# Interfor Corporation
# Third Quarter Report
# For the three and nine months ended September 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 nine months ended September 30, 2023 ("Q3'23" 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 nine months ended September 30, 2023, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards Accounting Standards ("IFRS"). This MD&A contains certain non-generally accepted accounting principles ("GAAP") measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of November 2, 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 Third 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.sedarplus.ca and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include the timing and value of proceeds received from the disposition of Coast B.C. forest tenures; 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 Third Quarter, 2023**

Interfor recorded a Net loss in Q3’23 of $42.4 million, or $0.82 per share, compared to a Net loss of $14.1 million, or $0.27 per share in Q2’23 and Net earnings of $3.5 million, or $0.06 per share in Q3’22.

Adjusted EBITDA was $31.9 million on sales of $828.1 million in Q3’23 versus $41.9 million on sales of $871.8 million in Q2’23 and $129.5 million on sales of $1.0 billion in Q3’22.

Notable items in the quarter:

- Lumber Production Balanced with Demand
    - Lumber production totaled 1.0 billion board feet, representing a decrease of 26 million board feet quarter-over-quarter. The decrease was primarily due to the temporary closure of a sawmill in B.C. as a result of wildfires.
    - Lumber shipments were 1.0 billion board feet, or 108 million board feet lower than Q2’23.
- Weak Lumber Prices
    - Lumber prices continued to reflect softened demand driven by the elevated interest rate environment and ongoing economic uncertainty. Lumber prices strengthened at the beginning of Q3’23 from the effects of industry production curtailments and reduced European imports combined with increased new home construction demand but began to weaken near the end of Q3’23 as increased economic uncertainty drove interest rates higher. Interfor’s average selling price was $661 per mfbm, up $12 per mfbm versus Q2’23.
- Financial Flexibility Improved
    - Net debt at quarter-end was $777.7 million, or 28.7% of invested capital, with available liquidity of $417.9 million.
    - The net debt to invested capital leverage ratio improved compared to the end of Q2’23, driven by $107.2 million of cash flow from operations, including $70.5 million from income tax refunds.
    - Collection of an additional US$24.9 million of income tax refunds related to 2022 is expected in Q4’23.
- Strategic Capital Investments
    - Capital spending was $38.5 million, including $20.1 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, while total preliminary capital expenditures for 2024 are estimated to be approximately $140.0 million.
- Ongoing Monetization of Coastal B.C. Operations
    - Over the course of Q3’23, Interfor advanced on its plans to monetize its Coastal B.C. operations, which consist primarily of forest tenure rights from the province of B.C. and related log harvesting activities.
    - On October 3, 2023, the Company entered into an agreement to settle certain contractual obligations in order to facilitate monetization of its Coastal B.C. operations. The settlement will result in an $85.0 million provision being recognized in the fourth quarter, 2023, the payment of which Interfor expects to be fully funded by net proceeds from the disposition of Coast B.C. forest tenures over the next several years.
    - On October 27, 2023, the Company reached an agreement for the disposition of Coastal B.C. forest tenures totalling approximately 162,000 cubic metres of allowable annual cut (“AAC”) for net proceeds of $21.0 million. The completion of the disposition has received Ministry of Forests approval and is expected to close in the fourth quarter of 2023, subject to customary conditions for a transaction of this kind.

    - Following this, Interfor held Coastal B.C. forest tenures totalling approximately 1,411,000 cubic metres of AAC available for disposition subject to approvals from the Ministry of Forests.
- Softwood Lumber Duties
    - On August 1, 2023, the U.S. Department of Commerce ("DoC") published the final rates for countervailing ("CV") and anti-dumping ("AD") duties based on the results of its fourth administrative review ("AR4") covering shipments for the year ended December 31, 2021. The final combined rate for 2021 was 8.05% compared to the cash deposit rate of 8.99% from January to November 2021 and 17.90% for December 2021. The combined rate of 8.05% applied to new shipments effective September 13, 2023. To reflect the lower amended final rates for 2021, Interfor recorded a $6.3 million reduction to duties expense in Q3'23 and a corresponding receivable on its balance sheet.
    - Interfor has cumulative duties of US$540.0 million, or approximately $10.36 per share on an after-tax basis, held in trust by U.S. Customs and Border Protection as at September 30, 2023. Except for US$161.8 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.

## **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.

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 Sept. 30 2023 | Sept. 30 2022 | Jun. 30 2023 | For the nine months ended Sept. 30 2023 | Sept. 30 2022 |
|---|---|---|---|---|---|---|
| **Financial Highlights[2]** | | | | | | |
| Total sales | $MM | 828.1 | 1,035.6 | 871.8 | 2,529.8 | 3,773.7 |
| Lumber | $MM | 667.1 | 837.8 | 723.2 | 2,032.8 | 3,241.1 |
| Logs, residual products and other | $MM | 161.0 | 197.8 | 148.6 | 497.0 | 532.6 |
| Operating earnings (loss) | $MM | (21.1) | 75.8 | (20.8) | (78.2) | 974.4 |
| Net earnings (loss) | $MM | (42.4) | 3.5 | (14.1) | (97.8) | 670.4 |
| Net earnings (loss) per share, basic | $/share | (0.82) | 0.06 | (0.27) | (1.90) | 11.95 |
| Operating cash flow per share (before working capital changes)[3] | $/share | 1.78 | (0.02) | 0.68 | 2.93 | 10.86 |
| Adjusted EBITDA[3] | $MM | 31.9 | 129.5 | 41.9 | 99.8 | 1,128.2 |
| Adjusted EBITDA margin[3] | % | 3.9% | 12.5% | 4.8% | 3.9% | 29.9% |
| Total assets | $MM | 3,577.8 | 3,294.6 | 3,603.9 | 3,577.8 | 3,294.6 |
| Total debt | $MM | 877.1 | 396.4 | 918.5 | 877.1 | 396.4 |
| Net debt[3] | $MM | 777.7 | 249.7 | 815.7 | 777.7 | 249.7 |
| Net debt to invested capital[3] | % | 28.7% | 10.5% | 29.6% | 28.7% | 10.5% |
| Annualized return on capital employed[3] | % | (4.5%) | 5.6% | (1.1%) | (3.6%) | 47.8% |
| **Operating Highlights** | | | | | | |
| Lumber production | million fbm | 997 | 986 | 1,023 | 3,050 | 2,918 |
| U.S. South | million fbm | 470 | 470 | 468 | 1,412 | 1,390 |
| U.S. Northwest | million fbm | 162 | 159 | 165 | 469 | 495 |
| Eastern Canada | million fbm | 247 | 198 | 249 | 745 | 505 |
| B.C. | million fbm | 118 | 159 | 141 | 424 | 528 |
| Lumber sales | million fbm | 1,008 | 1,064 | 1,116 | 3,128 | 2,989 |
| Lumber - average selling price[4] | $/thousand fbm | 661 | 800 | 649 | 650 | 1,084 |
| **Key Statistics** | | | | | | |
| Benchmark lumber prices[5] | | | | | | |
| SYP Composite | US$ per mfbm | 429 | 555 | 446 | 439 | 785 |
| KD H-F Stud 2x4 9’ | US$ per mfbm | 474 | 627 | 452 | 451 | 937 |
| Eastern SPF Composite | US$ per mfbm | 510 | 657 | 474 | 486 | 949 |
| Western SPF Composite | US$ per mfbm | 412 | 550 | 372 | 394 | 849 |
| USD/CAD exchange rate[6] | | | | | | |
| Average | 1 USD in CAD | 1.3414 | 1.3056 | 1.3428 | 1.3456 | 1.2828 |
| Closing | 1 USD in CAD | 1.3520 | 1.3707 | 1.3240 | 1.3520 | 1.3707 |

