earnings of $28.1 million or $0.40 per share, compared to net earnings of $16.8 million or $0.24 per share in the comparable period of 2017. Adjusted net earnings were $28.2 million or $0.40 per share compared with $20.0 million or $0.29 per share in Q3'17.

Summary of Year-to-Date 2018 Financial Performance

Sales

Interfor recorded $1.7 billion of total sales, up 17.9% from $1.5 billion in the first nine months of 2017, driven by the sale of 2.0 billion board feet of lumber at an average price of $715 per mfbm. Lumber sales volume increased 42 million board feet, or 2.1%, while average selling prices increased $95 per mfbm, or 15.3%, as compared to the first nine months of 2017.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'18 as compared to YTD'17. The Western SPF Composite and SYP Composite benchmarks improved US$106 to US$480 per mfbm and US$75 to US$481 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$113 to US$499 per mfbm for YTD'18 as compared to YTD'17. The positive impact of increased U.S. Dollar lumber prices was somewhat reduced by the strengthening of the Canadian Dollar against the U.S. Dollar by 1.5% on average in YTD'18 as compared to YTD'17.

Sales generated from logs, residual products and other increased by $40.9 million or 18.3% in the first nine months, 2018, as compared to the same period of 2017. Most of this increase is related to a 12.7% increase in log sales volume from B.C. operations with a greater proportion of export log sales, and higher chip prices in B.C. and the U.S. Northwest, partially offset by the stronger Canadian Dollar in YTD'18 versus YTD'17.

Operations

Production costs increased by $153.8 million or 12.8% over the first nine months of 2017, explained primarily by an increase in lumber sales volume of 42 million board feet, higher average conversion costs per mfbm, market driven log cost increases including higher stumpage rates in B.C., and an increase in log sales volume, somewhat offset by the stronger Canadian Dollar in YTD'18 compared to YTD'17.

Lumber production of 2.0 billion board feet in YTD'18 was 89 million board feet higher than YTD'17.

Production from the Company's nine U.S. South sawmills totaled 940 million board feet in YTD'18, up 81 million board feet compared to YTD'17, as the Company increased operating schedules at several mills. Production from the Company's U.S. Northwest operations and Canadian operations totaled 432 million board feet and 657 million board feet, respectively, in YTD'18, an increase of 7 million board feet and 1 million board feet, respectively, from YTD'17.

Interfor expensed $43.7 million of U.S. CV and AD duty deposits YTD'18, representing the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S Interfor, up by $26.9 million from YTD'17. This increase is attributable to increased shipments and prices somewhat offset by lower rates in YTD'18. In addition, U.S. CV and AD duties were only levied for a portion of YTD'17, with CV duties only in effect from April 28, 2017 to August 26, 2017, and AD duties in effect from June 30, 2017 onward.

Depreciation of plant and equipment was $61.0 million, up 4.5% from the first nine months of 2017. This increase is attributable to a full nine months' depreciation on capital projects completed in 2017 and increased operating hours in YTD'18, slightly offset by the stronger Canadian Dollar.

Depletion and amortization of timber, roads and other was $27.5 million, up $0.7 million from the comparable nine months of 2017, with the impact of reduced conventional logging offset by higher road costs.

Corporate and Other

Selling and administration expenses were $40.9 million, up $4.1 million from the first nine months of 2017. The first nine months of 2018 included an incremental accrual for short term incentive compensation, increased infrastructure and certain non-recurring costs not reflected in the YTD'17 comparative.

The $1.4 million long term incentive compensation expense mostly reflects incentive awards maturing, partially offset by the impact of a 9.5% year-to-date decrease in the market price of Interfor Common Shares used to value share-based awards. The $9.9 million long term incentive compensation expense in YTD'17 resulted from the impact of incentive awards maturing and a 31.6% increase in the price for Interfor Common Shares during the first nine months of 2017.

Finance costs decreased to $8.2 million from $10.9 million in the first nine months of 2017 as a result of a lower average level of debt outstanding and increased interest revenue on investments.

Capital asset write-downs and restructuring costs in YTD'18 relate to costs associated with non-cash impairments of an intangible asset and certain equipment in the U.S. South related to legacy buildings and equipment that will be replaced through the Company's strategic capital projects. The YTD'17 charges relate to the settlement of various human resource matters, slightly offset by adjustments to prior period accruals.

Other foreign exchange gains of $0.1 million in YTD'18 result primarily from gains on U.S. Dollar cash held by Canadian operations and short-term intercompany funding as the Canadian Dollar weakened by 3.2% year-to-date and the Company significantly increased its U.S. Dollar cash balances. YTD'17 Other foreign exchange losses of $2.4 million resulted primarily from unrealized losses on short-term intercompany funding affected by a 7.1% stronger Canadian Dollar year-to-date.

Income Taxes

The Company recorded an income tax expense of $40.7 million in YTD'18, comprised of a $3.0 million current tax expense and a $37.7 million deferred tax expense. Current taxes relate mostly to U.S. state income taxes. The YTD'17 income tax expense of $26.2 million is comprised of a $0.7 million current tax expense and a $25.5 million deferred tax expense. As a result of U.S. Tax Reform enacted December 22, 2017, the Company's effective tax rate is reduced in YTD'18 as compared to YTD'17.

