Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2023

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 six months ended June 30, 2023 ("Q2'23" and "YTD'23", respectively). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and six months ended June 30, 2023, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of August 3, 2023.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Second Quarter, 2023", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2022 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; Indigenous reconciliation; the softwood lumber trade dispute between Canada and the United States; environmental impacts of the Company's operations; labour availability; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2022 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 Second Quarter, 2023

Interfor recorded a Net loss in Q2’23 of $14.1 million, or $0.27 per share, compared to $41.3 million, or $0.80 per share in Q1’23 and Net earnings of $269.9 million, or $4.92 per share in Q2’22.

Adjusted EBITDA was $41.9 million on sales of $871.8 million in Q2’23 versus $26.1 million on sales of $829.9 million in Q1’23 and $428.6 million on sales of $1.4 billion in Q2’22.

Notable items in the quarter:

- Record Lumber Shipments Outpaced Production
    - Lumber shipments were a record 1.1 billion board feet, or 112 million board feet higher than Q1’23, which outpaced production resulting in a 16% reduction in lumber inventories.
    - Lumber production totaled 1.0 billion board feet, representing a decrease of 8 million board feet quarter-over-quarter.
    - The U.S. South and U.S. Northwest regions accounted for 468 million board feet and 165 million board feet, respectively, compared to 473 million board feet and 142 million board feet in Q1’23. The Eastern Canada region produced 249 million board feet versus 250 million board feet in Q1’23. Production in the B.C. region decreased to 141 million board feet from 166 million board feet in Q1’23.
- Stabilizing Lumber Prices
    - Lumber prices continued to reflect softened demand driven by the elevated interest rate environment and several supply-side factors. However, lumber prices began to strengthen near the end of Q2’23 from the effects of industry production curtailments and reduced European imports combined with increased new home construction demand. Interfor’s average selling price was $649 per mfbm, up $10 per mfbm versus Q1’23.
    - The SYP Composite and KD H-F Stud 2x4 9’ increased quarter-over-quarter by US$4 and US$24 per mfbm to US$446 and US$452 per mfbm, respectively, while the Western SPF Composite decreased quarter-over-quarter by US$27 per mfbm to US$372 per mfbm. The ESPF Composite remained at US$474 per mfbm quarter-over-quarter.
- Financial Flexibility Improved
    - Net debt at quarter-end was $815.7 million, or 29.6% of invested capital, with available liquidity of $366.1 million.
    - The net debt to invested capital leverage ratio improved compared to the end of Q1’23, driven by $123.0 million of cash flow from operations, including $97.4 million from inventory reductions.
    - Liquidity is expected to be further strengthened during the remainder of 2023 by income tax refunds totaling approximately $100.0 million related to over-installments for the 2022 tax year.
- Strategic Capital Investments
    - Capital spending was $57.7 million, including $40.2 million of discretionary investment focused on multi-year projects in the U.S. South region.
    - Total capital expenditures planned for 2023 remains unchanged from prior guidance at approximately $210.0 million, with continued flexibility to adjust this based on various factors including market conditions.
- Ongoing Monetization of Coastal B.C. Operations
    - The Company is continuing to work with the Ministry of Forests to subdivide and transfer a number of forest tenures from its 1.57 million cubic metres of annual harvesting rights. The timing remains uncertain as to when Ministry approval will be received and certain contractual matters are finalized.

- Softwood Lumber Duties
  - Interfor expensed $17.0 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on shipments of softwood lumber from its Canadian operations to the U.S. at a combined rate of 8.59%.
  - On August 1, 2023, the U.S. Department of Commerce ("DoC") published the final rates for CV and AD duties based on the results of its fourth administrative review covering shipments for the year ended December 31, 2021. The final combined rate for 2021 was 7.99% compared to the cash deposit rate of 8.99% from January to November 2021 and 17.90% for December 2021. The finalization of the fourth administrative review rates indicated an overpayment of duty deposits in 2021 of $18.6 million. The combined rate of 7.99% applied to new shipments effective August 1, 2023.
  - Interfor has cumulative duties of US$530.9 million, or approximately $9.97 per share on an after-tax basis, held in trust by U.S. Customs and Border Protection as at June 30, 2023. Except for US$156.8 million recorded as a receivable in respect of overpayments arising from duty rate adjustments and the fair value of rights to duties acquired, Interfor has recorded the duty deposits as an expense.

Interfor Appoints New Director

On May 19, 2023, the Interfor Board appointed Nicolle Butcher of Toronto, Ontario as a director of the Company. Ms. Butcher is the Chief Operating Officer of Ontario Power Generation, where she has held a wide range of roles with increasing responsibility over the past 22 years. Ms. Butcher's appointment increased the number of directors to eleven and was in line with the Company's Board succession plan.

Outlook

North American lumber markets over the near term are expected to remain volatile as the economy continues to adjust to inflationary pressures, elevated interest rates, labour shortages and geo-political uncertainty. Additionally, potential remains for supply-side disruption in the near term from the record wildfire season in progress in Canada as well as impacts from the protracted port strike in B.C.

Interfor expects that over the mid-term, lumber markets will continue to benefit from favourable underlying supply and demand fundamentals. Positive demand factors include the advanced age of the U.S. housing stock, a shortage of available housing and various demographic factors, while growth in lumber supply is expected to be limited by extended capital project completion and ramp-up timelines, labour availability and constrained global fibre availability.

Interfor's strategy of maintaining a diversified portfolio of operations in multiple regions allows the Company to both reduce risk and maximize returns on capital over the business cycle. Interfor is well positioned with its strong balance sheet and available liquidity to continue pursuing its strategic plans despite ongoing economic and geo-political uncertainty globally. In the event of a sustained lumber market downturn, Interfor maintains flexibility to significantly reduce capital expenditures and working capital levels, and to proactively adjust its lumber production to match demand.

Financial and Operating Highlights[1]

	Unit	For the three months ended Jun. 30 2023	Jun. 30 2022	Mar. 31 2023	For the six months ended Jun. 30 2023	Jun. 30 2022
Financial Highlights[2]						
Total sales	$MM	871.8	1,389.1	829.9	1,701.7	2,738.1
Lumber	$MM	723.2	1,190.8	642.5	1,365.7	2,403.3
Logs, residual products and other	$MM	148.6	198.3	187.4	336.0	334.8
Operating earnings (loss)	$MM	(20.8)	385.9	(36.2)	(57.1)	898.5
Net earnings (loss)	$MM	(14.1)	269.9	(41.3)	(55.4)	666.9
Net earnings (loss) per share, basic	$/share	(0.27)	4.92	(0.80)	(1.08)	11.68
Operating cash flow per share (before working capital changes)[3,5]	$/share	0.68	4.43	0.47	1.15	10.68
Adjusted EBITDA[3]	$MM	41.9	428.6	26.1	67.9	998.7
Adjusted EBITDA margin[3]	%	4.8%	30.9%	3.1%	4.0%	36.5%
Total assets	$MM	3,603.9	3,269.5	3,695.1	3,603.9	3,269.5
Total debt	$MM	918.5	372.6	946.2	918.5	372.6
Net debt[3]	$MM	815.7	102.0	880.0	815.7	102.0
Net debt to invested capital[3]	%	29.6%	4.6%	30.7%	29.6%	4.6%
Annualized return on capital employed[3]	%	(1.1%)	52.9%	(5.0%)	(3.1%)	69.4%
Operating Highlights						
Lumber production	million fbm	1,023	1,016	1,031	2,054	1,933
Lumber sales	million fbm	1,116	1,082	1,004	2,120	1,925
Lumber - average selling price[4]	$/thousand fbm	649	1,104	639	644	1,240
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3428	1.2768	1.3525	1.3477	1.2715
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3240	1.2886	1.3533	1.3240	1.2886

Notes:
1. Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
2. Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
3. Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's unaudited condensed consolidated interim financial statements.
4. Gross sales including duties and freight.
5. Financial information has been adjusted for a reclassification in the presentation of unrealized foreign exchange loss (gain) within cashflow from operations resulting in a $/share change of $0.45 – Q2 2022 and $0.23 - YTD Q2 2022.
6. Based on Bank of Canada foreign exchange rates.