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. Based on Random Lengths Benchmark Lumber Pricing.
6. Based on Bank of Canada foreign exchange rates.

## Summary of Third Quarter 2023 Financial Performance

### Sales

Interfor recorded $828.1 million of total sales, down 20.0% from $1.0 billion in the third quarter of 2022, driven by the sale of 1.0 billion board feet of lumber at an average price of $661 per mfbm. Average selling price decreased $139 per mfbm, or 17.4%, and lumber sales volume decreased 56 million board feet, or 5.3%, as compared to the same quarter of 2022.

The decrease in the average selling price of lumber reflects lower prices across all key benchmarks in Q3’23 as compared to Q3’22. 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 Q3’23 by 2.7% as compared to Q3’22.

Sales generated from logs, residual products and other decreased by $36.8 million or 18.6% in Q3’23 compared to Q3’22 due mainly to a decrease in I-joist sales from the Eastern Canada operations and a decrease in volume of chips produced and sold.

Operations

Production costs decreased by $124.8 million, or 13.8%, compared to Q3’22, explained primarily by a 5.3% decrease in lumber sales volume, lower stumpage rates in B.C. and Eastern Canada, decreased logging in the B.C. Coastal operations, and a net $23.8 million decrease in the net realizable value provision for log and lumber inventories recorded in Q3’23 versus Q3’22. The decrease is partially offset by inflationary impacts on costs and a weaker Canadian Dollar on average.

Lumber production of 1.0 billion board feet in Q3’23 was 11 million board feet higher than Q3’22. The increase in production was primarily driven by the acquisition of two sawmills in Q4’22, partially offset by a temporary closure of a B.C. sawmill in Q3’23 due to wildfires.

Interfor recorded duties expense of $0.9 million in Q3’23 compared to a net recovery of $12.4 million in Q3’22. During Q3’23, the Company expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S, which was partially offset by a $6.3 million recovery related to the finalization of the CV and AD rates by the U.S. DoC for AR4. The change is primarily due to the $26.1 million recovery in Q3’22 related to the finalization of the CV and AD rates by the U.S. DoC for the third administrative review (“AR3”) in comparison to the recovery for AR4, partially offset by lower lumber sales prices, lower cash deposit rates and lower shipments to the U.S. from Canadian sawmills as compared to Q3’22.

Depreciation of plant and equipment was $46.7 million in Q3’23, up $6.1 million from Q3’22, due primarily to the operations acquired in Eastern Canada in Q4’22 and the start-up of completed capital projects primarily in the U.S. South. Depletion and amortization of timber, roads and other was $7.6 million, down $2.2 million from Q3’22, primarily due to decreased conventional logging on the B.C. Coast, partially offset by the operations acquired in Eastern Canada in Q4’22.

Corporate and Other

Selling and administration expenses were $17.2 million, up $1.6 million from Q3’22 primarily related to expanded general corporate activities.

Long-term incentive compensation recovery was $1.3 million in Q3’23, compared to an expense of $2.5 million in Q3’22, primarily as a result of the impact of a 16.6% decrease in the price of Interfor common shares used to value share-based awards during Q3’23 compared to a 3.9% decrease during Q3’22.

Finance costs increased to $10.2 million in Q3’23 from $1.5 million in Q3’22, 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 loss of $14.0 million in Q3’23 and $46.9 million in Q3’22 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 loss of $15.9 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 $2.2 million in Q3’23 primarily relates to the change in the fair value of the minority interest in GreenFirst Forest Products Inc. (“GreenFirst”). Other income of $11.9 million in Q3’22 primarily related to the gain on the sale of a forest license, 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 $5.1 million in Q3’23 at an effective tax rate of 11%, comprised of $5.9 million current income tax recovery and a $0.8 million deferred tax expense. The effective tax rate is lower than 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 $35.8 million in Q3’22 at an effective tax rate of 91%, comprised of $27.5 million current income tax expense and $8.3 million deferred tax expense.

Net Earnings

The Company recorded a Net loss of $42.4 million, or $0.82 per share, compared to Net earnings of $3.5 million, or $0.06 per share in Q3’22. Operating margins and Net earnings were impacted by lower lumber prices and lower sales volumes partially offset by a lower unrealized foreign exchange loss on intercompany funding.

## Summary of Year-to-Date 2023 Financial Performance

Sales

Interfor recorded $2.5 billion of total sales, down 33% from $3.8 billion in the first nine months of 2022, driven by the sale of 3.1 billion board feet of lumber at an average price of $650 per mfbm. Average selling price decreased $434 per mfbm, or 40.0%, and lumber sales volume increased 139 million board feet, or 4.7%, as compared to the first nine months of 2022.