Net Earnings

The Company recorded net earnings of $124.8 million, or $1.78 per share, compared to $61.0 million, or $0.87 per share, in the same period of 2017. Adjusted net earnings were $133.9 million, or $1.91 per share, compared to $71.4 million, or $1.02 per share in YTD'17.

Summary of Quarterly Results(1)

		2018			2017				2016
	Unit	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Financial Performance(2)									
Total sales	$MM	570.5	619.9	527.6	532.8	489.2	511.4	456.8	442.3
Lumber	$MM	480.3	527.0	445.9	446.0	410.2	433.7	389.6	363.5
Logs, residual products and other	$MM	90.2	92.9	81.7	86.8	79.0	77.7	67.2	78.8
Operating earnings	$MM	41.3	85.9	46.5	47.9	28.3	42.7	30.4	22.3
Net earnings	$MM	28.1	63.8	33.0	36.2	16.8	24.5	19.7	26.6
Net earnings per share, basic	$/share	0.40	0.91	0.47	0.52	0.24	0.35	0.28	0.38
Adjusted net earnings(3)	$MM	28.2	68.9	36.8	45.1	20.0	28.7	22.7	17.7
Adjusted net earnings per share, basic(3)	$/share	0.40	0.98	0.52	0.64	0.29	0.41	0.32	0.25
Operating cash flow per share (before working capital changes)(3)	$/share	1.00	1.76	1.08	1.19	0.82	1.05	0.85	0.72
Adjusted EBITDA(3)	$MM	69.4	123.8	81.1	89.5	60.5	77.4	60.3	51.3
Adjusted EBITDA margin(3)	%	12.2%	20.0%	15.4%	16.8%	12.4%	15.1%	13.2%	11.6%
Annualized return on invested capital(3)	%	27.7%	48.5%	32.4%	36.4%	23.9%	28.9%	22.0%	18.9%
Shares outstanding - end of period	million	69.4	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	69.9	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	674	688	666	655	645	655	640	607
Total lumber sales	million fbm	685	700	648	686	671	675	645	619
Lumber sales - Interfor produced	million fbm	675	689	635	666	650	654	624	598
Lumber sales - wholesale and commission	million fbm	10	11	13	20	21	21	21	21
Lumber - average selling price(4)	$/thousand fbm	701	753	688	650	611	642	604	588
Average USD/CAD exchange rate(5)	1 USD in CAD	1.3070	1.2911	1.2647	1.2713	1.2528	1.3449	1.3238	1.3341
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.2945	1.3168	1.2894	1.2545	1.2480	1.2977	1.3322	1.3427

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 consolidated financial statements.
(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by 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 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.

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'16 and Q1'17, in the U.S. South in Q3'17 and in the B.C. Interior in Q2'18. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17. Q1'18 lumber shipments were impacted by industry-wide logistics issues, particularly in B.C. operations, which contributed to higher prices in Q1'18 and Q2'18.

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

Liquidity

Balance Sheet

Interfor maintained a strong financial position throughout Q3'18. Net debt at September 30, 2018 was $3.8 million, or 0.4% of invested capital, representing a decrease of $173.1 million from September 30, 2017, and a decrease of $115.5 million from December 31, 2017. The majority of the decrease in net debt in Q3'18 is attributed to strong cash flows generated from operations. Net debt was positively impacted by a strengthened 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 and marketable securities balances.

	For the 3 months ended Sept. 30,		For the 9 months ended Sept. 30,	
Thousands of Dollars	2018	2017	2018	2017
Net debt				
Net debt, period opening, CAD	$34,415	$215,155	$119,300	$289,551
Net repayment on credit facilities, CAD	112	2	111	(40,216)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(4,572)	(9,942)	7,889	(19,005)
Decrease (increase) in cash and cash equivalents, CAD	63,392	(30,525)	(33,953)	(52,543)
Decrease (increase) in marketable securities, CAD	(89,547)	2,176	(89,547)	(921)
Net debt, period ending, CAD	$3,800	$176,866	$3,800	$176,866
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$200,000	$200,000	$200,000	$230,000
Net repayment on credit facilities, USD	-	-	-	(30,000)
U.S. Dollar debt, period ending, USD	$200,000	$200,000	200,000	200,000
Spot rate, period end			1.2945	1.2480
U.S. Dollar debt expressed in CAD			258,900	249,600
Total debt, CAD			258,900	249,600
Cash and cash equivalents, CAD			(165,553)	(71,813)
Marketable securities, CAD			(89,547)	(921)
Net debt, period ending, CAD			$3,800	$176,866

As at September 30, 2018, the Company had net working capital of $411.7 million and available liquidity of $567.2 million, including unrestricted cash, marketable securities and borrowing capacity on operating and term line facilities.

On June 15, 2018, the Company extended the maturity of its U.S. Operating line from May 1, 2019 to June 15, 2021, with no other significant changes. On August 14, 2018, Interfor completed an agreement to extend US$84 million of its 2021 to 2023 Senior Secured Note maturities to 2027 to 2029. As a result, Interfor's weighted average fixed interest rate on its term debt is 4.47%.

