MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 6, 2020

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2019 ("Q4'19" and "2019", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 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 February 6, 2020.

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

Forward-Looking Information

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

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

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

Overview of Fourth Quarter, 2019

Interfor recorded a net loss of $103.8 million, or $1.54 per share, in 2019, compared to net earnings of $111.1 million, or $1.59 per share in 2018. Adjusted EBITDA was $63.4 million on sales of $1.9 billion.

Interfor recorded a net loss in Q4'19 of $41.7 million, or $0.62 per share, compared to $35.6 million, or $0.53 per share in Q3'19 and $13.5 million, or $0.20 per share in Q4'18. Adjusted net loss in Q4'19 was $17.4 million compared to $11.8 million in Q3'19 and $20.2 million in Q4'18.

Adjusted EBITDA was $17.6 million on sales of $456.8 million in Q4'19 versus $16.8 million on sales of $486.5 million in Q3'19.

Included in the Company's results for Q4'19 are $22.7 million (after-tax) for capital asset write-downs and restructuring costs, or $30.4 million on a pre-tax basis. This includes $13.1 million of non-cash impairments for goodwill related to the reconfiguration of the Company's B.C. Coastal business and $16.1 million of non-cash asset impairments on assets in the U.S. Northwest business to reflect their fair value, as well as cash costs of $1.2 million for discontinued operations.

Notable items in the quarter included:

- Mixed Lumber Price Movements
    - Movements in key benchmark prices were mixed compared to Q3'19 as the Western SPF Composite and KD H-F Stud 2x4 9' benchmarks rose by US$16 to US$354 per mfbm and US$10 to US$347 per mfbm, respectively while the SYP Composite declined by US$15 to US$340 per mfbm.
    - Interfor's average lumber selling price fell $17 to $566 per mfbm, on 681 million board feet of lumber sales, partially due to a change in species mix and decline in specialty sales as a result of the closure of the Hammond sawmill.
- Production Balanced with Shipments
    - Total lumber production was 668 million board feet, down 17 million board feet from Q3'19. Production in the B.C. region declined to 187 million board feet from 205 million board feet in the preceding quarter due to the previously announced closure of the Hammond sawmill. The U.S. South and U.S. Northwest regions accounted for 342 million board feet compared to 348 million board feet and 139 million board feet compared to 131 million board feet in Q3'19, respectively.
    - Total lumber shipments were 681 million board feet, including Interfor produced volume of 671 million board feet and agency and wholesale volumes of 10 million board feet, or 11 million board feet lower than Q3'19.
    - Lumber inventory levels ended at 4 million board feet lower than in Q3'19.
- Continued Strong Financial Position
    - Net debt ended the quarter at $224.9 million, or 21.3% of invested capital, resulting in available liquidity of $363.1 million.
    - Interfor generated $16.3 million of cash flow from operations before changes in working capital, or $0.24 per share. Total cash generated from operations was $24.6 million, resulting primarily from lower trade receivable balances.
    - Capital spending was $37.0 million in Q4'19, including $26.6 million on high-return discretionary projects primarily in the U.S. South.

- Softwood Lumber Duties
  - Interfor expensed $11.2 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%.
  - On February 3, 2020, the U.S. Department of Commerce (the "DoC") issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates are the result of the DoC's administrative review and are subject to change until its final rate determinations which are expected in August 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of December 31, 2019 to reflect the preliminary revised duty rates.
  - Cumulative duties of US$94.2 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 in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Reconfiguration of B.C. Coastal Business

On September 3, 2019, Interfor announced a plan to reconfigure its B.C. Coastal business, including the permanent closure of its Hammond sawmill, located in Maple Ridge, B.C., and the reorganization of its forestry and woodlands operations.

Hammond ceased lumber production in early October 2019, sold most of the related log and lumber inventories in Q3'19 and Q4'19 and is expected to sell its remaining lumber inventories by the end of Q1'20. The Hammond site is no longer in use.

Strategic Capital Plan Update

Interfor's previously announced Phase I strategic capital projects at the Meldrim, Georgia and Monticello, Arkansas sawmills were substantially completed at the end of Q2'19 and continue through the ramp-up phase.

The Phase II projects at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina, with a budget of US$240 million, are on track for completion in various stages from 2020 to 2022. As of December 31, 2019, US$56.9 million has been capitalized and the projects remain on budget.

Acquisition of B.C. Interior Cutting Rights from Canfor

On June 3, 2019, Interfor entered into a purchase agreement with Canadian Forest Products Ltd. ("Canfor") to acquire two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior.

The transaction remains subject to various consents, including that by the Government of B.C. and is currently targeted to close in Q1'20 as consultation with stakeholders continues.