The decrease in the average selling price of lumber reflects lower prices across all key benchmarks in YTD’23 as compared to YTD’22. This was partially offset by realized lumber prices increasing in Canadian Dollar terms by the 4.9% 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 decreased by $35.6 million or 6.7% as compared to the same period of 2022 due mainly to a decrease in I-joist sales from the Eastern Canada operations.

Operations

Production costs decreased by $182.6 million, or 7.2% over the first nine months of 2023, explained primarily by a net $81.1 million decrease in the net realizable value provision for log and lumber inventories recorded YTD’23 versus YTD’22, inventory purchase accounting adjustments recorded in YTD’22 related to the Eastern Canada operations acquired in Q1’22, lower stumpage rates and decreased logging in the B.C. Coastal operations. The decrease is partially offset by inflationary impacts on costs, a weaker Canadian Dollar on average and a 4.7% increase in lumber sales volume in YTD’23 versus YTD’22.

Lumber production of 3.0 billion board feet in YTD’23 was 132 million board feet higher than YTD’22. The increased production is primarily the result of the acquisition of two sawmills in Eastern Canada during Q2’22 and ramp-ups of completed capital projects at several sawmills in the U.S. South. Partially offsetting this was a temporary closure of a B.C. sawmill due to wildfires in Q3’23 amongst certain other factors.

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 $28.6 million for YTD’23, down $41.2 million from YTD’22. The decrease is due to lower lumber sales prices and lower cash deposit rates as compared to YTD’22. The decrease is partially offset by a $6.3 million recovery related to the finalization of the CV and AD rates by the U.S. DoC for AR4 in YTD’23 compared to a $26.1 million recovery related to the finalization of AR3 in YTD’22. In addition, the decrease is partially offset by higher shipments to the U.S. from Canadian sawmills as compared to YTD’22.

Depreciation of plant and equipment was $138.5 million, up 20.1% from the first nine months of 2022, due primarily to the operations acquired in Eastern Canada in 2022 and the start-up of completed capital projects primarily in the U.S. South.  Depletion and amortization of timber, roads and other was $29.7 million, up $1.7 million from YTD’22, primarily due to the operations acquired in Eastern Canada in 2022, partially offset by decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $52.0 million, up $2.6 million from the first nine months 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 $4.1 million YTD’23, versus a $4.2 million recovery in YTD’22, primarily as a result of the impact of a 3.7% decrease in the price of Interfor common shares used to value share-based awards during YTD’23 compared to a 37.0% decrease during YTD’22.

Finance costs increased to $34.4 million from $11.0 million in the first nine months 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 loss of $0.3 million in YTD’23 and $54.4 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 $0.9 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 $9.6 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 $18.7 million in YTD’22 primarily related to the gain on the sale of a forest license, the gain on the sale of the Acorn speciality sawmill and insurance proceeds for a business interruption claim related to fire damage at a 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 $24.7 million in YTD’23 at an effective tax rate of 20%, comprised of a $24.0 million current income tax recovery and a $0.7 million deferred tax recovery.  The Company recorded income tax expense of $257.3 million in YTD’22 at an effective tax rate of 28%, comprised of $242.9 million in current income tax expense and $14.4 million in deferred tax expense.

Net Earnings

The Company recorded a Net loss of $97.8 million, or $1.90 per share, compared to Net earnings of $670.4 million, or $11.95 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 a lower unrealized foreign exchange loss on intercompany funding.

## Summary of Quarterly Results[1]

| | Unit | 2023 Q3 | 2023 Q2 | 2023 Q1 | 2022 Q4 | 2022 Q3 | 2022 Q2 | 2022 Q1 | 2021 Q4 |
|---|---|---|---|---|---|---|---|---|---|
| **Financial Performance**[2] | | | | | | | | | |
| Total sales | $MM | 828.1 | 871.8 | 829.9 | 810.3 | 1,035.6 | 1,389.1 | 1,349.0 | 675.9 |
| Lumber | $MM | 667.1 | 723.2 | 642.5 | 656.3 | 837.8 | 1,190.8 | 1,212.5 | 591.5 |
| Logs, residual products and other | $MM | 161.0 | 148.6 | 187.4 | 154.0 | 197.8 | 198.3 | 136.5 | 84.4 |
| Operating earnings (loss) | $MM | (21.1) | (20.8) | (36.2) | (114.8) | 75.8 | 385.9 | 512.7 | 99.2 |
| Net earnings (loss) | $MM | (42.4) | (14.1) | (41.3) | (72.2) | 3.5 | 269.9 | 397.0 | 69.7 |
| Net earnings (loss) per share, basic | $/share | (0.82) | (0.27) | (0.80) | (1.40) | 0.06 | 4.92 | 6.69 | 1.15 |
| Operating cash flow per share (before working capital changes)[3,5] | $/share | 1.78 | 0.68 | 0.47 | (1.75) | (0.02) | 4.43 | 6.18 | 2.25 |
| Adjusted EBITDA[3] | $MM | 31.9 | 41.9 | 26.1 | (68.7) | 129.5 | 428.6 | 570.1 | 149.5 |
| Adjusted EBITDA margin[3] | % | 3.9% | 4.8% | 3.1% | (8.5%) | 12.5% | 30.9% | 42.3% | 22.1% |
| Annualized return on capital employed[3] | % | (4.5%) | (1.1%) | (5.0%) | (13.8%) | 5.6% | 52.9% | 86.6% | 18.2% |
| Shares outstanding - end of period | million | 51.4 | 51.4 | 51.4 | 51.4 | 51.4 | 54.8 | 55.8 | 60.8 |
| Shares outstanding - weighted average | million | 51.4 | 51.4 | 51.4 | 51.4 | 54.1 | 54.9 | 59.4 | 60.8 |
| **Operating Performance** | | | | | | | | | |
| Lumber production | million fbm | 997 | 1,023 | 1,031 | 874 | 986 | 1,016 | 917 | 758 |
| U.S. South | million fbm | 470 | 468 | 473 | 404 | 470 | 467 | 452 | 409 |
| U.S. Northwest | million fbm | 162 | 165 | 142 | 135 | 159 | 163 | 173 | 166 |
| Eastern Canada | million fbm | 247 | 249 | 250 | 212 | 198 | 212 | 96 | - |
| B.C. | million fbm | 118 | 141 | 166 | 123 | 159 | 174 | 196 | 183 |
| Lumber sales | million fbm | 1,008 | 1,116 | 1,004 | 939 | 1,064 | 1,082 | 843 | 719 |
| Lumber - average selling price[4] | $/thousand fbm | 661 | 649 | 639 | 699 | 800 | 1,104 | 1,410 | 822 |
| **Key Statistics** | | | | | | | | | |
| Benchmark lumber prices[6] | | | | | | | | | |
| SYP Composite | US$ per mfbm | 429 | 446 | 442 | 461 | 555 | 682 | 1,119 | 644 |
| KD H-F Stud 2x4 9’ | US$ per mfbm | 474 | 452 | 428 | 461 | 627 | 891 | 1,293 | 733 |
| Eastern SPF Composite | US$ per mfbm | 510 | 474 | 474 | 498 | 657 | 938 | 1,251 | 744 |
| Western SPF Composite | US$ per mfbm | 412 | 372 | 399 | 420 | 550 | 837 | 1,159 | 653 |
| USD/CAD exchange rate[7] | | | | | | | | | |
| Average | 1 USD in CAD | 1.3414 | 1.3428 | 1.3525 | 1.3578 | 1.3056 | 1.2768 | 1.2662 | 1.2603 |
| Closing | 1 USD in CAD | 1.3520 | 1.3240 | 1.3533 | 1.3544 | 1.3707 | 1.2886 | 1.2496 | 1.2678 |