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

Cash Flow from Operating Activities

The Company generated $268.4 million of cash flow from operations before changes in working capital in YTD'18, or a $77.9 million increase over YTD'17, driven by significant improvements in lumber sales margins, and slightly offset by CV and AD duties.

There was a net cash inflow from operations after changes in working capital of $237.2 million in YTD'18, with the $31.2 million of cash used in operating working capital primarily related to increased sales volumes, higher sales prices and building of inventories. There was a net cash inflow from operations after changes in working capital of $171.5 million in YTD'17, with $19.0 million invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $186.3 million in YTD'18, net of $0.5 million in proceeds on the disposal of property, plant and equipment. Spending included $56.2 million for property, plant and equipment, timber and other intangible assets, $23.6 million for development of roads, and $106.9 million primarily on marketable securities, as the Company invested surplus cash to yield high returns. Discretionary mill improvements of $38.4 million in YTD'18 include a number of projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello and Meldrim sawmills, and the installation of an autograder at the sawmill in Perry. Maintenance mill improvements totaled $17.8 million in YTD'18, of which the majority was spent on U.S. South operations.

In addition, the Company made deposits of $19.5 million in YTD'18 to secure equipment for capital improvement projects, of which US$12.6 million remains on the balance sheet under Deposits and Other Assets as of September 30, 2018.

In YTD'17, investing activities totaled $66.8 million, including $44.8 million for property, plant and equipment and $25.1 million for development of roads. Discretionary mill improvements of $15.0 million were focused on U.S. South operations. Maintenance mill improvements of $27.4 million during YTD'17 included $4.1 million for a kiln conversion project at the Preston sawmill in the U.S. South.

Cash Flow from Financing Activities

Net cash outflow of $19.7 million in YTD'18 related to interest payments of $7.9 million and the purchase of shares under its NCIB for $12.0 million, slightly offset by proceeds received on the issuance of shares under the Company's stock option plan. Activity on the Company's credit facilities included the repayment of US$84 million of its Series A and B Senior Secured Notes with maturities of 2021 to 2023, issuance of US$84 million of Series D and E Senior Secured Notes with maturities of 2027 to 2029, and short-term funding activities under the Revolving Term Line.

The financing activity outflow of $50.6 million in YTD'17 included net repayments of $40.2 million on the Company's credit facilities and $9.6 million in interest payments.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of September 30, 2018:

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$65,000	$200,000	$258,900	$64,725	$588,625
Maximum borrowing available	$65,000	$200,000	$258,900	$64,725	$588,625
Less:					
Drawings	-	-	258,900	-	258,900
Outstanding letters of credit included in line utilization	14,472	-	-	3,184	17,656
Unused portion of facility	$50,528	$200,000	$ -	$61,541	312,069
Add:					
Cash and cash equivalents					165,553
Marketable securities					89,547
Available liquidity at September 30, 2018					$567,169

As of September 30, 2018, the Company had commitments for capital expenditures totaling $105.6 million.

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, 2018.

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 duty deposits. At September 30, 2018, such instruments aggregated $62.1 million (December 31, 2017 - $56.2 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.

Outstanding Shares

As of November 8, 2018, Interfor had 69,440,917 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 7,707 Common Shares during the first nine months of 2018 as a result of share option exercises.

On March 1, 2018, Interfor renewed its NCIB through March 6, 2019, whereby it can purchase for cancellation up to 3,500,000 Common Shares. During the first nine months of 2018, Interfor purchased 597,245 at a total cost of $12.0 million and cancelled 403,130 of these common shares, with the remaining shares cancelled in October 2018.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2018. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2017, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

IFRS 9, *Financial Instruments*, sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial assets and financial liabilities.

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model to calculate the impairment of financial assets. Application of the ECL model had no impact on the Company's financial statements.

IFRS 15, *Revenue from Contracts with Customers*, replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. There were no changes to the Company's revenue recognition policies as a result of adoption of this standard.

Adoption of these standards had no financial impact on Interfor's financial statements and accordingly, the information presented for 2017 has not been restated. The Company has adopted the additional disclosures required under these standards.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, is considered to be the most significant to Interfor and has a required adoption date of January 1, 2019.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lessee recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease obligation, representing its obligation to make lease payments. Lease expense, which is currently recorded as a Production cost, will be replaced by depreciation on the right-of-use asset and interest expense on the lease obligation.

Interfor intends to adopt the standard using the full retrospective approach with restatement of each prior reporting period presented. Interfor expects to utilize certain practical expedients and apply exemptions for short term and low-value leases.

Based on the preliminary analysis completed to date, it is estimated that the adoption will result in increases of approximately 2%-3% in Total assets and 7%-8% in Total liabilities, and a decrease of 0%-1% in Total shareholders' equity, with no material change to Net earnings.