Outlook

The near term demand outlook is expected to be impacted by uncertainties related to economic growth in North America as well as a traditional winter seasonal slowdown that can be weather dependant. Industry curtailments and permanent closures in the B.C. Interior and U.S. Northwest should help balance supply with demand over the coming quarters.

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.

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 three months ended Dec. 31 2019	Dec. 31 2018[2]	Sept.30 2019	For the year ended Dec. 31 2019	2018[2]	2017[2]
Financial Highlights[3]							
Total sales	$MM	456.8	468.5	486.5	1,875.8	2,186.6	1,990.1
Lumber	$MM	385.2	387.7	403.5	1,576.1	1,841.0	1,679.4
Logs, residual products and other	$MM	71.6	80.8	83.0	299.7	345.6	310.7
Operating earnings (loss)	$MM	(49.0)	(16.9)	(44.8)	(128.8)	157.9	151.2
Net earnings (loss)	$MM	(41.7)	(13.5)	(35.6)	(103.8)	111.1	97.1
Net earnings (loss) per share, basic	$/share	(0.62)	(0.20)	(0.53)	(1.54)	1.59	1.39
Adjusted net earnings (loss)[4]	$MM	(17.4)	(20.2)	(11.8)	(58.1)	113.5	116.5
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.26)	(0.29)	(0.17)	(0.86)	1.63	1.66
Operating cash flow per share (before working capital changes)[4]	$/share	0.24	0.14	0.03	0.68	4.12	4.03
Adjusted EBITDA[4]	$MM	17.6	8.9	16.8	63.4	291.6	296.8
Adjusted EBITDA margin[4]	%	3.9%	1.9%	3.5%	3.4%	13.3%	14.9%
Total assets	$MM	1,341.9	1,565.3	1,421.0	1,341.9	1,565.3	1,389.6
Total debt	$MM	259.8	272.8	264.9	259.8	272.8	250.9
Net debt[4]	$MM	224.9	63.8	212.7	224.9	63.8	119.3
Net debt to invested capital[4]	%	21.3%	6.2%	19.4%	21.3%	6.2%	12.3%
Annualized return on invested capital[4]	%	6.6%	3.6%	6.1%	6.3%	29.1%	29.0%
Operating Highlights							
Lumber production	million fbm	668	607	685	2,646	2,635	2,595
Total lumber sales	million fbm	681	647	692	2,668	2,680	2,677
Lumber sales - Interfor produced	million fbm	671	639	681	2,626	2,638	2,594
Lumber sales - wholesale and commission	million fbm	10	8	11	42	42	83
Lumber - average selling price[5]	$/thousand fbm	566	599	583	591	687	627
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3200	1.3204	1.3204	1.3269	1.2957	1.2986
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.2988	1.3642	1.3243	1.2988	1.3642	1.2545

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 Fourth Quarter 2019 Financial Performance

Sales

Interfor recorded $456.8 million of total sales, down 2.5% from $468.5 million in the fourth quarter of 2018, driven by the sale of 681 million board feet of lumber at an average price of $566 per mfbm. Lumber sales volume increased 34 million board feet, or 5.3%, while average selling price decreased $33 per mfbm, or 5.5%, as compared to the same quarter of 2018.

Declines in the average selling price of lumber reflect lower prices for Southern Yellow Pine, somewhat offset by higher prices for Western SPF and Hem-Fir. The Southern Yellow Pine benchmarks declined by US$46 to US$340 per mfbm. The Western SPF Composite and the KD HF Stud 2x4 9' benchmarks increased by US$36 to US$354 per mfbm and by US$11 to US$347 per mfbm respectively. Average sales realizations were also lower with a change in species mix and decline in specialty sales as a result of the closure of the Hammond sawmill in Q4'19.

Sales generated from logs, residual products and other decreased by $9.2 million or 11.4% in Q4'19 compared to Q4'18 due mainly to reduced availability of surplus logs.

Operations

Production costs decreased by $19.1 million, or 4.4%, over Q4'18 despite a 5.3% increase in lumber sales volume due to improved log costs, stumpage rates and conversion costs in the B.C. Interior, reduced costs at the Hammond sawmill which ceased production in early October 2019, and a reduction in the net realizable value provision for log and lumber inventories.

Lumber production of 668 million board feet in Q4'19 was 61 million board feet higher than Q4'18.

Production from the Canadian operations increased by 13 million board feet to 187 million board feet in Q4'19, compared to Q4'18, due to increased operating schedules in the B.C. Interior sawmills which took market driven curtailments in Q4'18, partially offset by the closure of the Hammond sawmill in Q4'19. Production from the Company's U.S. South sawmills totaled 342 million board feet in Q4'19, up 39 million board feet compared to Q4'18, as Q4'18 was impacted by weather related curtailments and log shortages. Production from the Company's U.S. Northwest operations totaled 139 million board feet in Q4'19, up 9 million board feet compared to Q4'18.