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 and $0.06 - Q4 2021.
6 Based on Random Lengths Benchmark Lumber Pricing.
7 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 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, in Q4’22 and Q1’23 due to the temporary market-related curtailments announced in October 2022 and January 2023, respectively and in Q3’23 due to the temporary curtailment of a B.C. sawmill due to wildfires.

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 September 30, 2023 was $777.7 million, or 28.7% of invested capital, representing an increase of $57.3 million from the level of Net debt at December 31, 2022.

As at September 30, 2023 the Company had net working capital of $400.0 million and available liquidity of $417.9 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 Sept. 30, | | For the nine months ended Sept. 30, | |
|---|---|---|---|---|
| Millions of Canadian Dollars | 2023 | 2022 | 2023 | 2022 |
| **Net debt** | | | | |
| Net debt (cash), period opening | $815.7 | $102.0 | $720.3 | $(162.9) |
| Repayment of Senior Secured Notes | - | - | (7.1) | (7.0) |
| Term Line net drawings (repayments) | (61.2) | - | 88.3 | (3.9) |
| Decrease (increase) in cash and cash equivalents | 5.6 | 130.2 | (23.6) | 406.5 |
| Foreign currency translation impact on U.S. Dollar denominated cash and cash equivalents and debt | 17.6 | 17.5 | (0.2) | 17.0 |
| Net debt, period ending | $777.7 | $249.7 | $777.7 | $249.7 |

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 $150.5 million of cash flow from operations before changes in working capital in YTD'23, for a decrease of $458.4 million over YTD'22. There was a net cash inflow from operations after changes in working capital of $145.7 million in YTD'23, with $4.8 million of cash invested in operating working capital.

Increased lumber shipments contributed to the $39.3 million outflow related to trade receivables, while a focused effort to reduce log and lumber inventories contributed to the $57.6 million inflow from inventories. Timing of payments contributed to the $18.9 million outflow from trade accounts payable and provisions.

In YTD'22, $722.0 million of cash was generated from operations, with $113.1 million of cash released from operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $152.3 million in YTD'23, with $152.2 million for property, plant and equipment, $7.6 million for development of roads and bridges, partially offset by $4.9 million in proceeds on disposal of property, plant and equipment and other assets and $2.1 million for deposits and other assets.

Discretionary mill improvements of $105.6 million in YTD’23 were mainly focused on the multi-year rebuild of the Thomaston, GA sawmill, a new kiln at the Eatonton, 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 $46.6 million in YTD’23.

In YTD’22, investing activities were $765.0 million, with $536.1 million for the acquisition of the Eastern Canada operations, $194.4 million for property, plant and equipment, $55.6 million for the investment in GreenFirst, $7.7 million for development of roads and bridges, $3.2 million for deposits and other assets, partially offset by $32.0 million in proceeds on disposal of property, plant and equipment.

Discretionary and maintenance mill improvements totalled $126.2 million and $68.2 million, respectively, in YTD’22, of which the majority was invested in the multi-year rebuilds of the Eatonton, GA and Thomaston, GA sawmills, a new planer at the Castlegar, B.C. sawmill and upgrades to the Perry, GA sawmill.

Cash Flow from Financing Activities

The net cash inflow of $30.2 million in YTD’23 resulted from $88.3 million in Term Line net drawings, partially offset by interest payments of $37.5 million, lease liability payments of $13.4 million and $7.1 million in repayments of Senior Secured Notes.

The net cash outflow of $363.5 million in YTD’22 resulted from $327.6 million used to purchase shares under the Company’s normal course issuer bid (“NCIB”) and substantial issuer bid (“SIB”), $7.0 million in repayments of Senior Secured Notes, interest payments of $13.1 million, lease liability payments of $12.0 million and $3.9 million of Term Line net repayments.

## Capital Resources

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

| Millions of Canadian Dollars | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit and maximum borrowing available | $600.0 | $654.0 | $1,254.0 |
| Less: | | | |
| Drawings | 223.1 | 654.0 | 877.1 |
| Outstanding letters of credit included in line utilization | 58.4 | - | 58.4 |
| Unused portion of facility | $318.5 | $ - | 318.5 |
| Add: | | | |
| Cash and cash equivalents | | | 99.4 |
| Available liquidity at September 30, 2023 | | | $417.9 |

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

As of September 30, 2023, the Company had commitments for capital expenditures totaling $114.2 million for both maintenance and discretionary capital projects.

## Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and nine months ended September 30, 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 September 30, 2023, such instruments aggregated $126.5 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 Q3'23 or Q3'22.