Right-of-use assets will be accounted for under IAS 16, Property, Plant and Equipment, and will initially be measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. Lease obligations will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes) and 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 interim consolidated financial statements prepared in accordance with IFRS:

	For the 3 months ended			For the 9 months ended	
Thousands of Canadian Dollars except number of shares and per share amounts	Sept. 30 2018	Sept. 30 2017	Jun.30 2018	Sept. 30 2018	Sept. 30 2017
Adjusted Net Earnings					
Net earnings	$28,092	$16,778	$63,775	$124,843	$60,957
Add:					
Capital asset write-downs and restructuring costs (recovery)	5,848	(21)	4,669	10,753	1,781
Other foreign exchange loss (gain)	1,847	1,353	(1,880)	(144)	2,447
Long term incentive compensation expense (recovery)	(7,503)	3,004	3,996	1,351	9,867
Other expense (income)	(192)	347	80	66	992
Post closure wind-down costs and losses (recoveries)	-	(39)	-	4	(26)
Income tax effect of above adjustments	149	(1,456)	(1,701)	(2,926)	(4,588)
Adjusted net earnings	$28,241	$19,966	$68,939	$133,947	$71,430
Weighted average number of shares - basic ('000)	*69,908*	*70,030*	*70,038*	*69,993*	*70,030*
Adjusted net earnings per share	$0.40	$0.29	$0.98	$1.91	$1.02
Adjusted EBITDA					
Net earnings	$28,092	$16,778	$63,775	$124,843	$60,957
Add:					
Depreciation of plant and equipment	20,071	18,836	20,851	60,990	58,406
Depletion and amortization of timber, roads and other	9,715	10,435	8,350	27,482	26,756
Capital asset write-downs and restructuring costs (recovery)	5,848	(21)	4,669	10,753	1,781
Finance costs	2,465	3,294	2,786	8,156	10,891
Other foreign exchange loss (gain)	1,847	1,353	(1,880)	(144)	2,447
Income tax expense	9,044	6,559	21,132	40,709	26,168
EBITDA	77,082	57,234	119,683	272,789	187,406
Add:					
Long term incentive compensation expense (recovery)	(7,503)	3,004	3,996	1,351	9,867
Other expense (income)	(192)	347	80	66	992
Post closure wind-down costs and losses (recoveries)	-	(39)	-	4	(26)
Adjusted EBITDA	$69,387	$60,546	$123,759	$274,210	$198,239
Sales	$570,486	$489,169	$619,893	$1,718,023	$1,457,325
Adjusted EBITDA margin	12.2%	12.4%	20.0%	16.0%	13.6%
Net debt to invested capital					
Net debt					
Total debt	$258,900	$249,600	$263,360	$258,900	$249,600
Cash and cash equivalents	(165,553)	(71,813)	(228,945)	(165,553)	(71,813)
Marketable securities	(89,547)	(921)	-	(89,547)	(921)
Total net debt	$3,800	$176,866	$34,415	$3,800	$176,866
Invested capital					
Net debt	$3,800	$176,866	$34,415	$3,800	$176,866
Shareholders' equity	985,316	817,676	977,294	985,316	817,676
Total invested capital	$989,116	$994,542	$1,011,709	$989,116	$994,542
Net debt to invested capital(1)	0.4%	17.8%	3.4%	0.4%	17.8%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$84,956	$60,977	$133,729	$237,196	$171,475
Cash used in (generated from) operating working capital	(15,223)	(3,474)	(10,579)	31,171	19,028
Operating cash flow (before working capital changes)	$69,733	$57,503	$123,150	$268,367	$190,503
Weighted average number of shares - basic ('000)	*69,908*	*70,030*	*70,038*	*69,993*	*70,030*
Operating cash flow per share (before working capital changes)	$1.00	$0.82	$1.76	$3.83	$2.72
Annualized return on invested capital					
Adjusted EBITDA	$69,387	$60,546	$123,759	$274,210	$198,239
Invested capital, beginning of period	$1,011,709	$1,031,291	$1,028,240	$973,488	$1,076,218
Invested capital, end of period	989,116	994,542	1,011,709	989,116	994,542
Average invested capital	$1,000,413	$1,012,917	$1,019,975	$981,302	$1,035,380
Adjusted EBITDA divided by average invested capital	6.9%	6.0%	12.1%	27.9%	19.1%
Annualization factor	4.0	4.0	4.0	1.33	1.33
Annualized return on invested capital	27.7%	23.9%	48.5%	37.3%	25.5%

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; and labour disruptions. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2017, filed under the Company's profile on www.sedar.com.

The collective agreement with the Southern Interior Canadian United Steelworkers union ("USW") expired on June 30, 2018. Negotiations with the USW regarding renewal of the expired Southern Interior USW union collective agreement are ongoing, and employees continue to work under the terms of the expired agreement with no workplace disruptions.

There have been no other significant changes to the Company's risks and uncertainties during the nine months ended September 30, 2018.