Summary of Second Quarter 2023 Financial Performance

Sales

Interfor recorded $871.8 million of total sales, down 37.2% from $1.4 billion in the second quarter of 2022, driven by the sale of 1.1 billion board feet of lumber at an average price of $649 per mfbm. Average selling price decreased $455 per mfbm, or 41.2%, and lumber sales volume increased 34 million board feet, or 3.1%, as compared to the same quarter of 2022.

The decrease in the average selling price of lumber reflects lower prices across all benchmarks in Q2'23 as compared to Q2'22. The Western SPF Composite, SYP Composite, KD H-F Stud 2x4 9' and ESPF Composite benchmarks decreased by US$465, US$236, US$439, and US$464 per mfbm to US$372, US$446, US$452, and US$474 per mfbm, respectively. This was partially offset by realized lumber prices increasing in Canadian Dollar terms due to the weakening of the Canadian Dollar against the U.S. Dollar in Q2'23 by 5.2% as compared to Q2'22.

Sales generated from logs, residual products and other decreased by $49.7 million or 25.1% in Q2'23 compared to Q2'22 due mainly to a decrease in I-joist sales from the Eastern Canada operations and a decrease in the volume of logs sold.

Operations

Production costs decreased by $100.8 million, or 11.2%, compared to Q2’22, explained primarily by lower stumpage rates in B.C., decreased logging in the B.C. Coastal operations, inventory purchase accounting adjustments recorded in Q2’22 related to the Eastern Canada operations acquired in Q1’22 and a net $36.7 million decrease in the net realizable value provision for log and lumber inventories recorded in Q2’23 versus Q2’22. The decrease is partially offset by inflationary impacts on costs, a weaker Canadian Dollar on average and a 3.1% increase in lumber sales volume in Q2’23 versus Q2’22.

Lumber production of 1.0 billion board feet in Q2’23 was 7 million board feet higher than Q2’22.

Production from the Company’s U.S. South and U.S. Northwest sawmills increased by 1 million board feet and 2 million board feet to 468 million board feet and 165 million board feet, respectively, versus the comparable quarter of 2022. Production from the Company’s Eastern Canada operations increased by 37 million board feet to 249 million board feet compared to Q2’22 primarily due to the operations acquired in Q4’22. Production from the Company’s B.C. operations of 141 million board feet represented a reduction of 33 million board feet compared to Q2’22. The production from the B.C. operations decreased mainly due to market-driven curtailments in Q2’23 and the sale of the Acorn sawmill during Q2’22.

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 $17.0 million for Q2’23, down $29.3 million from Q2’22. The decrease is due to lower lumber sales prices and lower cash deposit rates, partially offset by higher shipments to the U.S. from Canadian sawmills as compared to Q2’22.

Depreciation of plant and equipment was $46.7 million in Q2’23, up $5.1 million from Q2’22, due primarily to the operations acquired in Eastern Canada in 2022 and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $9.9 million, up $0.7 million from Q2’22, primarily due to the operations acquired in Eastern Canada in 2022.

Corporate and Other

Selling and administration expenses were $17.6 million, up $1.5 million from Q2’22 primarily related to expanded general corporate activities offset by lower accruals for short term incentive compensation.

Long-term incentive compensation expense was $2.8 million in Q2’23, up $13.2 million from a recovery of $10.4 million in Q2’22, primarily as a result of the impact of a 9.4% increase in the price of Interfor common shares used to value share-based awards during Q2’23 compared to a 31.9% decrease during Q2’22.

Asset write-downs and restructuring costs in Q2’23 were negligible. The asset write-downs and restructuring costs in Q2’22 were $1.1 million and related to non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company’s strategic capital projects.

Finance costs increased to $13.3 million in Q2’23 from $4.4 million in Q2’22, primarily due to interest expense on higher borrowings to fund the acquisition of the Eastern Canada operations in 2022, partially offset by higher interest income accrued on the long-term duties receivable.

Other foreign exchange gain of $13.7 million in Q2’23 and loss of $20.3 million in Q2’22 resulted 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 foreign exchange gain of $16.5 million recorded in the quarter on intercompany funding remains unrealized, and there was an offsetting loss recorded in Other comprehensive income (loss) for a net nil impact on Equity.

Other expense of $1.8 million in Q2’23 primarily relates to the change in the fair value of the minority interest in GreenFirst Forest Products Inc. (“GreenFirst”), partially offset by insurance proceeds for a business interruption claim related to fire damage at a sawmill. Other expense of $1.9 million in Q2’22 primarily related to the change in the fair value of the minority interest in GreenFirst, partially offset by the gain on the sale of the Acorn specialty sawmill.

Income Taxes

The Company recorded an income tax recovery of $8.1 million in Q2'23 at an effective tax rate of 36%, comprised of $12.6 million current income tax recovery and a $4.5 million deferred tax expense. The effective tax rate exceeds the statutory tax rate due to the tax effect of the appreciation of the U.S. Dollar on U.S. Dollar denominated short-term intercompany funding. The Company recorded income tax expense of $89.4 million in Q2'22 at an effective tax rate of 25%, comprised of $92.8 million current income tax expense and $3.4 million deferred tax recovery.

Net Earnings

The Company recorded a Net loss of $14.1 million, or $0.27 per share, compared to Net earnings of $269.9 million, or $4.92 per share in Q2'22. Operating margins and Net earnings were impacted by lower lumber prices partially offset by the unrealized foreign exchange gain on intercompany funding.

Summary of Year-to-Date 2023 Financial Performance

Sales

Interfor recorded $1.7 billion of total sales, down 37.9% from $2.7 billion in the first half of 2022, driven by the sale of 2.1 billion board feet of lumber at an average price of $644 per mfbm. Average selling price decreased $596 per mfbm, or 48.1%, and lumber sales volume increased 195 million board feet, or 10.1%, as compared to the first six months of 2022.

The decrease in the average selling price of lumber reflects lower prices across all benchmarks in YTD'23 as compared to YTD'22. The Western SPF Composite, SYP Composite, KD H-F Stud 2x4 9', and ESPF Composite benchmarks decreased by US$613, US$457, US$652, and US$621 per mfbm to US$386, US$444, US$440, and US$474 per mfbm, respectively. This was partially offset by realized lumber prices increasing in Canadian Dollar terms by the 6.0% weakening of the Canadian Dollar against the U.S. Dollar in YTD'23 as compared to YTD'22.

Sales generated from logs, residual products and other increased by $1.2 million or 0.3% as compared to the same period of 2022 due mainly to the Eastern Canada operations acquired in Q4'22 which increased the volume of logs sold and the volume of chips produced and sold, partially offset by a decrease in I-joist sales from the Eastern Canada Operations.