## Outstanding Shares

As of November 2, 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 November 2, 2023, there were 537,306 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 nine months of 2023.

During the first nine 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.

On September 12, 2022, the Company purchased 3,355,704 common shares under its SIB for total consideration of $100.0 million at a price of $29.80 per share. This completed the purchase of all common shares under the SIB and all purchased common shares were cancelled.

## Controls and Procedures

During the nine months ended September 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 nine months ended September 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 September 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.sedarplus.ca.

## Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended September 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 nine months ended | |
|---|---|---|---|---|---|
| Millions of Canadian Dollars except number of shares and per share amounts | **Sept. 30 2023** | **Sept. 30 2022** | **Jun. 30 2023** | **Sept. 30 2023** | **Sept. 30 2022** |
| **Adjusted EBITDA** | | | | | |
| Net earnings (loss) | $(42.4) | $3.5 | $(14.1) | $(97.8) | $670.4 |
| Add: | | | | | |
| Depreciation of plant and equipment | 46.7 | 40.6 | 46.7 | 138.5 | 115.3 |
| Depletion and amortization of timber, roads and other | 7.6 | 9.8 | 9.9 | 29.7 | 28.0 |
| Finance costs | 10.2 | 1.5 | 13.3 | 34.4 | 11.0 |
| Income tax expense (recovery) | (5.1) | 35.8 | (8.1) | (24.7) | 257.3 |
| EBITDA | 17.0 | 91.2 | 47.7 | 80.1 | 1,082.0 |
| Add: | | | | | |
| Long-term incentive compensation expense (recovery) | (1.3) | 2.5 | 2.8 | 4.1 | (4.2) |
| Other foreign exchange loss (gain) | 14.0 | 46.9 | (13.7) | 0.3 | 54.4 |
| Other expense (income) excluding business interruption insurance | 2.2 | (11.9) | 5.0 | 13.6 | (9.0) |
| Asset write-downs and restructuring costs | - | 0.8 | 0.1 | 1.7 | 5.0 |
| Adjusted EBITDA | $31.9 | $129.5 | $41.9 | $99.8 | $1,128.2 |
| Sales | $828.1 | $1,035.6 | $871.8 | $2,529.8 | $3,773.7 |
| Adjusted EBITDA margin | 3.9% | 12.5% | 4.8% | 3.9% | 29.9% |
| **Net debt to invested capital** | | | | | |
| Net debt | | | | | |
| Total debt | $877.1 | $396.4 | $918.5 | $877.1 | $396.4 |
| Cash and cash equivalents | (99.4) | (146.7) | (102.8) | (99.4) | (146.7) |
| Total net debt | $777.7 | $249.7 | $815.7 | $777.7 | $249.7 |
| Invested capital | | | | | |
| Net debt | $777.7 | $249.7 | $815.7 | $777.7 | $249.7 |
| Shareholders' equity | 1,927.9 | 2,123.3 | 1,943.2 | 1,927.9 | 2,123.3 |
| Total invested capital | $2,705.6 | $2,373.0 | $2,758.9 | $2,705.6 | $2,373.0 |
| Net debt to invested capital[1] | 28.7% | 10.5% | 29.6% | 28.7% | 10.5% |
| **Operating cash flow per share (before working capital changes)** | | | | | |
| Cash provided by operating activities | $107.2 | $47.0 | $123.0 | $145.7 | $722.0 |
| Cash used in (generated from) operating working capital | (15.7) | (47.9) | (88.4) | 4.8 | (113.1) |
| Operating cash flow (before working capital changes) | $91.5 | $(0.9) | $34.6 | $150.5 | $608.9 |
| Weighted average number of shares - basic (millions) | *51.4* | *54.1* | *51.4* | *51.4* | *56.1* |
| Operating cash flow per share (before working capital changes) | $1.78 | $(0.02) | $0.68 | $2.93 | $10.86 |

Note 1: Net debt to invested capital as of the period end

| Millions of Canadian Dollars except number of shares and per share amounts | For the three months ended Sept. 30 2023 | Sept. 30 2022 | Jun. 30 2023 | For the nine months ended Sept. 30 2023 | Sept. 30 2022 |
|---|---|---|---|---|---|
| **Annualized return on capital employed** | | | | | |
| Net earnings (loss) | $(42.4) | $3.5 | $(14.1) | $(97.8) | $670.4 |
| Add: | | | | | |
| Finance costs | 10.2 | 1.5 | 13.3 | 34.4 | 11.0 |
| Income tax expense (recovery) | (5.1) | 35.8 | (8.1) | (24.7) | 257.3 |
| Earnings (loss) before income taxes and finance costs | $(37.3) | $40.8 | $(8.9) | $(88.1) | $938.7 |
| Capital Employed | | | | | |
| Total assets | $3,577.8 | $3,294.6 | $3,603.9 | $3,577.8 | $3,294.6 |
| Current liabilities | (345.4) | (378.8) | (318.9) | (345.4) | (378.8) |
| Less: | | | | | |
| Current portion of long-term debt | 45.1 | 7.4 | 44.1 | 45.1 | 7.4 |
| Current portion of lease liabilities | 16.0 | 15.6 | 15.8 | 16.0 | 15.6 |
| Capital employed, end of period | $3,293.5 | $2,938.8 | $3,344.9 | $3,293.5 | $2,938.8 |
| Capital employed, beginning of period | 3,344.9 | 2,869.9 | 3,419.3 | 3,316.0 | 2,303.2 |
| Average capital employed | $3,319.2 | $2,904.3 | $3,382.1 | $3,304.7 | $2,621.0 |
| Earnings (loss) before income taxes and finance costs divided by average capital employed | (1.1%) | 1.4% | (0.3%) | (2.7%) | 35.8% |
| Annualization factor | 4.0 | 4.0 | 4.0 | 1.3 | 1.3 |
| Annualized return on capital employed | (4.5%) | 5.6% | (1.1%) | (3.6%) | 47.8% |