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

For the three and nine months ended September 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Sales (note 12)	$ 570,486	$ 489,169	$ 1,718,023	$ 1,457,325
Costs and expenses:				
Production	472,354	407,222	1,359,291	1,205,504
Selling and administration	12,825	11,936	40,850	36,817
Long term incentive compensation expense (recovery)	(7,503)	3,004	1,351	9,867
U.S. countervailing and anti-dumping duty deposits (note 14(a))	15,920	9,426	43,676	16,739
Depreciation of plant and equipment (note 8)	20,071	18,836	60,990	58,406
Depletion and amortization of timber, roads and other (note 8)	9,715	10,435	27,482	26,756
	523,382	460,859	1,533,640	1,354,089
Operating earnings before write-downs and restructuring	47,104	28,310	184,383	103,236
Capital asset write-downs and restructuring costs (recovery) (note 9)	5,848	(21)	10,753	1,781
Operating earnings	41,256	28,331	173,630	101,455
Finance costs (note 10)	(2,465)	(3,294)	(8,156)	(10,891)
Other foreign exchange gain (loss)	(1,847)	(1,353)	144	(2,447)
Other expense	192	(347)	(66)	(992)
	(4,120)	(4,994)	(8,078)	(14,330)
Earnings before income taxes	37,136	23,337	165,552	87,125
Income tax expense				
Current	663	22	3,000	708
Deferred	8,381	6,537	37,709	25,460
	9,044	6,559	40,709	26,168
Net earnings	$ 28,092	$ 16,778	$ 124,843	$ 60,957
Net earnings per share, basic and diluted (note 11)	$ 0.40	$ 0.24	$ 1.78	$ 0.87

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2018 and 2017 (unaudited)

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Net earnings	$ 28,092	$ 16,778	$ 124,843	$ 60,957
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial gain, net of tax	957	1,192	2,846	794
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	(9,289)	(16,589)	14,688	(31,151)
Loss in fair value of interest rate swaps (note 13)	-	-	-	(11)
Total items that are or may be recycled to Net earnings	(9,289)	(16,589)	14,688	(31,162)
Total other comprehensive income (loss), net of tax	(8,332)	(15,397)	17,534	(30,368)
Comprehensive income	$ 19,760	$ 1,381	$ 142,377	$ 30,589

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and nine months ended September 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 28,092	$ 16,778	$ 124,843	$ 60,957
Items not involving cash:				
Depreciation of plant and equipment (note 8)	20,071	18,836	60,990	58,406
Depletion and amortization of timber, roads and other (note 8)	9,715	10,435	27,482	26,756
Income tax expense	9,044	6,559	40,709	26,168
Finance costs (note 10)	2,465	3,294	8,156	10,891
Other assets	241	(252)	(176)	(70)
Reforestation liability	(2,111)	(522)	(684)	1,787
Provisions and other liabilities	(3,724)	2,178	(4,180)	4,225
Stock options	212	159	558	420
Write-down of plant, equipment and intangibles (note 9)	5,823	-	10,687	-
Unrealized foreign exchange loss (gain)	97	(2)	(84)	(11)
Other expense (income)	(192)	40	66	974
	69,733	57,503	268,367	190,503
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	20,738	(8,785)	(3,232)	(21,041)
Inventories	951	10,417	(30,975)	(5,255)
Prepayments	(560)	(1,011)	(3,344)	(1,430)
Trade accounts payable and provisions	(3,952)	3,576	9,656	9,841
Income taxes paid	(1,954)	(723)	(3,276)	(1,143)
	84,956	60,977	237,196	171,475
Investing activities:				
Additions to property, plant and equipment	(28,968)	(19,805)	(56,133)	(42,957)
Additions to roads and bridges	(9,473)	(8,608)	(23,641)	(25,139)
Additions to timber licenses and other intangible assets	(40)	(461)	(90)	(1,826)
Proceeds on disposal of property, plant and equipment	324	63	509	461
Net proceeds from (additions to) investments and other assets	(93,354)	2,805	(106,919)	2,653
	(131,511)	(26,006)	(186,274)	(66,808)
Financing activities:				
Issuance of share capital, net of expenses	-	-	143	-
Repurchase of share capital	(11,950)	-	(11,950)	-
Interest payments	(2,788)	(2,832)	(7,902)	(9,585)
Debt refinancing costs	(67)	(615)	(70)	(785)
Change in operating line components of long term debt (note 6)	-	2	(1)	(63)
Additions to long term debt (note 6)	155,909	-	155,909	76,107
Repayments of long term debt (note 6)	(155,797)	-	(155,797)	(116,260)
	(14,693)	(3,445)	(19,668)	(50,586)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(2,144)	(1,001)	2,699	(1,538)
Increase (decrease) in cash	(63,392)	30,525	33,953	52,543
Cash and cash equivalents, beginning of period	228,945	41,288	131,600	19,270
Cash and cash equivalents, end of period	$ 165,553	$ 71,813	$ 165,553	$ 71,813

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2018 and December 31, 2017 (unaudited)

(thousands of Canadian Dollars)	Sept. 30, 2018	Dec. 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 165,553	$ 131,600
Marketable securities	89,547	-
Trade accounts receivable and other	117,593	112,470
Income taxes receivable	1,636	1,289
Inventories (note 5)	199,294	165,156
Prepayments and other	16,363	12,562
	589,986	423,077
Employee future benefits	3,497	502
Deposits and other assets	22,712	6,404
Property, plant and equipment	670,173	670,830
Roads and bridges	27,427	24,092
Timber licences	64,794	66,589
Other intangible assets	8,877	14,170
Goodwill	151,354	147,081
Deferred income taxes	653	251
	$ 1,539,473	$ 1,352,996
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 164,066	$ 152,854
Reforestation liability	13,975	12,873
Income taxes payable	251	224
	178,292	165,951
Reforestation liability	27,306	27,535
Long term debt (notes 6 and 13)	258,900	250,900
Employee future benefits	8,170	8,249
Provisions and other liabilities	22,724	26,976
Deferred income taxes	58,765	19,197
Equity:		
Share capital (note 7)	550,864	555,388
Contributed surplus	3,662	8,582
Translation reserve	55,408	40,720
Retained earnings	375,382	249,498
	985,316	854,188
	$ 1,539,473	$ 1,352,996