Operations

Production costs decreased by $57.8 million, or 3.5% over the first half of 2023, explained primarily by a net $57.4 million decrease in the net realizable value provision for log and lumber inventories recorded YTD'23 versus YTD'22 and inventory purchase accounting adjustments recorded in YTD'22 related to the Eastern Canada operations acquired in Q1'22. The decrease is partially offset by inflationary impacts on costs, a weaker Canadian Dollar on average and a 10.1% increase in lumber sales volume in YTD'23 versus YTD'22.

Lumber production of 2.1 billion board feet in YTD'23 was 121 million board feet higher than YTD'22.

Production from the Company's U.S. South sawmills increased by 22 million board feet to 942 million board feet, while production from the U.S. Northwest sawmills decreased by 30 million board feet to 307 million board feet compared to the first half of 2022. The increase in the U.S. South is primarily related to a full six months of contribution from the restart of operations at the sawmill in DeQuincy, LA in Q1'22 and the rebuild of the Eatonton, GA sawmill that was completed in Q3'22. The decrease in the U.S. Northwest is primarily related to curtailments announced in January 2023. Production from the Company's Eastern Canada operations increased by 191 million board feet to 498 million board feet compared to YTD'22 due to a full six months of contribution from the Eastern Canada operations acquired in Q1'22 and Q4'22. Production from the Company's B.C. operations of 307 million board feet represented a reduction of 62 million board feet compared to YTD'22. The production from the B.C. operations decreased mainly due to curtailments announced in January 2023 and the sale of the Acorn sawmill during Q2'22.

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 $27.7 million for YTD’23, down $54.4 million from YTD’22. The decrease is due to lower lumber sales prices and lower cash deposit rates, partially offset by higher shipments to the U.S. from Canadian sawmills as compared to YTD’22.

Depreciation of plant and equipment was $91.8 million, up 22.8% from the first half of 2022, due primarily to the operations acquired in Eastern Canada in 2022 and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $22.1 million, up $3.8 million from YTD’22, primarily due to the operations acquired in Eastern Canada in 2022.

Corporate and Other

Selling and administration expenses were $34.8 million, up $1.1 million from the first half of 2022, primarily related to expanded general corporate activities, partially offset by lower accruals for short term incentive compensation.

Long-term incentive compensation expense was $5.4 million YTD’23, up $12.1 million from YTD’22, primarily as a result of the impact of a 15.6% increase in the price of Interfor common shares used to value share-based awards during YTD’23 compared to a 34.4% decrease during YTD’22.

Asset write-downs and restructuring costs in YTD’23 totalled $1.7 million, primarily related to non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company’s strategic capital projects and severance. The charges totaling $4.3 million in YTD’22 were of a similar nature.

Finance costs increased to $24.2 million from $9.5 million in the first half of 2022 primarily due to interest expense on higher borrowings to fund the acquisition of the Eastern Canada operations in 2022, partially offset by higher interest income accrued on the long-term duties receivable.

Other foreign exchange gain of $13.7 million in YTD’23 and loss of $7.5 million in YTD’22 result primarily from the period-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The foreign exchange gain of $16.8 million recorded in YTD’23 on intercompany funding remains unrealized, and there was an offsetting loss recorded in Other comprehensive income (loss) for a net nil impact on Equity.

Other expense of $7.4 million in YTD’23 primarily relates to the change in the fair value of the minority interest in GreenFirst, partially offset by insurance proceeds for a business interruption claim related to fire damage at a sawmill and net gains on the disposal of surplus property, plant and equipment and other assets. Other income of $6.9 million in YTD’22 primarily related to insurance proceeds the Company recorded for a business interruption claim related to fire damage at one sawmill and the gain on the sale of the Acorn speciality sawmill, partially offset by the change in the fair value of the minority interest in GreenFirst.

Income Taxes

The Company recorded an income tax recovery of $19.6 million in YTD’23 at an effective tax rate of 26%, comprised of a $18.1 million current income tax recovery and a $1.5 million deferred tax recovery. The Company recorded income tax expense of $221.5 million in YTD’22 at an effective tax rate of 25%, comprised of $215.4 million in current income tax expense and $6.1 million in deferred tax expense.

Net Earnings

The Company recorded a Net loss of $55.4 million, or $1.08 per share, compared to Net earnings of $666.9 million, or $11.68 per share, in the same period of 2022. Operating margins and Net earnings were impacted by lower lumber prices partially offset by higher sales volumes and the unrealized foreign exchange gain on intercompany funding.

Summary of Quarterly Results[1]

		2023		2022				2021	
	Unit	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial Performance[2]									
Total sales	$MM	871.8	829.9	810.3	1,035.6	1,389.1	1,349.0	675.9	664.3
Lumber	$MM	723.2	642.5	656.3	837.8	1,190.8	1,212.5	591.5	559.6
Logs, residual products and other	$MM	148.6	187.4	154.0	197.8	198.3	136.5	84.4	104.7
Operating earnings (loss)	$MM	(20.8)	(36.2)	(114.8)	75.9	385.9	512.7	99.2	54.8
Net earnings (loss)	$MM	(14.1)	(41.3)	(72.2)	3.5	269.9	397.0	69.7	65.6
Net earnings (loss) per share, basic	$/share	(0.27)	(0.80)	(1.40)	0.06	4.92	6.69	1.15	1.05
Operating cash flow per share (before working capital changes)[3,5]	$/share	0.68	0.47	(1.75)	(0.02)	4.43	6.18	2.25	1.09
Adjusted EBITDA[3]	$MM	41.9	26.1	(68.7)	129.5	428.6	570.1	149.5	93.9
Adjusted EBITDA margin[3]	%	4.8%	3.1%	(8.5%)	12.5%	30.9%	42.3%	22.1%	14.1%
Annualized return on capital employed[3]	%	(1.1%)	(5.0%)	(13.8%)	5.6%	52.9%	86.6%	18.2%	16.0%
Shares outstanding - end of period	million	51.4	51.4	51.4	51.4	54.8	55.8	60.8	60.8
Shares outstanding - weighted average	million	51.4	51.4	51.4	54.1	54.9	59.4	60.8	62.7
Operating Performance									
Lumber production	million fbm	1,023	1,031	874	986	1,016	917	758	731
Lumber sales	million fbm	1,116	1,004	939	1,064	1,082	843	719	753
Lumber - average selling price[4]	$/thousand fbm	649	639	699	800	1,104	1,410	822	744
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3428	1.3525	1.3578	1.3056	1.2768	1.2662	1.2603	1.2600
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3240	1.3533	1.3544	1.3707	1.2886	1.2496	1.2678	1.2741

Notes:

1 Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
2 Financial information presented for interim periods in this MD&A is prepared in accordance with IFRS and is unaudited.
3 Refer to the Non-GAAP Measures section of this MD&A for definitions and reconciliations of these measures to figures reported in the Company's unaudited condensed consolidated interim financial statements.
4 Gross sales including duties and freight.
5 Financial information has been adjusted for a reclassification in the presentation of unrealized foreign exchange loss (gain) within cashflow from operations resulting in a $/share change of $0.45 - Q2 2022; $(0.20) - Q1 2022; $0.06 - Q4 2021 and $(0.06) – Q3 2021.
6 Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by volatility in market prices for lumber, seasonality in lumber demand, disruptions in the availability of freight, variability in log costs driven by stumpage rates, fluctuations in the USD/CAD foreign currency exchange rate, temporary production curtailments and sawmill acquisitions, disposals and/or closures.