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 $11.2 million for Q4'19, up $1.6 million from Q4'18. The increase is attributable to higher shipments to the U.S. from Canadian sawmills partially offset by lower prices in Q4'19 as compared to Q4'18.

Depreciation of plant and equipment was $20.7 million, up $1.5 million from Q4'18, due to the completion of Phase I capital projects in the U.S. South and higher operating rates. Depletion and amortization of timber, roads and other was $14.2 million, up $3.0 million from Q4'18, primarily due to increased conventional logging on the B.C. Coast slightly offset by the absence of amortization on an intangible asset recognized on acquisition of certain sawmills in the U.S. South that became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $9.0 million, down $2.9 million from Q4'18. The fourth quarter of 2018 included a higher accrual for short term incentive compensation and certain non-recurring costs not reflected in the Q4'19 comparative.

The $1.3 million long term incentive compensation expense mostly reflects the impact of a 4.8% increase in the market price for Interfor Common Shares. The long term incentive compensation recovery of $9.2 million in Q4'18 resulted primarily from a 27.9% decrease in the market price for Interfor Common Shares used to value shares during the quarter.

Capital asset and goodwill write-downs and restructuring costs in Q4'19 were $30.4 million. This includes an impairment charge of $13.1 million for goodwill related to the reconfiguration of the Company's B.C. Coastal business and $16.1 million in impairments against sawmill assets in the U.S. Northwest to reflect their fair value as well as cash costs of $1.2 million for discontinued operations. The majority of capital asset write-downs and restructuring costs in Q4'18 relate to non-cash impairments on buildings and equipment in the U.S. South that were replaced in conjunction with the Company's strategic capital projects.

Finance costs increased to $3.7 million in Q4'19 from $2.8 million in Q4'18 primarily as a result of lower interest income from short term investments due to reductions in surplus cash balances.

Other foreign exchange loss of $0.5 million in Q4'19 and Other foreign exchange gains of $3.3 million in Q4'18 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The closing Canadian Dollar strengthened by 1.9% in Q4'19 and Interfor held significantly lower U.S. Dollar cash balances on average in Q4'19 as compared to Q4'18.

Other expense of $0.3 million in Q4'19 and Other income of $1.3 million in Q4'18 resulted from the disposal of surplus and scrapped equipment.

Income Taxes

The Company recorded an income tax recovery of $11.9 million in Q4'19, comprised of $0.8 million in current income tax recovery and a $11.1 million deferred tax recovery. The Company recorded an income tax recovery of $1.6 million in Q4'18, comprised of a negligible amount of current income tax and a $1.6 million deferred tax recovery.

Net Earnings

The Company recorded a Net loss of $41.7 million, or $0.62 per share, compared to $13.5 million, or $0.20 per share in Q4'18. Adjusted net loss was $17.4 million, or $0.26 per share, compared with $20.2 million, or $0.29 per share in Q4'18.

Summary of 2019 Financial Performance

Sales

Interfor recorded $1.9 billion in total sales, down 14.2% from $2.2 billion in 2018, driven by the sale of 2.7 billion board feet of lumber at an average price of $591 per mfbm. Lumber sales volume was consistent year over year while average selling price decreased $96 per mfbm, or 14.0%, as compared to 2018.

The decrease in the average selling price of lumber reflects lower prices across all benchmark products in 2019 as compared to 2018. The Western SPF Composite decreased by US$96 to US$344 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Yellow Pine Composite decreased US$114 to US$345 per mfbm and US$91 to US$366 per mfbm, respectively.

Sales generated from logs, residual products and other decreased by $45.9 million, or 13.3% compared to 2018, primarily as a result of a 21.9% decline in log production from B.C. operations, resulting in fewer surplus logs available for sale.

Operations

Production costs decreased by $61.2 million or 3.4% as compared to 2018 despite no change in lumber sales volumes, increased log costs and stumpage rates in the B.C. Interior and the negative impact of the Canadian Dollar which weakened by 2.4% against the U.S. Dollar, on average. Interfor's production costs were positively impacted by a reduction in conversion costs in the U.S. South, lower log costs in the U.S. Northwest, reduced costs at the Hammond sawmill which ceased production in early October 2019, and a reduction in the net realizable value provision for log and lumber inventories.

Lumber production was flat at 2.6 billion board feet in both 2019 and 2018.