## 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.sedarplus.ca.

## 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.sedarplus.ca.

INTERFOR

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

**For the three and nine months ended September 30, 2023 and 2022 (unaudited)**

| (millions of Canadian Dollars except per share amounts) | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| **Sales (note 13)** | $ 828.1 | $ 1,035.6 | $ 2,529.8 | $ 3,773.7 |
| **Costs and expenses:** | | | | |
| Production | 778.1 | 902.9 | 2,353.4 | 2,536.0 |
| Selling and administration | 17.2 | 15.6 | 52.0 | 49.4 |
| Long-term incentive compensation expense (recovery) | (1.3) | 2.5 | 4.1 | (4.2) |
| U.S. countervailing and anti-dumping duty deposits (note 15) | 0.9 | (12.4) | 28.6 | 69.8 |
| Depreciation of plant and equipment (note 9) | 46.7 | 40.6 | 138.5 | 115.3 |
| Depletion and amortization of timber, roads and other (note 9) | 7.6 | 9.8 | 29.7 | 28.0 |
| | 849.2 | 959.0 | 2,606.3 | 2,794.3 |
| **Operating earnings (loss) before asset write-downs and restructuring costs** | (21.1) | 76.6 | (76.5) | 979.4 |
| Asset write-downs and restructuring costs | - | 0.8 | 1.7 | 5.0 |
| **Operating earnings (loss)** | (21.1) | 75.8 | (78.2) | 974.4 |
| Finance costs (note 10) | (10.2) | (1.5) | (34.4) | (11.0) |
| Other foreign exchange loss | (14.0) | (46.9) | (0.3) | (54.4) |
| Other income (expense) (note 11) | (2.2) | 11.9 | (9.6) | 18.7 |
| | (26.4) | (36.5) | (44.3) | (46.7) |
| **Earnings (loss) before income taxes** | (47.5) | 39.3 | (122.5) | 927.7 |
| Income tax expense (recovery): | | | | |
| Current | (5.9) | 27.5 | (24.0) | 242.9 |
| Deferred | 0.8 | 8.3 | (0.7) | 14.4 |
| | (5.1) | 35.8 | (24.7) | 257.3 |
| **Net earnings (loss)** | $ (42.4) | $ 3.5 | $ (97.8) | $ 670.4 |
| **Net earnings (loss) per share** | | | | |
| Basic (note 12) | $ (0.82) | $ 0.06 | $ (1.90) | $ 11.95 |
| Diluted (note 12) | $ (0.82) | $ 0.06 | $ (1.90) | $ 11.91 |

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**For the three and nine months ended September 30, 2023 and 2022 (unaudited)**

| (millions of Canadian Dollars) | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| **Net earnings (loss)** | $ (42.4) | $ 3.5 | $ (97.8) | $ 670.4 |
| **Other comprehensive income (loss):** | | | | |
| **Items that will not be recycled to Net earnings (loss):** | | | | |
| Defined benefit plan actuarial gain (loss), net of tax | - | (1.2) | 0.7 | 0.6 |
| **Items that are or may be recycled to Net earnings (loss):** | | | | |
| Foreign currency translation differences for foreign operations, net of tax | 26.9 | 115.0 | (2.8) | 142.9 |
| **Total other comprehensive income (loss), net of tax** | 26.9 | 113.8 | (2.1) | 143.5 |
| **Comprehensive income (loss)** | $ (15.5) | $ 117.3 | $ (99.9) | $ 813.9 |

**See accompanying notes to consolidated financial statements.**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
**For the three and nine months ended September 30, 2023 and 2022 (unaudited)**

| (millions of Canadian Dollars) | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| **Cash provided by (used in):** | | | | |
| **Operating activities:** | | | | |
| **Net earnings (loss)** | $ (42.4) | $ 3.5 | $ (97.8) | $ 670.4 |
| **Items not involving cash:** | | | | |
| Depreciation of plant and equipment (note 9) | 46.7 | 40.6 | 138.5 | 115.3 |
| Depletion and amortization of timber, roads and other (note 9) | 7.6 | 9.8 | 29.7 | 28.0 |
| Deferred income tax expense (recovery) | 0.8 | 8.3 | (0.7) | 14.4 |
| Current income tax expense (recovery) | (5.9) | 27.5 | (24.0) | 242.9 |
| Finance costs (note 10) | 10.2 | 1.5 | 34.4 | 11.0 |
| Other assets | (6.4) | (27.5) | (6.1) | (30.0) |
| Reforestation liability | 1.5 | (2.9) | (0.5) | (2.8) |
| Provisions and other liabilities | (2.3) | (1.8) | (3.8) | (27.5) |
| Stock option vesting | 0.2 | 0.2 | 0.6 | 0.7 |
| Write-down of plant and equipment | - | 0.8 | 1.5 | 3.2 |
| Unrealized foreign exchange loss | 8.8 | 42.7 | 0.4 | 50.9 |
| Other expense (income) | 2.2 | (11.9) | 9.6 | (18.7) |
| **Income taxes refunded (paid)** | 70.5 | (91.7) | 68.7 | (448.9) |
| | 91.5 | (0.9) | 150.5 | 608.9 |
| **Cash generated from (used in) operating working capital:** | | | | |
| Trade accounts receivable and other | (1.6) | 19.4 | (39.3) | 35.1 |
| Inventories | (7.3) | 42.5 | 57.6 | 75.4 |
| Prepayments | 4.6 | 0.8 | (4.2) | (5.9) |
| Trade accounts payable and provisions | 20.0 | (14.8) | (18.9) | 8.5 |
| | 107.2 | 47.0 | 145.7 | 722.0 |
| **Investing activities:** | | | | |
| Additions to property, plant and equipment | (31.6) | (82.5) | (152.2) | (194.4) |
| Additions to roads and bridges | (6.9) | (3.6) | (7.6) | (7.7) |
| Acquisitions, net of cash acquired (note 5) | - | - | 0.5 | (536.1) |
| Proceeds on disposal of property, plant, equipment and other | 0.2 | 20.7 | 4.9 | 32.0 |
| Investment in GreenFirst Forest Products Inc. (note 11) | - | - | - | (55.6) |
| Net proceeds from (additions to) deposits and other assets | 0.8 | (3.4) | 2.1 | (3.2) |
| | (37.5) | (68.8) | (152.3) | (765.0) |
| **Financing activities:** | | | | |
| Issuance of share capital, net of expenses (note 8) | - | - | 0.1 | 0.4 |
| Share repurchases, net of expenses (note 8) | - | (100.4) | - | (327.6) |
| Interest payments | (9.4) | (3.8) | (37.5) | (13.1) |
| Lease liability payments | (4.7) | (4.2) | (13.4) | (12.0) |
| Debt refinancing costs | - | - | (0.2) | (0.3) |
| Term line net drawings (repayments) (note 7) | (61.2) | - | 88.3 | (3.9) |
| Repayments of Senior Secured Notes (note 7) | - | - | (7.1) | (7.0) |
| | (75.3) | (108.4) | 30.2 | (363.5) |
| **Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency** | 2.2 | 6.2 | (1.8) | 14.5 |
| **Increase (decrease) in cash** | (3.4) | (124.0) | 21.8 | (392.0) |
| **Cash and cash equivalents, beginning of period** | 102.8 | 270.6 | 77.6 | 538.6 |
| **Cash and cash equivalents, end of period** | $ 99.4 | $ 146.6 | $ 99.4 | $ 146.6 |