Lumber production and sales increased in Q3'21 with the acquisition of the sawmills in Bay Springs, MS, Fayette, AL and Philomath, OR, in Q1'22 with the acquisition of operations in Eastern Canada and the restart of the sawmill in DeQuincy, LA and in Q4'22 with the acquisition of sawmills in Belledune, NB and Bathurst, NB. These production and sales increases were partially offset from Q2'22 with the sale of the Acorn specialty sawmill and in Q4'22 and Q1'23 due to the temporary market-related curtailments announced in October 2022 and January 2023, respectively.

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

Liquidity

Balance Sheet

Interfor's Net debt at June 30, 2023 was $815.7 million, or 29.6% of invested capital, representing an increase of $95.4 million from the level of Net debt at December 31, 2022.

As at June 30, 2023 the Company had net working capital of $482.6 million and available liquidity of $366.1 million, based on the available borrowing capacity under its $600.0 million Revolving Term Line ("Term Line").

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

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

	For the three months ended Jun. 30,		For the six months ended Jun. 30,	
Millions of Canadian Dollars	**2023**	**2022**	**2023**	**2022**
Net debt				
Net debt (cash), period opening	$880.0	$340.2	$720.3	$(162.9)
Repayment of Senior Secured Notes	(7.1)	(7.0)	(7.1)	(7.0)
Term Line net drawings (repayments)	-	(35.0)	149.5	(3.9)
(Increase) decrease in cash and cash equivalents	(40.0)	(201.9)	(29.2)	276.4
Foreign currency translation impact on U.S. Dollar denominated cash and cash equivalents and debt	(17.2)	5.7	(17.8)	(0.6)
Net debt, period ending	$815.7	$102.0	$815.7	$102.0

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line was increased by $100.0 million to a total of $600.0 million.

On December 1, 2022, the Company issued US$200.0 million of Series H Senior Secured Notes, bearing interest at 7.06% with principal payments of US$66.7 million due on December 26, 2031, 2032 and on final maturity in 2033.

Cash Flow from Operating Activities

The Company generated $59.0 million of cash flow from operations before changes in working capital in YTD'23, for a decrease of $550.6 million over YTD'22. There was a net cash inflow from operations after changes in working capital of $38.5 million in YTD'23, with $20.5 million of cash invested in operating working capital.

Increased lumber shipments contributed to the $37.7 million outflow related to trade receivables, while a focused effort to reduce log and lumber inventories contributed to the $64.9 million inflow from inventories. Timing of payments contributed to the $38.9 million outflow from trade accounts payable and provisions.

In YTD'22, $674.9 million of cash was generated from operations, with $65.3 million of cash released from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $114.8 million in YTD'23, with $120.6 million for property, plant and equipment, partially offset by $4.7 million in proceeds on disposal of property, plant and equipment and other assets.

Discretionary mill improvements of $85.6 million in YTD'23 were mainly focused on the multi-year rebuild of the Thomaston, GA sawmill, a new planer at the Castlegar, B.C. sawmill, a kiln rebuild at the Bay Springs, MS sawmill and upgrades to the Perry, GA and Summerville, SC sawmills.

Maintenance capital investments excluding roads totaled $35.0 million in YTD'23.

In YTD’22, investing activities were $696.2 million, with $536.1 million for the acquisition of the Eastern Canada operations, $112.0 million for property, plant and equipment, $55.6 million for the investment in GreenFirst, $4.1 million for development of roads and bridges, partially offset by $11.4 million in proceeds on disposal of property, plant and equipment.

Discretionary and maintenance mill improvements totalled $75.4 million and $36.6 million, respectively, in YTD’22, of which the majority was invested in the multi-year rebuild of the Eatonton, GA sawmill, a new planer at the Castlegar, B.C. sawmill and an upgrade of the Perry, GA sawmill.

Cash Flow from Financing Activities

The net cash inflow of $105.5 million in YTD’23 resulted from $149.5 million in Term Line net drawings, partially offset by interest payments of $28.1 million, lease liability payments of $8.7 million and $7.1 million in repayments of Senior Secured Notes.

The net cash outflow of $255.1 million in YTD’22 resulted from $227.2 million used to purchase shares under the Company’s NCIB, $7.0 million in repayments of Senior Secured Notes, interest payments of $9.3 million, lease liability payments of $7.8 million and $3.9 million of Term Line net repayments.

Capital Resources

The following table summarizes Interfor’s credit facilities and availability as of June 30, 2023:

Millions of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit and maximum borrowing available	$600.0	$640.5	$1,240.5
Less:			
Drawings	278.0	640.5	918.5
Outstanding letters of credit included in line utilization	58.7	-	58.7
Unused portion of facility	$263.3	$ -	263.3
Add:			
Cash and cash equivalents			102.8
Available liquidity at June 30, 2023			$366.1

Interfor’s Term Line matures in December 2026 and its Senior Secured Notes have maturities in the years 2024-2033.

As of June 30, 2023, the Company had commitments for capital expenditures totaling $135.5 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and six months ended June 30, 2023.

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 June 30, 2023, such instruments aggregated $126.3 million (December 31, 2022 - $130.6 million).

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

Financial Instruments and Other Instruments

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q2’23 or Q2’22.

Outstanding Shares

As of August 3, 2023, Interfor had 51,444,803 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of August 3, 2023, there were 543,035 stock options outstanding with exercise prices ranging from $9.78 to $37.68 per common share.

On November 3, 2022, the Company announced a renewal of its NCIB commencing on November 11, 2022 and ending on November 10, 2023, for the purchase of up to 5,105,002 common shares. No common shares under this NCIB were purchased in 2022 or the first six months of 2023.

During the first six months of 2022, Interfor purchased 6,041,701 common shares at a cost of $227.2 million and all repurchased common shares were cancelled. This completed the purchase of all 6,041,701 common shares allowable under the previous NCIB that expired November 10, 2022.

Controls and Procedures

During the six months ended June 30, 2023, the Company included within its internal controls over financial reporting ("ICFR") framework the design of disclosure controls and procedures ("DC&P") and ICFR for the Eastern Canada operations acquired on February 22, 2022 and November 30, 2022. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the three and six months ended June 30, 2023 that materially affected, or would be reasonably likely to materially affect, such controls.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended June 30, 2023. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2022, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended June 30, 2023, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these are expected to have a significant effect on future financial statements.