Production from the Canadian operations declined by 56 million board feet to 775 million board feet in 2019, compared to 2018, as a result of the permanent closure of the Hammond sawmill in Q4'19 and temporary market curtailments taken in the B.C Interior in Q1'19 and Q2'19 in response to weak lumber prices and high log costs. Production from the Company's U.S. South sawmills totaled 1.3 billion board feet in 2019, up 82 million board feet compared to 2018, as the Company increased operating schedules at several mills and Phase I capital projects completed. Production from the Company's U.S. Northwest operations totaled 546 million board feet in 2019, down 16 million board feet compared to 2018 as a result of reduced operating schedules to reflect soft markets.

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 $45.3 million in 2019, down $8.0 million from 2018. The decrease is attributable to lower shipments to the U.S. from Canadian sawmills and lower prices in 2019 as compared to 2018.

Depreciation of plant and equipment was $80.4 million, comparable to 2018. Depletion and amortization of timber, roads and other was $44.3 million, down 3.9% as compared with 2018, as an intangible asset recognized on acquisition of certain sawmills in the U.S. South in 2014 became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $38.7 million, down $13.3 million from 2018. 2018 included an incremental accrual for short term incentive compensation and certain other costs not reflected in the 2019 comparative.

The $3.4 million Long term incentive compensation expense mostly reflects the vesting of various incentive plans as well as a 7.5% increase in the market price of Interfor Common shares used to value share-based awards. The $7.8 million Long term incentive compensation recovery in 2018 reflects the impact of a 33.8% decrease in the market price of Interfor Common Shares used to value share-based awards.

Capital asset and goodwill write-downs and restructuring costs in 2019 were $64.0 million. This includes $14.5 million in asset impairments for capital asset write-downs on buildings, equipment and other assets related to the permanent closure of Interfor's Hammond sawmill, and $13.1 million for the impairment of goodwill and $19.1 million in costs for the settlement of various human resource and other matters resulting from the reconfiguration of the Company's B.C. Coastal business and succession arrangements related to the retirement of Interfor's CEO on December 31, 2019. In addition, the Company took $16.1 million in impairments against sawmill assets in the U.S. Northwest to reflect their fair value, and $1.8 million against certain equipment in the U.S. South scheduled to be replaced as part of capital projects in the region.

Most capital asset write-downs and restructuring costs in 2018 relate to non-cash impairments on buildings and equipment in the U.S. South that were replaced in conjunction with the Company's strategic capital projects, with some charges for settlement of various human resource matters.

Finance costs increased to $15.0 million in 2019 from $12.5 million in 2018 as a result of lower interest revenue on short term investments due to reductions in surplus cash balances and the write-off of unamortized deferred financing fees associated with extinguished credit facilities.

Other foreign exchange loss of $0.3 million in 2019 and other foreign exchange gains of $3.5 million in 2018 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding and cash held by Canadian operations. The closing Canadian Dollar strengthened by 4.8% in 2019 which was offset by lower U.S. Dollar cash balances on average in 2019 as compared to 2018.

Other income of $5.9 million in 2019 relates primarily to a gain recognized as a result of compensation received on the extinguishment of two timber licences on the B.C. Coast. Other income of $1.2 million in 2018 resulted from the disposal of surplus equipment.

<u>Income Taxes</u>

The Company recorded an income tax recovery of $34.4 million in 2019, comprised of negligible current tax expense and a $34.4 million deferred tax recovery. Current taxes relate mostly to U.S. state income taxes. The 2018 income tax expense of $39.1 million is comprised of a $3.0 million current tax expense and a $36.1 million deferred tax expense.

<u>Net Earnings</u>

The Company recorded a Net loss of $103.8 million, or $1.54 per share, compared to Net earnings of $111.1 million, or $1.59 per share in 2018. Adjusted net loss was $58.1 million, or $0.86 per share, in 2019 compared with Adjusted net earnings of $113.5 million, or $1.63 per share in 2018.

Summary of Quarterly Results[1]