**See accompanying notes to consolidated financial statements.**

INTERFOR

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

| (millions of Canadian Dollars) | Sept. 30, 2023 | Dec. 31, 2022 |
|---|---|---|
| **Assets** | | |
| **Current assets:** | | |
| Cash and cash equivalents | $ 99.4 | $ 77.6 |
| Trade accounts receivable and other | 217.0 | 174.1 |
| Income tax receivable | 60.1 | 104.1 |
| Inventories (notes 5 and 6) | 339.1 | 396.9 |
| Prepayments | 29.8 | 25.9 |
| | 745.4 | 778.6 |
| **Employee future benefits** | 17.8 | 18.4 |
| **Deposits and other assets (notes 5, 11 and 15)** | 279.3 | 281.6 |
| **Right of use assets** | 35.7 | 34.0 |
| **Property, plant and equipment (note 5)** | 1,702.9 | 1,701.2 |
| **Roads and bridges (note 5)** | 35.2 | 38.1 |
| **Timber licences (note 5)** | 173.2 | 178.4 |
| **Goodwill and other intangible assets** | 583.6 | 588.1 |
| **Deferred income taxes** | 4.7 | 1.4 |
| | $ 3,577.8 | $ 3,619.8 |
| **Liabilities and Shareholders' Equity** | | |
| **Current liabilities:** | | |
| Trade accounts payable and provisions (note 5) | $ 265.3 | $ 285.5 |
| Current portion of long-term debt (notes 7 and 14) | 45.1 | 7.3 |
| Reforestation liability | 18.0 | 17.9 |
| Lease liabilities | 16.0 | 14.8 |
| Income taxes payable | 1.0 | 0.3 |
| | 345.4 | 325.8 |
| **Reforestation liability** | 28.8 | 28.7 |
| **Lease liabilities** | 20.8 | 20.5 |
| **Long-term debt (notes 7 and 14)** | 832.0 | 790.6 |
| **Employee future benefits** | 10.5 | 9.9 |
| **Provisions and other liabilities** | 19.8 | 24.2 |
| **Deferred income taxes (note 5)** | 392.6 | 393.0 |
| **Equity:** | | |
| Share capital (note 8) | 408.9 | 408.7 |
| Contributed surplus | 6.0 | 5.5 |
| Translation reserve | 173.1 | 175.9 |
| Retained earnings | 1,339.9 | 1,437.0 |
| | 1,927.9 | 2,027.1 |
| | $ 3,577.8 | $ 3,619.8 |

**U.S countervailing and anti-dumping duty deposits (note 15).**
**Subsequent event (note 11).**

**See accompanying notes to consolidated financial statements.**

Approved on behalf of the Board of Directors:

*"L. Sauder"*
Director

*"T.V. Milroy"*
Director

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**For the nine months ended September 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:** | | | | **(97.8)** | **(97.8)** |
| **Other comprehensive income (loss):** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax | - | - | **(2.8)** | **-** | **(2.8)** |
| 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) | **-** | **0.6** | | | **0.6** |
| **Balance at September 30, 2023** | **$ 408.9** | **$ 6.0** | **$ 173.1** | **$ 1,339.9** | **$ 1,927.9** |
| **Balance at December 31, 2021** | **$ 484.7** | **$ 4.7** | **$ 58.4** | **$ 1,088.1** | **$ 1,635.9** |
| **Net earnings:** | | | | **670.4** | **670.4** |
| **Other comprehensive income:** | | | | | |
| Foreign currency translation differences for foreign operations, net of tax | **-** | **-** | **142.9** | **-** | **142.9** |
| Defined benefit plan actuarial gain, net of tax | **-** | **-** | **-** | **0.6** | **0.6** |
| **Contributions and distributions:** | | | | | |
| Share issuance, net of expenses (note 8) | **0.6** | **(0.2)** | **-** | **-** | **0.4** |
| Share repurchases (note 8) | **(76.4)** | **-** | **-** | **(251.2)** | **(327.6)** |
| Stock option vesting (note 8) | **-** | **0.7** | **-** | **-** | **0.7** |
| **Balance at September 30, 2022** | **$ 408.9** | **$ 5.2** | **$ 201.3** | **$ 1,507.9** | **$ 2,123.3** |

**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 nine months ended September 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 Accounting 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 November 2, 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 expense 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 September 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.sedarplus.ca.

## 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.sedarplus.ca.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended September 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. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers, which may be impacted by seasonal weather conditions and extreme weather events, 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 15) | 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 15) | 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:**

| | Sept. 30, 2023 | Dec. 31, 2022 |
|---|---|---|
| Lumber and other wood products | $ 179.0 | $ 183.1 |
| Logs | 101.8 | 152.4 |
| Other | 58.3 | 61.4 |
| | $ 339.1 | $ 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 September 30, 2023 was $41.7 million (December 31, 2022 - $94.0 million).