Non-GAAP Measures

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

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

	For the three months ended			For the six months ended	
Millions of Canadian Dollars except number of shares and per share amounts	**Jun. 30 2023**	**Jun. 30 2022**	**Mar. 31 2023**	**Jun. 30 2023**	**Jun. 30 2022**
Adjusted EBITDA					
Net earnings (loss)	$(14.1)	$269.9	$(41.3)	$(55.4)	$666.9
Add:					
Depreciation of plant and equipment	46.7	41.6	45.1	91.8	74.8
Depletion and amortization of timber, roads and other	9.9	9.2	12.2	22.1	18.3
Finance costs	13.3	4.4	10.9	24.2	9.5
Income tax expense (recovery)	(8.1)	89.4	(11.5)	(19.6)	221.5
EBITDA	47.7	414.5	15.4	63.1	991.0
Add:					
Long-term incentive compensation expense (recovery)	2.8	(10.4)	2.6	5.4	(6.7)
Other foreign exchange loss (gain)	(13.7)	20.3	-	(13.7)	7.5
Other expense excluding business interruption insurance	5.0	3.1	6.5	11.4	2.6
Asset write-downs and restructuring costs	0.1	1.1	1.6	1.7	4.3
Adjusted EBITDA	$41.9	$428.6	$26.1	$67.9	$998.7
Sales	$871.8	$1,389.1	$829.9	$1,701.7	$2,738.1
Adjusted EBITDA margin	4.8%	30.9%	3.1%	4.0%	36.5%
Net debt to invested capital					
Net debt					
Total debt	$918.5	$372.6	$946.2	$918.5	$372.6
Cash and cash equivalents	(102.8)	(270.6)	(66.2)	(102.8)	(270.6)
Total net debt	$815.7	$102.0	$880.0	$815.7	$102.0
Invested capital					
Net debt	$815.7	$102.0	$880.0	$815.7	$102.0
Shareholders' equity	1,943.2	2,106.1	1,985.2	1,943.2	2,106.1
Total invested capital	$2,758.9	$2,208.1	$2,865.2	$2,758.9	$2,208.1
Net debt to invested capital[1]	29.6%	4.6%	30.7%	29.6%	4.6%
Operating cash flow per share (before working capital changes)[2]					
Cash provided by (used in) operating activities	$123.0	$393.8	$(84.6)	$38.5	$674.9
Cash used in (generated from) operating working capital	(88.4)	(150.7)	108.8	20.5	(65.3)
Operating cash flow (before working capital changes)	$34.6	$243.1	$24.2	$59.0	$609.6
Weighted average number of shares - basic (millions)	*51.4*	*54.9*	*51.4*	*51.4*	*57.1*
Operating cash flow per share (before working capital changes)	$0.68	$4.43	$0.47	$1.15	$10.68
Annualized return on capital employed					
Net earnings (loss)	$(14.1)	$269.9	$(41.3)	$(55.4)	$666.9
Add:					
Finance costs	13.3	4.4	10.9	24.2	9.5
Income tax expense (recovery)	(8.1)	89.4	(11.5)	(19.6)	221.5
Earnings (loss) before income taxes and finance costs	$(8.9)	$363.7	$(41.9)	$(50.8)	$897.9
Capital Employed					
Total assets	$3,603.9	$3,269.5	$3,695.1	$3,603.9	$3,269.5
Current liabilities	(318.9)	(421.4)	(343.0)	(318.9)	(421.4)
Less:					
Current portion of long-term debt	44.1	7.0	52.4	44.1	7.0
Current portion of lease liabilities	15.8	14.8	14.8	15.8	14.8
Capital employed, end of period	$3,344.9	$2,869.9	$3,419.3	$3,344.9	$2,869.9
Capital employed, beginning of period	3,419.3	2,630.5	3,316.0	3,316.0	2,303.2
Average capital employed	$3,382.1	$2,750.2	$3,367.7	$3,330.4	$2,586.5
Earnings (loss) before income taxes and finance costs divided by average capital employed	(0.3%)	13.2%	(1.2%)	(1.5%)	34.7%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on capital employed	(1.1%)	52.9%	(5.0%)	(3.1%)	69.4%

Notes:

1. Net debt to invested capital as of the period end.
2. Financial information has been adjusted for a reclassification in the presentation of unrealized foreign exchange loss (gain) within cashflow from operations resulting in a $/share change of $0.45 – Q2 2022 and $0.23 - YTD Q2 2022.

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: a public health crisis; price volatility; competition; availability and cost of log supply; natural or man-made disasters; currency exchange sensitivity; government regulation; Indigenous reconciliation; softwood lumber trade; environmental matters; labour availability; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2022, filed under the Company's profile on www.sedar.com.

Additional Information

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three and six months ended June 30, 2023 and 2022 (unaudited)

(millions of Canadian Dollars except per share amounts)	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Sales (note 14)	$ 871.8	$ 1,389.1	$ 1,701.7	$ 2,738.1
Costs and expenses:				
Production	798.5	899.3	1,575.3	1,633.1
Selling and administration	17.6	16.1	34.8	33.7
Long-term incentive compensation expense (recovery)	2.8	(10.4)	5.4	(6.7)
U.S. countervailing and anti-dumping duty deposits (note 16)	17.0	46.3	27.7	82.1
Depreciation of plant and equipment (note 9)	46.7	41.6	91.8	74.8
Depletion and amortization of timber, roads and other (note 9)	9.9	9.2	22.1	18.3
	892.5	1,002.1	1,757.1	1,835.3
Operating earnings (loss) before asset write-downs and restructuring costs	(20.7)	387.0	(55.4)	902.8
Asset write-downs and restructuring costs (note 10)	0.1	1.1	1.7	4.3
Operating earnings (loss)	(20.8)	385.9	(57.1)	898.5
Finance costs (note 11)	(13.3)	(4.4)	(24.2)	(9.5)
Other foreign exchange gain (loss)	13.7	(20.3)	13.7	(7.5)
Other income (expense) (note 12)	(1.8)	(1.9)	(7.4)	6.9
	(1.4)	(26.6)	(17.9)	(10.1)
Earnings (loss) before income taxes	(22.2)	359.3	(75.0)	888.4
Income tax expense (recovery)				
Current	(12.6)	92.8	(18.1)	215.4
Deferred	4.5	(3.4)	(1.5)	6.1
	(8.1)	89.4	(19.6)	221.5
Net earnings (loss)	$ (14.1)	$ 269.9	$ (55.4)	$ 666.9
Net earnings (loss) per share				
Basic (note 13)	$ (0.27)	$ 4.92	$ (1.08)	$ 11.68
Diluted (note 13)	$ (0.27)	$ 4.90	$ (1.08)	$ 11.64

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and six months ended June 30, 2023 and 2022 (unaudited)

(millions of Canadian Dollars)	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Net earnings (loss)	$ (14.1)	$ 269.9	$ (55.4)	$ 666.9
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss), net of tax	-	(1.1)	0.7	1.7
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	(28.2)	52.6	(29.7)	27.9
Total other comprehensive income (loss), net of tax	(28.2)	51.5	(29.0)	29.6
Comprehensive income (loss)	$ (42.3)	$ 321.4	$ (84.4)	$ 696.5

See accompanying notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2023 and 2022 (unaudited)