Contingencies (note 14)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors:

"*L. Sauder*"
Director

"*Thomas V. Milroy*"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the nine months ended September 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2017	$ 555,388	$ 8,582	$ 40,720	$ -	$ 249,498	$ 854,188
Net earnings	-	-	-	-	124,843	124,843
Other comprehensive income:						
Foreign currency translation differences for foreign operations, net of tax	-	-	14,688	-	-	14,688
Defined benefit plan actuarial gain, net of tax	-	-	-	-	2,846	2,846
Contributions and distributions:						
Share issuance, net of expenses (note 7)	214	(71)	-	-	-	143
Share repurchase (note 7)	(4,738)	(5,407)	-	-	(1,805)	(11,950)
Stock options	-	558	-	-	-	558
Balance at September 30, 2018	$ 550,864	$ 3,662	$ 55,408	$ -	$ 375,382	$ 985,316
Balance at December 31, 2016	$ 555,388	$ 7,999	$ 69,574	$ 11	$ 153,695	$ 786,667
Net earnings	-	-	-	-	60,957	60,957
Other comprehensive income (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	(31,151)	-	-	(31,151)
Defined benefit plan actuarial gain, net of tax	-	-	-	-	794	794
Loss in fair value of interest rate swaps (note 13)	-	-	-	(11)	-	(11)
Contributions and distributions:						
Stock options	-	420	-	-	-	420
Balance at September 30, 2017	$ 555,388	$ 8,419	$ 38,423	$ -	$ 215,446	$ 817,676

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three and nine months ended September 30, 2018 and 2017 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, 2017. These financial statements were approved by Interfor's Board of Directors on November 8, 2018.

(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;

(ii) Liabilities for cash-settled share-based compensation arrangements are measured at fair value; and

(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.

The functional and presentation currency of Interfor Corporation is the Canadian Dollar.

3. Significant accounting policies:

Except for the change noted below, these financial statements have been prepared on a consistent basis with the significant accounting policies and methods of computation applied in the Company's audited December 31, 2017, annual consolidated financial statements, which are available on www.sedar.com.

(a) Change in accounting policy:

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

IFRS 9, *Financial Instruments*, sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial assets and financial liabilities.

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model to calculate the impairment of financial assets. Application of the ECL model had no impact on the Company's financial statements.

IFRS 15, *Revenue from Contracts with Customers*, replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. There were no changes to the Company's revenue recognition policies as a result of adoption of this standard.

Adoption of these standards had no financial impact on Interfor's financial statements and accordingly, the information presented for 2017 has not been restated. The Company has adopted the additional disclosures required under these standards.

(b) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 30, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, replacing IAS 17, *Leases*, is considered to be the most significant to Interfor and has a required adoption date of January 1, 2019.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lessee recognizes a right-of-use asset, representing its right to use the underlying asset, and a lease obligation, representing its obligation to make lease payments. Lease expense, which is currently recorded as a Production cost, will be replaced by depreciation on the right-of-use asset and interest expense on the lease obligation.

Interfor intends to adopt the standard using the full retrospective approach with restatement of each prior reporting period presented. Interfor expects to utilize certain practical expedients and apply exemptions for short term and low-value leases.

Based on the preliminary analysis completed to date, it is estimated that the adoption will result in increases of approximately 2%-3% in Total assets and 7%-8% in Total liabilities, and a decrease of 0%-1% in Total shareholders' equity, with no material change to Net earnings.

(Tabular amounts expressed in thousands except per share amounts)

3. Significant accounting policies (continued):

(b) New standards and interpretations not yet adopted (continued):

Right-of-use assets will be accounted for under IAS 16, *Property, Plant and Equipment*, and will initially be measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. Lease obligations will initially be measured at the present value of future lease payments, and will subsequently be measured at amortized cost using the effective interest rate method.

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. Inventories:

	Sept. 30, 2018	Dec. 31, 2017
Lumber	$ 105,438	$ 82,850
Logs	76,322	67,815
Other	17,534	14,491
	$ 199,294	$ 165,156

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, 2018 was $11,461,000 (December 31, 2017 - $9,292,000).