	Unit	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018[2] Q4	2018[2] Q3	2018[2] Q2	2018[2] Q1
Financial Performance[3]									
Total sales	$MM	456.8	486.5	481.3	451.2	468.5	570.5	619.9	527.6
Lumber	$MM	385.2	403.5	406.9	380.5	387.7	480.3	527.0	445.9
Logs, residual products and other	$MM	71.6	83.0	74.4	70.7	80.8	90.2	92.9	81.7
Operating earnings (loss)	$MM	(49.0)	(44.8)	(18.2)	(16.8)	(16.9)	41.8	86.4	46.6
Net earnings (loss)	$MM	(41.7)	(35.6)	(11.2)	(15.3)	(13.5)	28.2	63.7	32.7
Net earnings (loss) per share, basic	$/share	(0.62)	(0.53)	(0.17)	(0.23)	(0.20)	0.40	0.91	0.47
Adjusted net earnings (loss)[4]	$MM	(17.4)	(11.8)	(16.2)	(12.7)	(20.2)	28.3	68.9	36.5
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.26)	(0.17)	(0.24)	(0.19)	(0.29)	0.40	0.98	0.52
Operating cash flow per share (before working capital changes)[4]	$/share	0.24	0.03	0.15	0.25	0.14	1.04	1.80	1.12
Adjusted EBITDA[4]	$MM	17.6	16.8	12.6	16.3	8.9	72.5	126.7	83.5
Adjusted EBITDA margin[4]	%	3.9%	3.5%	2.6%	3.6%	1.9%	12.7%	20.4%	15.8%
Annualized return on invested capital[4]	%	6.6%	6.1%	4.6%	6.1%	3.6%	29.1%	49.9%	33.5%
Shares outstanding - end of period	million	67.3	67.3	67.3	67.3	67.8	69.4	70.0	70.0
Shares outstanding - weighted average	million	67.3	67.3	67.3	67.3	68.9	69.9	70.0	70.0
Operating Performance									
Lumber production	million fbm	668	685	647	646	607	674	688	666
Total lumber sales	million fbm	681	692	674	621	647	685	700	648
Lumber sales - Interfor produced	million fbm	671	681	664	610	639	675	689	635
Lumber sales - wholesale and commission	million fbm	10	11	10	11	8	10	11	13
Lumber - average selling price[5]	$/thousand fbm	566	583	603	613	599	701	753	688
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3200	1.3204	1.3377	1.3295	1.3204	1.3070	1.2911	1.2647
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.2988	1.3243	1.3087	1.3363	1.3642	1.2945	1.3168	1.2894

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, the USD/CAD foreign currency exchange rate and long term asset impairments and restructuring charges.

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q1'18 and in the U.S. South in Q3'18. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. The Hammond sawmill closure reduced lumber production and sales commencing in Q4'19. Asset and goodwill impairments and other costs resulting from the B.C. Coastal reorganization and other restructuring activities affected results in Q3'19 and Q4'19. 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 December 31, 2019 was $224.9 million, or 21.3% of invested capital, representing an increase of $161.0 million from the level of net debt at December 31, 2018.

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 offset by the Company's U.S. Dollar cash balances.

	For the three months ended			**For the year ended**	
Thousands of Dollars	**Dec. 31, 2019**	**Dec. 31, 2018**	**Sept. 30, 2019**	**Dec. 31, 2019**	**Dec. 31, 2018**
Net debt					
Net debt, period opening	$212,674	$3,800	$198,209	$63,825	$119,300
Net drawing (repayment) on credit facilities	(1)	(1)	-	754	110
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(5,099)	13,941	3,120	(13,834)	21,830
Decrease (increase) in cash and cash equivalents	16,994	7,286	11,747	127,659	(23,968)
Decrease (increase) in marketable securities	-	49,871	-	41,766	(41,140)
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	292	(11,072)	(402)	4,690	(12,307)
Net debt, period ending	$224,860	$63,825	$212,674	$224,860	$63,825

On March 28, 2019, the Company completed a modernization of its credit facilities. The new facility replaced 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 December 31, 2019, the Company had net working capital of $187.9 million and available liquidity of $363.1 million, including cash and borrowing capacity on its credit 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 sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $45.6 million of cash flow from operations before changes in working capital in 2019, for a decline of $241.5 million over 2018 driven by lower sales margins.

There was a net cash inflow from operations after changes in working capital of $28.3 million in 2019, with $17.3 million of cash invested in operating working capital. The payment of short-term incentive compensation contributed to the $36.4 million outflow related to payables, while the closure of Hammond and a focused effort to manage B.C. log inventory volumes contributed to the $22.6 million inflow from inventories.

In 2018, $265.6 million of cash was generated from operations with $21.5 million of cash invested in operating working capital, driven by strong sales margins for the first three quarters, 2018.

Cash Flow from Investing Activities

Investing activities totaled $124.0 million with capital spending of $158.7 million for plant and equipment, timber licences and other intangibles and $22.4 million for development of roads, offset by $48.3 million in net proceeds from maturing Marketable securities and deposits and $8.9 million in proceeds on disposal of timber, plant, equipment and other.

Discretionary mill improvements of $135.0 million in 2019 include several projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello, Meldrim, Eatonton, Georgetown and Thomaston sawmills and installation of a kiln at the sawmill in Perry, Georgia.

Maintenance capital investments excluding roads totaled $23.6 million in 2019.