(millions of Canadian Dollars)	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (14.1)	$ 269.9	$ (55.4)	$ 666.9
Items not involving cash:				
Depreciation of plant and equipment (note 9)	46.7	41.6	91.8	74.8
Depletion and amortization of timber, roads and other (note 9)	9.9	9.2	22.1	18.3
Deferred income tax expense (recovery)	4.5	(3.4)	(1.5)	6.1
Current income tax expense (recovery)	(12.6)	92.8	(18.1)	215.4
Finance costs (note 11)	13.3	4.4	24.2	9.5
Other assets	0.2	(2.4)	0.3	(2.5)
Reforestation liability	(6.8)	(1.7)	(2.0)	0.1
Provisions and other liabilities	1.5	(12.8)	(1.5)	(25.9)
Stock option vesting	0.2	0.2	0.4	0.5
Write-down of plant and equipment (note 10)	-	1.1	1.5	2.3
Unrealized foreign exchange loss (gain)	(8.6)	18.5	(8.4)	8.2
Other expense (income)	1.8	1.9	7.4	(6.9)
Income taxes paid	(1.4)	(176.2)	(1.8)	(357.2)
	34.6	243.1	59.0	609.6
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	16.2	77.3	(37.7)	15.7
Inventories	97.4	54.3	64.9	32.9
Prepayments	(12.3)	(9.5)	(8.8)	(6.6)
Trade accounts payable and provisions	(12.9)	28.6	(38.9)	23.3
	123.0	393.8	38.5	674.9
Investing activities:				
Additions to property, plant and equipment	(57.5)	(61.0)	(120.6)	(112.0)
Additions to roads and bridges	(0.2)	(4.3)	(0.7)	(4.1)
Acquisitions, net of cash acquired (note 5)	-	1.6	0.5	(536.1)
Proceeds on disposal of property, plant and equipment and other	0.6	10.2	4.7	11.4
Investment in GreenFirst Forest Products Inc. (note 12)	-	(55.6)	-	(55.6)
Net proceeds from (additions to) deposits and other assets	0.4	(0.2)	1.3	0.2
	(56.7)	(109.3)	(114.8)	(696.2)
Financing activities:				
Issuance of share capital, net of expenses (note 8)	-	-	0.1	0.4
Share repurchases, net of expenses (note 8)	-	(32.9)	-	(227.2)
Interest payments	(15.0)	(4.3)	(28.1)	(9.3)
Lease liability payments	(4.2)	(3.3)	(8.7)	(7.8)
Debt refinancing costs	-	(0.1)	(0.2)	(0.3)
Term line net drawings (repayments) (note 7)	-	(35.0)	149.5	(3.9)
Repayments of Senior Secured Notes (note 7)	(7.1)	(7.0)	(7.1)	(7.0)
	(26.3)	(82.6)	105.5	(255.1)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(3.4)	5.8	(4.0)	8.4
Increase (decrease) in cash	36.6	207.7	25.2	(268.0)
Cash and cash equivalents, beginning of period	66.2	62.9	77.6	538.6
Cash and cash equivalents, end of period	$ 102.8	$ 270.6	$ 102.8	$ 270.6

See accompanying notes to consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2023 and December 31, 2022 (unaudited)

(millions of Canadian Dollars)	June 30, 2023	Dec. 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 102.8	$ 77.6
Trade accounts receivable and other	214.0	174.1
Income tax receivable	122.9	104.1
Inventories (notes 5 and 6)	327.8	396.9
Prepayments	34.0	25.9
	801.5	778.6
Employee future benefits	18.6	18.4
Deposits and other assets (notes 5, 12 and 16)	268.7	281.6
Right of use assets	34.7	34.0
Property, plant and equipment (note 5)	1,695.4	1,701.2
Roads and bridges (note 5)	30.0	38.1
Timber licences (note 5)	174.6	178.4
Goodwill and other intangible assets	576.7	588.1
Deferred income taxes	3.7	1.4
	$ 3,603.9	$ 3,619.8
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions (note 5)	$ 237.8	$ 285.5
Current portion of long-term debt (notes 7 and 15)	44.1	7.3
Reforestation liability	21.2	17.9
Lease liabilities	15.8	14.8
Income taxes payable	-	0.3
	318.9	325.8
Reforestation liability	27.1	28.7
Lease liabilities	20.3	20.5
Long-term debt (notes 7 and 15)	874.4	790.6
Employee future benefits	10.5	9.9
Provisions and other liabilities	22.3	24.2
Deferred income taxes (note 5)	387.2	393.0
Equity:		
Share capital (note 8)	408.9	408.7
Contributed surplus	5.8	5.5
Translation reserve	146.2	175.9
Retained earnings	1,382.3	1,437.0
	1,943.2	2,027.1
	$ 3,603.9	$ 3,619.8

U.S. countervailing and anti-dumping duty deposits (note 16).
Subsequent event (note 16).

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder"
Director

"T.V. Milroy"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2023 and 2022 (unaudited)

(millions of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2022	$ 408.7	$ 5.5	$ 175.9	$ 1,437.0	$ 2,027.1
Net loss:	-	-	-	(55.4)	(55.4)
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	(29.7)	-	(29.7)
Defined benefit plan actuarial gain, net of tax	-	-	-	0.7	0.7
Contributions and distributions:					
Share issuance, net of expenses (note 8)	0.2	(0.1)	-	-	0.1
Stock option vesting (note 8)	-	0.4	-	-	0.4
Balance at June 30, 2023	$ 408.9	$ 5.8	$ 146.2	$ 1,382.3	$ 1,943.2
Balance at December 31, 2021	$ 484.7	$ 4.7	$ 58.4	$ 1,088.1	$ 1,635.9
Net earnings:	-	-	-	666.9	666.9
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax	-	-	27.9	-	27.9
Defined benefit plan actuarial gain, net of tax	-	-	-	1.7	1.7
Contributions and distributions:					
Share issuance, net of expenses (note 8)	0.6	(0.2)	-	-	0.4
Share repurchases (note 8)	(48.9)	-	-	(178.3)	(227.2)
Stock option vesting (note 8)	-	0.5	-	-	0.5
Balance at June 30, 2022	$ 436.4	$ 5.0	$ 86.3	$ 1,578.4	$ 2,106.1

See accompanying notes to consolidated financial statements.

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in Canada and the United States for sale to markets around the world.

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

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2023 and 2022 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements do not include all the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2022.

These financial statements were approved by Interfor's Board of Directors on August 3, 2023.

(b) Basis of measurement:

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

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

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

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

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

(v) The minority interest in GreenFirst Forest Products Inc. ("GreenFirst") is measured at fair value at each reporting date.

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

(c) Critical accounting estimates:

There were no significant changes to the Company's critical accounting estimates during the quarter ended June 30, 2023. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2022, filed under the Company's profile on www.sedar.com.

3. Significant accounting policies:

These financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2022 annual consolidated financial statements, which are available on www.sedar.com.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2023, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

Quarterly operating results of the Company reflect the seasonality of its operations and markets. Logging operations are seasonal due to several factors including weather, spring break-up, ground conditions and fire season closures. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers and may also be impacted by extreme weather conditions, including hurricanes and wildfires. In addition, the market demand for lumber and related products is generally lowest in the winter season due to reduced construction and renovation activities.

5. Acquisitions

a) Acquisition of Atlantic Canada Operations:

On November 30, 2022, a wholly-owned subsidiary of Interfor acquired 100% of the equity interests in the entities comprising Chaleur Forest Products ("Chaleur") from an affiliate of the Kilmer Group. The acquisition included two sawmill operations and a woodlands management division. The Company paid consideration totaling $383.1 million and the purchase price was funded from drawings on the Revolving Term Line (the "Term Line") (Note 7).

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

5. Acquisitions (continued):

a) Acquisition of Atlantic Canada Operations (continued):

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

Assets Acquired:	
Cash and cash equivalents	$ 8.3
Current assets including inventories	61.9
Countervailing and anti-dumping duties receivable and related interest (note 16)	46.6
Property, plant and equipment	93.1
Timber licenses and other assets	82.0
Goodwill	175.9
	$ 467.8
Liabilities Assumed:	
Current liabilities	(29.9)
Other long-term liabilities	(1.5)
Deferred income taxes	(53.3)
	$ 383.1

b) Acquisition of Eastern Canada Operations:

On February 22, 2022, a wholly-owned subsidiary of Interfor acquired 100% of the equity interests of EACOM Timber Corporation ("EACOM") from an affiliate of Kelso & Company. The acquisition included seven sawmills, an I-joist plant and a value-added remanufacturing plant. The Company paid consideration totaling US$572.4 million ($729.3 million) and the purchase price was funded from cash on hand and drawings on the Term Line (Note 7).