6. Borrowings:

September 30, 2018	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 258,900	$ 64,725	$ 588,625
Maximum borrowing available	65,000	200,000	258,900	64,725	588,625
Drawings	-	-	258,900	-	258,900
Outstanding letters of credit included in line utilization	14,472	-	-	3,184	17,656
Unused portion of line	$ 50,528	$ 200,000	$ -	$ 61,541	$ 312,069
December 31, 2017					
Available line of credit	$ 65,000	$ 200,000	$ 250,900	$ 62,725	$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of line	$ 52,485	$ 200,000	$ -	$ 60,091	$ 312,576

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

Twelve months ending	
September 30, 2019	$ -
September 30, 2020	-
September 30, 2021	7,012
September 30, 2022	7,012
September 30, 2023	7,012
Thereafter	237,864
	$ 258,900

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

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Drawings at opening	$ 263,360	$ 259,540	$ 250,900	$ 308,821
Operating line net drawings (repayments)	-	2	(1)	(63)
Additions to long term debt	155,909	-	155,909	76,107
Repayments of long term debt	(155,797)	-	(155,797)	(116,260)
Effect of changes in foreign exchange rates	(4,572)	(9,942)	7,889	(19,005)
Drawings at September 30	$ 258,900	$ 249,600	$ 258,900	$ 249,600

(Tabular amounts expressed in thousands except per share amounts)

6. Borrowings (continued):

(a) Operating Line and Revolving Term Line:

The Canadian operating line of credit and revolving term line (the "Lines") may be drawn in either CAD$ or US$ advances, and bear interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by trailing twelve months' EBITDA[1].

Borrowing levels under the Lines are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

The Lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on certain of the Company's sawmills.

The Lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The Lines mature on September 15, 2021.

As at September 30, 2018, including outstanding letters of credit, the Lines were drawn by $14,389,000 (December 31, 2017 - $12,333,000) and US$64,000 (December 31, 2017 - US$145,000) revalued at the quarter-end exchange rate to $82,000 (December 31, 2017 - $182,000) for total borrowings of $14,472,000 (December 31, 2017 - $12,515,000).

As at September 30, 2018, $250,528,000 of the Lines were unused (December 31, 2017 - $252,485,000). U.S. Dollar drawings under the Lines were designated as a hedge against the Company's investment in its U.S. operations, and foreign exchange losses of $81,000 in the first nine months and third quarter, 2018 (first nine months, 2017 - $128,000 gain; Quarter 3, 2017 - $nil) were recognized in Foreign currency translation difference in Other comprehensive income.

(b) Senior Secured Notes:

On August 13, 2018, the Company repaid US$45,550,000 and US$38,200,000 of its Series A and Series B Senior Secured Notes, respectively. On August 14, 2018, the Company issued US$45,550,000 of Series D Senior Secured Notes, bearing interest at 4.95%, and US$38,200,000 of Series E Senior Secured Notes, bearing interest at 4.82%, and requiring payments of US$27,917,000 on each of August 14, 2027 and 2028, with the balance due on August 14, 2029.

As at September 30, 2018 the Company's Senior Secured Notes consisted of the following:

	Sept. 30, 2018	Dec. 31, 2017
Series A (US$4,450,000)	$ 5,761	$ 62,725
Series B (US$11,800,000)	15,275	62,725
Series C (US$100,000,000)	129,450	125,450
Series D (US$45,550,000)	58,964	-
Series E (US$38,200,000)	49,450	-
	$ 258,900	$ 250,900

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 total debt to total capitalization and a minimum net worth calculation.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $7,807,000 in the first nine months, 2018 (first nine months, 2017 - $18,940,000 gain) and an unrealized foreign exchange gain of $4,653,000 in the third quarter, 2018 (Quarter 3, 2017 - $9,940,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. The U.S Operating line matures on June 15, 2021.

As at September 30, 2018, the U.S. Operating Line was drawn by US$2,460,000 including outstanding letters of credit, revalued at the quarter-end exchange rate to $3,184,000 (December 31, 2017 - US$2,100,000 revalued at the quarter-end exchange rate to $2,634,000).

As at September 30, 2018, $61,541,000 (US$47,540,000) of the U.S. Operating Line was unused (December 31, 2017 - $60,091,000, or US$47,900,000).

[1] EBITDA, as defined under the related credit agreement, represents earnings before interest, taxes, depreciation, depletion, amortization and non-cash asset revaluations.

(Tabular amounts expressed in thousands except per share amounts)

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2016 and December 31, 2017	70,030,455	$ 555,388
Exercise of stock options in first quarter, 2018	7,707	214
Repurchase of common shares in third quarter, 2018	(597,245)	(4,738)
Balance, September 30, 2018	69,440,917	$ 550,864

On March 1, 2018, the Company renewed a normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 3,500,000 common shares, representing approximately 5% of its common shares issued and outstanding as at March 1, 2018. This NCIB began on March 7, 2018 and expires on March 6, 2019. During the first nine months of 2018, Interfor purchased 597,245 common shares at an average price of $20.01 per share for a cost of $11,950,000. 403,130 of these were cancelled as at September 30, 2018, with the remaining 194,115 cancelled in October 2018.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Production	$ 27,877	$ 27,478	$ 82,826	$ 79,456
Selling and administration	1,909	1,793	5,646	5,706
	$ 29,786	$ 29,271	$ 88,472	$ 85,162

9. Capital asset write-downs and restructuring costs (recovery):

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Write-down of plant, equipment and intangibles	$ 5,823	$ -	$ 10,687	$ -
Severance and legal	25	(20)	66	1,764
Site closure costs	-	(1)	-	17
	$ 5,848	$ (21)	$ 10,753	$ 1,781

In the year-to-date 2018 period, Interfor recorded asset write-downs totaling $10,687,000, primarily on plant and equipment to be replaced in conjunction with capital projects to rebuild and modernize multiple sawmills in the U.S. South.