In 2018, investing activities were $184.8 million, net of $2.4 million in proceeds on the disposal of property, plant and equipment. Spending included $106.6 million for property, plant and equipment, timber and other intangible assets, $32.2 million for development of roads and $48.4 million on marketable securities, as the Company invested surplus cash to yield higher returns. Discretionary and maintenance mill improvements totaled $78.9 million and $27.5 million, respectively, in 2018, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of $32.0 million in 2019 resulted from $7.8 million used to purchase shares under the Company's normal course issuer bid ("NCIB"), interest payments of $12.2 million, lease payments of $11.6 million, and debt refinancing costs of $1.2 million slightly offset by $0.8 million in short term funding activities under the Revolving Term Line.

Net cash outflow of $56.9 million in 2018 related to the purchase of shares under the NCIB for $36.9 million, interest payments of $10.2 million, and lease payments of $9.9 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, issuance of US$84 million of Series D and E Senior Secured Notes and short-term funding activities under the Revolving Term Line.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2019, including debt and interest payments and major capital improvements are summarized as follows:

		Payments due by Period			
Thousands of Canadian Dollars	Total	Up to 1 Year	2-3 Years	4-5 Years	After 5 Years
Trade accounts payable and provisions	$98,976	$98,976	$ -	$ -	$ -
Income taxes payable	163	163	-	-	-
Reforestation liability	42,212	13,021	12,563	7,782	8,846
Lease liabilities	42,809	11,639	13,451	6,325	11,394
Long term debt	342,592	18,637	36,754	70,340	216,861
Provisions and other liabilities	41,246	11,810	10,720	3,635	15,081
Capital commitments and other	183,473	164,463	19,010	-	-
Total obligations	$751,471	$318,709	$92,498	$88,082	$252,182

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2019:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$350,000	$259,760	$609,760
Maximum borrowing available	$350,000	$259,760	$609,760
Less:			
Drawings	-	259,760	259,760
Outstanding letters of credit included in line utilization	21,752	-	21,752
Unused portion of facility	$328,248	$ -	328,248
Add:			
Cash and cash equivalents			34,900
Available liquidity at December 31, 2019			$363,148

As of December 31, 2019, the Company had commitments for capital expenditures totaling $93.5 million for both maintenance and discretionary capital projects and $60 million in respect of its purchase agreement with Canfor to acquire two replaceable timber licences and a non-replaceable forest licence and other related forestry assets.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 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 December 31, 2019, such instruments aggregated $67.1 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 utilizes financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The 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, interest rate derivatives or lumber futures in 2019 and 2018.

Borrowings

As at December 31, 2019, Interfor had no floating rate debt outstanding on its credit facilities and US$200 million of fixed rate debt of Senior Secured Notes outstanding.

The Company's facilities bear interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at LIBOR for U.S. Dollar loans, in all cases dependent upon a financial ratio.

The Company's Senior Secured Notes have a weighted average fixed interest rate of 4.47%.

During 2019, the Company had minimal borrowings subject to variable interest rates under its credit facilities. As a result, based on the Company's average debt level during 2019, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

Foreign Currency

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

As at December 31, 2019, the Company had designated the US$200 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded a $27.6 million after tax unrealized foreign exchange loss on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2019 (2018 - $43.7 million gain).

Outstanding Shares

As of December 31, 2019, Interfor had 67,259,959 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 14,437 Shares in 2019 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 2019, Interfor purchased 515,500 Shares at a cost of $7.8 million. All Shares repurchased were cancelled.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2019.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2019.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2019, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

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

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

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

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

Key assumptions used are based on industry sources as well as management estimates. Assumptions encompass lumber and residual chip sales prices, applicable foreign exchange rates, operating rates of the assets, raw material and conversion costs, the level of sales to the U.S. from Canada, the CV and AD duty rates, future capital required to maintain the assets in their current operating condition, and other items.

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

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

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

The Company assessed the recoverability of goodwill as at December 31, 2019 and determined there was an impairment of $13.1 million as a result of its B.C. Coastal business reconfiguration. The Company also took an impairment charge against sawmill assets in the U.S. Northwest to reflect their fair value. Both charges were recorded in Capital asset and goodwill write-downs and restructuring costs.