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

Assets Acquired:	
Cash and cash equivalents	$ 193.2
Inventories (including lumber and other wood-products of $148.4 million)	247.1
Other current assets	136.7
Countervailing and anti-dumping duties receivable and related interest (note 16)	90.9
Property, plant and equipment	361.2
Roads and bridges	11.4
Timber licenses	41.7
Other assets	17.6
	$ 1,099.8
Liabilities Assumed:	
Current liabilities	(104.1)
Income taxes payable	(132.5)
Other long-term liabilities	(10.3)
Deferred income taxes	(123.6)
	$ 729.3
Consideration funded by:	
Cash and cash equivalents	582.8
Revolving Term Line	146.5
	$ 729.3

6. Inventories:

	June 30, 2023	Dec. 31, 2022
Lumber and other wood products	$ 176.1	$ 183.1
Logs	86.9	152.4
Other	64.8	61.4
	$ 327.8	$ 396.9

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at June 30, 2023 was $45.0 million (December 31, 2022 - $94.0 million).

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

7. Borrowings:

June 30, 2023	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 600.0	$ 640.5	$ 1,240.5
Drawings	278.0	640.5	918.5
Outstanding letters of credit	58.7	-	58.7
Unused portion of Revolving Term Line	$ 263.3	$ -	$ 263.3

December 31, 2022	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 600.0	$ 662.5	$ 1,262.5
Drawings	135.4	662.5	797.9
Outstanding letters of credit	61.0	-	61.0
Unused portion of Revolving Term Line	$ 403.6	$ -	$ 403.6

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

Twelve months ending	
June 30, 2024	$ 44.1
June 30, 2025	44.1
June 30, 2026	44.1
June 30, 2027	278.0
June 30, 2028	81.1
Thereafter	427.1
	$ 918.5

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

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Drawings at opening	$ 946.2	$ 403.1	$ 797.9	$ 375.7
Revolving Term Line net drawings (repayments)	-	(35.0)	149.5	(3.9)
Repayments of Senior Secured Notes	(7.1)	(7.0)	(7.1)	(7.0)
Effects of changes in foreign exchange rate	(20.6)	11.5	(21.8)	7.8
Drawings at June 30	$ 918.5	$ 372.6	$ 918.5	$ 372.6

(a) Revolving Term Line:

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line was increased by $100.0 million to a total of $600.0 million.

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

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

As at June 30, 2023, including letters of credit, the Term Line was drawn by $19.5 million (December 31, 2022 - $20.9 million) and US$239.6 million (December 31, 2022 - US$129.6 million), revalued at the quarter-end exchange rate to $317.2 million (December 31, 2022 - $175.5 million), for total borrowings of $336.7 million (December 31, 2022 - $196.4 million).

The US dollar drawings under the Term Line have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $6.9 million in the first six months, 2023 (first six months, 2022 – losses of $1.6 million) and $6.2 million in the second quarter, 2023 (Quarter 2, 2022 – nil) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income (loss).

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

7. Borrowings (continued):

(b) Senior Secured Notes:

As at June 30, 2023, the Company's Senior Secured Notes consisted of the following:

	June 30, 2023	Dec. 31, 2022
Series A bearing interest at 4.33%	$ -	$ 2.0
Series B bearing interest at 4.02%	-	5.3
Series C (US$100,000,000) bearing interest at 4.17%	132.4	135.5
Series D (US$45,550,000) bearing interest at 4.95%	60.3	61.7
Series E (US$38,200,000) bearing interest at 4.82%	50.6	51.7
Series F (US$50,000,000) bearing interest at 3.34%	66.2	67.7
Series G (US$50,000,000) bearing interest at 3.25%	66.2	67.7
Series H (US$200,000,000) bearing interest at 7.06%	264.8	270.9
	$ 640.5	$ 662.5

The Senior Secured Notes have a weighted average fixed interest rate of 5.3% and maturities from March 26, 2024 to December 26, 2033.

On December 1, 2022, the Company issued US$200.0 million of Series H Senior Secured Notes, bearing interest at 7.06% with payments of US$66.7 million due on December 26, 2031, 2032 and on final maturity in 2033.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $14.9 million in the first six months, 2023 (first six months, 2022 – losses of $6.2 million) and $14.4 million in the second quarter, 2023 (Quarter 2, 2022 - losses of $11.5 million) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income (loss).

8. Share capital:

The transactions in share capital are described below:

	Number	Amount	Contributed Surplus
Balance, December 31, 2021	60,804,177	$ 484.7	$ 4.7
Exercise of stock options	28,123	0.6	(0.2)
Repurchase of common shares	(9,397,405)	(76.6)	-
Stock option vesting	-	-	1.0
Balance, December 31, 2022	51,434,895	$ 408.7	$ 5.5
Exercise of stock options	9,908	0.2	(0.1)
Stock option vesting	-	-	0.4
Balance, June 30, 2023	51,444,803	$ 408.9	$ 5.8

On July 26, 2022, Interfor announced a substantial issuer bid ("SIB") pursuant to which the Company offered to purchase up to $100.0 milllion in value of its outstanding common shares for cancellation from holders of common shares for cash. The SIB proceeded by way of a "modified Dutch auction" procedure with a tender price range from $29.00 to $34.00 per common share.

On September 12, 2022, Interfor purchased for cancellation 3,355,704 common shares at a price of $29.80 per share for a cost of $100.0 million with $27.2 million charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $72.8 million to Retained earnings. This completed the purchase of all common shares under the SIB and all purchased common shares were cancelled.

On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares. During 2022, Interfor purchased 6,041,701 common shares at an average price of $37.60 per share for a cost of $227.2 million with $48.9 million charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $178.3 million to Retained earnings. This completed the purchase of all 6,041,701 common shares allowable and all purchased common shares were cancelled.

On November 3, 2022, the Company announced a renewal of its NCIB commencing on November 11, 2022 and ending on November 10, 2023, for the purchase of up to 5,105,002 common shares. No common shares under this NCIB were purchased in 2022 and the first six months of 2023.