10. Finance costs:

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Interest on borrowings	$ 2,218	$ 2,881	$ 8,202	$ 9,695
Interest revenue	(432)	(63)	(1,624)	(129)
Interest on defined benefit obligations	617	575	1,768	1,735
Interest revenue on defined benefit assets	(449)	(477)	(1,355)	(1,453)
Unwind of discount on provisions	183	144	527	410
Amortization of deferred finance costs	328	234	638	633
	$ 2,465	$ 3,294	$ 8,156	$ 10,891

11. Net earnings per share:

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

	3 Months September 30, 2018			3 Months September 30, 2017		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Issued shares at June 30		70,038,162			70,030,455	
Effect of shares repurchased in quarter		(130,443)			-	
Basic earnings per share	$ 28,092	69,907,719	$ 0.40	$ 16,778	70,030,455	$ 0.24
Effect of dilutive securities:						
Stock options	-	81,490		-	41,723	
Diluted earnings per share	$ 28,092	69,989,209	$ 0.40	$ 16,778	70,072,178	$ 0.24

(Tabular amounts expressed in thousands except per share amounts)

11. Net earnings per share (continued):

	9 Months September 30, 2018			9 Months September 30, 2017		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		70,030,455			70,030,455	
Effect of shares issued in first nine months		6,046				
Effect of shares repurchased in first nine months		(43,959)			-	
Basic earnings per share	$ 124,843	69,992,542	$ 1.78	$ 60,957	70,030,455	$ 0.87
Effect of dilutive securities:						
Stock options	-	93,642		-	37,945	
Diluted earnings per share	$ 124,843	70,086,184	$ 1.78	$ 60,957	70,068,400	$ 0.87

12. Segmented information:

The Company manages its business as a single operating segment, 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, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
United States	$ 422,939	$ 322,436	$ 1,255,336	$ 1,004,305
Canada	72,316	71,633	221,662	181,409
Japan	29,490	36,941	91,420	106,009
China/Taiwan	24,926	29,312	78,797	90,234
Other export	20,815	28,847	70,808	75,368
	$ 570,486	$ 489,169	$ 1,718,023	$ 1,457,325

Sales by product line are as follows:

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Lumber	$ 480,331	$ 410,196	$ 1,453,232	$ 1,233,496
Logs	44,101	42,057	132,589	109,758
Wood chips and other by-products	42,290	35,519	125,417	109,086
Freight and other	3,764	1,397	6,785	4,985
	$ 570,486	$ 489,169	$ 1,718,023	$ 1,457,325

13. Financial instruments:

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

At September 30, 2018, the fair value of the Company's long term debt exceeded its carrying value by $380,000 (December 31, 2017 - exceeded carrying value by $6,937,000) as measured based on Level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

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 had no outstanding obligations under derivative financial instruments as at September 30, 2018.

The following table summarizes the gain (loss) on derivative financial instruments for the three and nine months ended September 30, 2018 and 2017:

	3 Months Sept. 30, 2018	3 Months Sept. 30, 2017	9 Months Sept. 30, 2018	9 Months Sept. 30, 2017
Interest rate swaps[1]	$ -	$ -	$ -	$ (11)
Lumber futures[2]	(3)	(39)	(29)	582
Total gain (loss), net	$ (3)	$ (39)	$ (29)	$ 571

Notes: [1] Recognized in Other comprehensive income (loss).
[2] Recognized in Sales in Net earnings

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 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%, but subsequently amended to 6.04%.

The rate amendments resulted in an overpayment of duty deposits of US$3,004,000 ($3,920,000) which the Company recorded as a reduction to its U.S. CV and AD duty deposits in the Statement of earnings in December, 2017. As the dispute will be subject to a lengthy resolution process, this receivable was recorded in Deposits and other assets on the Statement of Financial Position. The long term U.S. duty deposit receivable was revalued at the quarter-end exchange rate to $3,889,000 (December 31, 2017 - $3,769,000).

In addition, Interfor recorded US$261,000 in Trade accounts receivable and other for amounts overpaid from November 8 through December 26, 2017 as a result of DoC arithmetic errors in the duty rates, of which US$182,000 (December 31, 2017 – US$187,000) remained outstanding at September 30, 2018.

Cumulative duties of US$52,915,000 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. With the exception of US$3,004,000 recorded in Deposits and other assets and US$182,000 recorded in Trade accounts receivable and other, 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.

(b) Timber licences

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

Interfor is entitled to compensation from the Government based upon the value of the harvesting rights under the Licences. In late 2017, the Company initiated arbitration proceedings. In the third quarter, 2018, the Company negotiated a settlement with the Government on the two most significant timber licences, but did not recognize a gain as the settlement amount is conditional upon approval by the Government's Treasury Board in the normal course. In the interim, Interfor has agreed to hold the arbitration in abeyance.

Compensation for the third licence remains under negotiation.

It is expected that compensation for the Licences will exceed their net book value as at September 30, 2018.

INTERFOR

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