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

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

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

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

Income Taxes. The Company's provision for income taxes, both current and deferred, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for income taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits. Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

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 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 liabilities	Increase	10,158
Long term lease liabilities	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 and 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)

		Adjustment for the year ended December 31, 2018
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 (loss), Adjusted net earnings (loss) 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 Dec. 31, 2019	Dec. 31, 2018[1]	Sept. 30, 2019	For the year ended Dec. 31, 2019	2018[1]	2017[1]
Adjusted Net Earnings (Loss)						
Net earnings (loss)	$(41,676)	$(13,512)	$(35,648)	$(103,785)	$111,058	$97,119
Add:						
Capital asset and goodwill write-downs and restructuring costs	30,416	4,551	31,814	63,982	15,304	9,203
Other foreign exchange loss (gain)	510	(3,330)	(216)	275	(3,474)	2,035
Long term incentive compensation expense (recovery)	1,265	(9,180)	1,049	3,446	(7,829)	12,977
Other (income) expense	298	(1,254)	100	(5,925)	(1,188)	1,987
Post closure wind-down costs and losses (recoveries)	-	-	-	-	4	(21)
Income tax effect of above adjustments	(8,241)	2,530	(8,867)	(16,117)	(396)	(6,848)
Adjusted net earnings (loss)	$(17,428)	$(20,195)	$(11,768)	$(58,124)	$113,479	$116,452
Weighted average number of shares - basic ('000)	*67,257*	*68,884*	*67,253*	*67,277*	*69,713*	*70,030*
Adjusted net earnings (loss) per share	$(0.26)	$(0.29)	$(0.17)	$(0.86)	$1.63	$1.66
Adjusted EBITDA						
Net earnings (loss)	$(41,676)	$(13,512)	$(35,648)	$(103,785)	$111,058	$97,119
Add:						
Depreciation of plant and equipment	20,711	19,241	20,595	80,438	80,065	77,417
Depletion and amortization of timber, roads and other	14,214	11,229	8,142	44,294	46,148	45,957
Capital asset and goodwill write-downs and restructuring costs	30,416	4,551	31,814	63,982	15,304	9,203
Finance costs	3,740	2,758	3,784	15,024	12,452	15,978
Other foreign exchange loss (gain)	510	(3,330)	(216)	275	(3,474)	2,035
Income tax expense (recovery)	(11,851)	(1,553)	(12,804)	(34,359)	39,092	34,115
EBITDA	16,064	19,384	15,667	65,869	300,645	281,824
Add:						
Long term incentive compensation expense (recovery)	1,265	(9,180)	1,049	3,446	(7,829)	12,977
Other (income) expense	298	(1,254)	100	(5,925)	(1,188)	1,987
Post closure wind-down costs and losses (recoveries)	-	-	-	-	4	(21)
Adjusted EBITDA	$17,627	$8,950	$16,816	$63,390	$291,632	$296,767
Sales	$456,819	$468,544	$486,494	$1,875,821	$2,186,567	$1,990,106
Adjusted EBITDA margin	3.9%	1.9%	3.5%	3.4%	13.3%	14.9%
Net debt to invested capital						
Net debt						
Total debt	$259,760	$272,840	$264,860	$259,760	$272,840	$250,900
Cash and cash equivalents	(34,900)	(166,152)	(52,186)	(34,900)	(166,152)	(131,600)
Marketable securities	-	(42,863)	-	-	(42,863)	-
Total net debt	$224,860	$63,825	$212,674	$224,860	$63,825	$119,300
Invested capital						
Net debt	$224,860	$63,825	$212,674	$224,860	$63,825	$119,300
Shareholders' equity	830,982	968,766	880,854	830,982	968,766	849,552
Total invested capital	$1,055,842	$1,032,591	$1,093,528	$1,055,842	$1,032,591	$968,852
Net debt to invested capital[2]	21.3%	6.2%	19.4%	21.3%	6.2%	12.3%
Operating cash flow per share (before working capital changes)						
Cash provided by operating activities	$24,642	$21,096	$29,658	$28,252	$265,612	$266,748
Cash used in (generated from) operating working capital	(8,334)	(11,253)	(27,336)	17,322	21,457	15,621
Operating cash flow (before working capital changes)	$16,308	$9,843	$2,322	$45,574	$287,069	$282,369
Weighted average number of shares - basic ('000)	*67,257*	*68,884*	*67,253*	*67,277*	*69,713*	*70,030*
Operating cash flow per share (before working capital changes)	$0.24	$0.14	$0.03	$0.68	$4.12	$4.03

Notes: 1 Financial information has been restated for implementation of IFRS 16, *Leases*.
2 Net debt to invested capital as of the period end.