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function is as follows:

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Production	$ 56.2	$ 50.3	$ 113.1	$ 92.1
Selling and administration	0.4	0.5	0.8	1.0
	$ 56.6	$ 50.8	$ 113.9	$ 93.1

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

10. Asset write-downs and restructuring costs:

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Write-down of plant and equipment	$ -	$ 1.1	$ 1.5	$ 2.3
Severance and other closure costs	0.1	-	0.2	2.0
	$ 0.1	$ 1.1	$ 1.7	$ 4.3

11. Finance costs:

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Interest expense on:				
Borrowings	$ 14.6	$ 4.6	$ 27.3	$ 9.4
Lease liabilities	0.3	0.3	0.7	0.7
Pension obligations	0.6	0.6	1.4	1.0
Duty deposits and other	1.5	0.1	2.1	0.2
Interest revenue from:				
Duty deposits and other	(3.7)	(0.8)	(7.0)	(1.2)
Pension assets	(0.5)	(0.8)	(1.2)	(1.2)
Unwind of discount on provisions	0.3	0.2	0.5	0.3
Amortization of deferred finance costs	0.2	0.2	0.4	0.3
	$ 13.3	$ 4.4	$ 24.2	$ 9.5

12. Other income (expense):

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Business interruption insurance	$ 3.2	$ 1.2	$ 4.0	$ 9.6
Change in fair value of minority interest in GreenFirst	(4.6)	(8.9)	(12.3)	(8.9)
Net gains (losses) on disposal of property, plant and equipment and other	(0.4)	3.5	0.9	3.7
Net gains on lease modifications	-	2.3	-	2.5
	$ (1.8)	$ (1.9)	$ (7.4)	$ 6.9

The Company has recorded $4.0 million in the first six months, 2023 (first six months, 2022 - $9.6 million) and $3.2 million in the second quarter, 2023 (Quarter 2, 2022 - $1.2 million) for insurance proceeds from a business interruption claim related to fire damage at one of its operations in Eastern Canada which occurred prior to its acquisition.

On May 2, 2022, Interfor acquired a total of 28,684,433 common shares in the capital of GreenFirst from Rayonier A.M. Canada G.P. The Company paid total cash consideration of $55.6 million. The minority interest in GreenFirst is recorded at fair value on the Statements of Financial Position in Deposits and other assets and changes in the fair value are recorded in the Statements of Earnings (Loss) in Other income (expense).

On May 13, 2022, the Company sold its Acorn specialty sawmill located near Vancouver, British Columbia to an affiliate of San Industries Ltd. for cash consideration of $25.2 million and recorded a gain on the sale of $6.2 million.

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

13. Net earnings (loss) per share:

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

	Three Months June 30, 2023			Three Months June 30, 2022		
	Net loss	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at March 31		51,441,803			55,803,037	
Effect of shares issued		33			-	
Effect of shares repurchased		-			(929,518)	
Basic earnings (loss) per share	$ (14.1)	51,441,836	$ (0.27)	$ 269.9	54,873,519	$ 4.92
Effect of dilutive securities:						
Stock options		93,165			182,404	
Diluted earnings (loss) per share	$ (14.1)	51,441,836*	$ (0.27)	$ 269.9	55,055,923	$ 4.90

	Six Months June 30, 2023			Six Months June 30, 2022		
	Net loss	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at December 31		51,434,895			60,804,177	
Effect of shares issued		5,117			17,852	
Effect of shares repurchased		-			(3,719,394)	
Basic earnings (loss) per share	$ (55.4)	51,440,012	$ (1.08)	$ 666.9	57,102,635	$ 11.68
Effect of dilutive securities:						
Stock options		102,319			212,068	
Diluted earnings (loss) per share	$ (55.4)	51,440,012*	$ (1.08)	$ 666.9	57,314,703	$ 11.64

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

14. Segmented information:

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

Sales by market are as follows:

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
United States	$ 699.7	$ 1,113.3	$ 1,320.8	$ 2,294.2
Canada	156.8	241.1	347.9	368.8
Japan	4.4	10.2	9.3	24.3
Other export	5.8	18.6	11.6	39.4
China/Taiwan	5.1	5.9	12.1	11.4
	$ 871.8	$ 1,389.1	$ 1,701.7	$ 2,738.1

Sales by product line are as follows:

	Three Months June 30, 2023	Three Months June 30, 2022	Six Months June 30, 2023	Six Months June 30, 2022
Lumber and other wood products	$ 753.2	$ 1,262.1	$ 1,423.4	$ 2,502.3
Logs	30.7	49.1	101.4	89.4
Wood chips and other by-products	76.1	73.0	156.4	134.2
Other	11.8	4.9	20.5	12.2
	$ 871.8	$ 1,389.1	$ 1,701.7	$ 2,738.1

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

15. Financial instruments:

At June 30, 2023, the fair value of the Company's Long-term debt was less than its carrying value by $14.5 million (December 31, 2022 - $17.8 million) measured based on the level 2 of the fair value hierarchy.

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

As at June 30, 2023, the Company had no outstanding obligations under derivative financial instruments.

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

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards.

The following table summarizes the cash deposit rates that were in effect and the final revised rates by period:

Year ended December 31 First administrative review			Cash deposit rates in effect	Final rates
2017				
AD			6.04%	1.57%
CV			14.19%	7.26%
Total			20.23%	8.83%
2018				
AD			6.04%	1.57%
CV			14.19%	7.42%
Total			20.23%	8.99%
Second administrative review			Cash deposit rates in effect	Final rates
2019				
AD			6.04%	11.59%
CV			14.19%	6.32%
Total			20.23%	17.91%
Third administrative review		Cash deposit rates in effect Jan to Nov	Cash deposit rates in effect Dec	Final rates
2020				
AD		6.04%	1.57%	4.76%
CV		14.19%	7.42%	3.83%
Total		20.23%	8.99%	8.59%
Fourth administrative review		Cash deposit rates in effect Jan to Nov	Cash deposit rates in effect Dec	Final Rates
2021				
AD		1.57%	11.59%	6.20%
CV		7.42%	6.31%	1.79%
Total		8.99%	17.90%	7.99%
Fifth administrative review	Cash deposit rates in effect Jan 1 to Jan 9	Cash deposit rates in effect Jan 10 to Aug 8	Cash deposit rates in effect Aug 9 onwards	Final rates
2022				
AD	11.59%	11.59%	4.76%	Pending review
CV	6.31%	6.32%	3.83%	Pending review
Total	17.90%	17.91%	8.59%	Pending review

On August 1, 2023, the DoC published its final CV and AD duty rates based on completion of its fourth administrative review of shipments for the year ended December 31, 2021. The table above summarizes the cash deposit rates that were in effect for the year ended December 31, 2021 and the published final rates. The finalization of the fourth administrative review rates indicated an overpayment of duty deposits in 2021 of $18.6 million.

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

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

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

Amounts in US dollars	
2017	$ 18.4
2018	42.0
2019	33.8
2020	39.8
2021	36.5
2022	97.2
2023	18.4
Acquired rights to duty deposits	244.8
	$ 530.9

Interfor has recorded the duty deposits as an expense, with the exception of the following amounts recorded as a long-term receivable in Deposits and other assets on the Statements of Financial Position:

	June 30, 2023		Dec. 31, 2022	
	USD	CAD	USD	CAD
Overpayment of duties per DoC administrative reviews initially expensed in the Statement of Earnings:				
First administrative review	$ 33.0	$ 42.7	$ 33.0	$ 42.7
Second administrative review	3.2	4.3	3.2	4.3
Third administrative review	19.6	26.1	19.6	26.1
Purchase price for acquired duty deposits	101.0	131.2	101.0	131.2
Revaluation to the quarter-end exchange rate	-	3.4	-	8.1
Duties recognized as duty deposits receivable	$ 156.8	$ 207.7	$ 156.8	$ 212.4
Interest recognized on duty deposits receivable	14.4	18.9	11.1	15.0
	$ 171.2	$ 226.6	$ 167.9	$ 227.4

The Company acquired rights to CV and AD duty deposits totalling US$244.8 million through two acquisitions in 2022, which were valued at US$101.0 million in accounting for the purchases.

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to defend its position through various appeals processes, in conjunction with the Canadian provincial and federal governments.

The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts, USMCA or WTO panels to which the DoC and ITC determinations may be appealed.

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