Thousands of Canadian Dollars	For the three months ended Dec. 31, 2019	Dec. 31, 2018[1]	Sept. 30, 2019	For the year ended Dec. 31, 2019	2018[1]	2017[1]
Annualized return on invested capital						
Adjusted EBITDA	$17,627	$8,950	$16,816	$63,390	$291,632	$296,767
Invested capital, beginning of period	$1,093,528	$984,189	$1,109,618	$1,032,591	$968,852	$1,076,218
Invested capital, end of period	1,055,842	1,032,591	1,093,528	1,055,842	1,032,591	968,852
Average invested capital	$1,074,685	$1,008,390	$1,101,573	$1,044,217	$1,000,722	1,022,535
Adjusted EBITDA divided by average invested capital	1.6%	0.9%	1.5%	6.1%	29.1%	29.0%
Annualization factor	4.0	4.0	4.0	1.0	1.0	1.0
Annualized return on invested capital	6.6%	3.6%	6.1%	6.1%	29.1%	29.0%

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

Risks and Uncertainties

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

Price Volatility

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

Competition

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

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

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

Availability and Cost of Log Supply

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

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

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

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

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 76% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen. While the Canadian operations also incur some U.S. Dollar–denominated expenses, primarily for ocean freight and other transportation, CV and AD duties, and for equipment operating leases, most expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

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

Government Regulation

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

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

Allowable Annual Cut ("AAC")

The Company holds cutting rights in B.C. that represent an AAC of approximately of 3.39 million cubic metres. Of this amount, 3.34 million cubic metres is in the form of replaceable tenures (4 Tree Farm Licences and 27 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

The AAC is regulated by the Ministry of Forests, Lands, Natural Resource Operations and Rural Development and is subject to a periodic Timber Supply Review process to make determinations that set harvesting rates for each tenure. Many factors affect the AAC, such as timber inventory, operable land base, growth rates, regulations, forest health, land use and environmental and social considerations.

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

Interfor has an agreement to purchase 349,000 m3 of AAC from Canfor in the Kamloops region. The transfer is subject to BC Government consent, and a decision is expected in Q1'20.

Indigenous Peoples

Indigenous peoples have claimed title and rights over substantial portions of B.C., including areas where the Company's forest tenures are situated, creating uncertainty as to the status of competing property rights. The Federal and Provincial governments have been seeking to negotiate settlements with Indigenous peoples throughout B.C. in order to resolve their rights and title claims. In addition, the governments have entered, and may continue to enter, into interim measure (reconciliation) agreements with Indigenous peoples. Any interim measures, agreements or settlements that may result from the treaty process may involve a combination of cash, resources, grants of conditional rights to resources on public lands and rights of self-government. The impact of Indigenous peoples claims or treaty settlements on the Company's forest tenures or the amounts of compensation to the Company, if any, cannot be estimated at this time.

The B.C. Government passed new legislation in November 2019 to reconcile B.C. laws with the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP). This new policy will provide, over time, a mechanism for consent based decision making, which will increase the role of First Nations in resource based activities.

The courts have also established that the Crown has a duty to consult with Indigenous peoples and, where appropriate, accommodate their interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long-standing and complex issues. The Government of B.C. has been working to improve the functional relationship between the Crown and Indigenous peoples prior to treaty settlement. The Province of B.C. and some Indigenous peoples on the coast of B.C. have signed Reconciliation Protocols that provide a shared decision making process for resource and land use, as well as new forest sector opportunities. These agreements overlap portions of the Company's coastal tenures. The agreements will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market for approximately 15% of the Company's total lumber production that is manufactured in Canada and exported to the U.S. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

In October 2016, the U.S. industry made a request to the U.S. Government to take trade action involving the imposition of U.S. protective measures such as CV and AD duties leveled against Canadian softwood lumber producers.

The U.S. Department of Commerce ("DoC") combined all-others duty rate of 20.23% is currently applicable to Interfor. The US duty rate determinations are subject to annual Administrative Reviews, and new rates based on the 2018 Period of Review are expected to be implemented in August 2020. The U.S. International Trade Commission ruling that the U.S. industry was materially injured by Canada's trade practices has set the stage for ongoing litigation.

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

Cumulative duties of US$94.1 million paid by Interfor since 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$3.3 million recorded as a long term receivable, Interfor has recorded the duty deposits as an expense. Interfor is seeking to recover these deposits following a successful appeal or through settlement.

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

Stumpage Fees

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

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

B.C. Coast, and lumber prices in the B.C. Interior.

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The agreement with the USW for the Southern Interior has an expiry date of June 30, 2023, while the B.C. Coast USW agreement expired on June 14, 2019, with negotiations ongoing. Employees under the B.C. Coast USW agreement have continued to work under the terms of the expired agreement with no workplace disruptions at the Acorn sawmill.

The Company also has 18 employees in the B.C. Interior who are members of the Canadian Merchant Service Guild ("CMSG"). The collective agreement with the CMSG expires September 30, 2021.

Workers at the Longview, Washington sawmill are represented by the International Association of Machinist and Aerospace Workers ("IAM"). The IAM collective agreement expires on November 15, 2020.

Information Systems Security

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

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

Additional Information

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