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

## 7. Borrowings:

| September 30, 2023 | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit | $ 600.0 | $ 654.0 | $ 1,254.0 |
| Drawings | 223.1 | 654.0 | 877.1 |
| Outstanding letters of credit | 58.4 | - | 58.4 |
| Unused portion of Revolving Term Line | $ 318.5 | $ - | $ 318.5 |

| 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 | |
| September 30, 2024 | $ 45.1 |
| September 30, 2025 | 45.1 |
| September 30, 2026 | 45.1 |
| September 30, 2027 | 260.7 |
| September 30, 2028 | 82.8 |
| Thereafter | 398.3 |
| | $ 877.1 |

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

| | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| Drawings at opening | $ 918.5 | $ 372.6 | $ 797.9 | $ 375.7 |
| Revolving Term Line net drawings (repayments) | (61.2) | - | 88.3 | (3.9) |
| Repayments of Senior Secured Notes | - | - | (7.1) | (7.0) |
| Effects of changes in foreign exchange rate | 19.8 | 23.8 | (2.0) | 31.6 |
| Drawings at September 30 | $ 877.1 | $ 396.4 | $ 877.1 | $ 396.4 |

### (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 September 30, 2023, including letters of credit, the Term Line was drawn by $18.8 million (December 31, 2022 - $20.9 million) and US$194.3 million (December 31, 2022 - US$129.6 million), revalued at the quarter-end exchange rate to $262.7 million (December 31, 2022 - $175.5 million), for total borrowings of $281.5 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 $0.7 million in the first nine months, 2023 (first nine months, 2022 – losses of $1.6 million) and a loss of $6.2 million in the third quarter, 2023 (Quarter 3, 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 September 30, 2023, the Company's Senior Secured Notes consisted of the following:

| | Sept. 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% | 135.2 | 135.5 |
| Series D (US$45,550,000) bearing interest at 4.95% | 61.6 | 61.7 |
| Series E (US$38,200,000) bearing interest at 4.82% | 51.6 | 51.7 |
| Series F (US$50,000,000) bearing interest at 3.34% | 67.6 | 67.7 |
| Series G (US$50,000,000) bearing interest at 3.25% | 67.6 | 67.7 |
| Series H (US$200,000,000) bearing interest at 7.06% | 270.4 | 270.9 |
| | $ 654.0 | $ 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 principal 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 $1.3 million in the first nine months, 2023 (first nine months, 2022 – losses of $30.0 million) and a loss of $13.6 million in the third quarter, 2023 (Quarter 3, 2022 - $23.8 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 | - | - | 0.6 |
| Balance, September 30, 2023 | 51,444,803 | $ 408.9 | $ 6.0 |

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 normal course issuer bid ("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 nine months of 2023.

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

## 9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function is as follows:

| | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| Production | $ 53.9 | $ 49.8 | $ 166.9 | $ 141.9 |
| Selling and administration | 0.4 | 0.6 | 1.3 | 1.4 |
| | $ 54.3 | $ 50.4 | $ 168.2 | $ 143.3 |

## 10. Finance costs:

| | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| Interest expense on: | | | | |
| Borrowings | $ 14.0 | $ 4.5 | $ 41.3 | $ 13.9 |
| Lease liabilities | 0.3 | 0.3 | 1.0 | 0.9 |
| Pension obligations | 0.5 | 0.4 | 1.9 | 1.4 |
| Duty deposits and other | 6.2 | 0.3 | 8.3 | 0.7 |
| Interest revenue from: | | | | |
| Duty deposits and other | (10.6) | (4.1) | (17.6) | (5.4) |
| Pension assets | (0.7) | (0.4) | (1.9) | (1.5) |
| Unwind of discount on provisions | 0.3 | 0.3 | 0.8 | 0.6 |
| Amortization of deferred finance costs | 0.2 | 0.2 | 0.6 | 0.4 |
| | $ 10.2 | $ 1.5 | $ 34.4 | $ 11.0 |

## 11. Other income (expense):

| | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| Business interruption insurance | $ - | $ - | $ 4.0 | $ 9.6 |
| Change in fair value of minority interest in GreenFirst | (2.3) | (0.9) | (14.6) | (9.8) |
| Net gains on disposal of property, plant and equipment and other | 0.1 | 12.8 | 1.0 | 16.4 |
| Net gains on lease modifications | - | - | - | 2.5 |
| | $ (2.2) | $ 11.9 | $ (9.6) | $ 18.7 |

The Company has recorded $4.0 million in the first nine months, 2023 (first nine months, 2022 - $9.6 million) and $nil in the third quarter, 2023 (Quarter 3, 2022 - $nil) 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 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.

On August 17, 2022, the Company sold a forest license for cash proceeds of $13.5 million and recorded a gain of $12.6 million.

On October 3, 2023, the Company entered into an agreement to settle certain contractual obligations in order to facilitate monetization of its Coastal B.C. operations. The settlement will result in an $85.0 million provision being recognized in the fourth quarter, 2023, the payment of which Interfor expects to be fully funded by net proceeds from the disposition of Coast B.C. forest tenures over the next several years. In October 2023, the Company reached an agreement for the disposition of Coastal B.C. forest tenures totalling approximately 162,000 cubic metres of allowable annual cut (“AAC”) for net proceeds of $21.0 million. The completion of the disposition has received Ministry of Forests approval and is expected to close in the fourth quarter of 2023, subject to customary conditions for a transaction of this kind. Following this, Interfor held Coastal B.C. forest tenures totalling approximately 1,411,000 cubic metres of AAC available for disposition subject to approvals from the Ministry of Forests.

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

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

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

| | Three Months Sept. 30, 2023 | | | Three Months Sept. 30, 2022 | | |
|---|---|---|---|---|---|---|
| | Net loss | Weighted average number of shares | Per share | Net earnings | Weighted average number of shares | Per share |
| Issued shares at June 30 | | 51,444,803 | | | 54,787,641 | |
| Effect of shares issued | | - | | | 1,436 | |
| Effect of shares repurchased | | - | | | (693,026) | |
| Basic earnings (loss) per share | $ (42.4) | 51,444,803 | $ (0.82) | $ 3.5 | 54,096,051 | $ 0.06 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 99,761 | | | 166,667 | |
| Diluted earnings (loss) per share | $ (42.4) | 51,444,803* | $ (0.82) | $ 3.5 | 54,262,718 | $ 0.06 |

| | Nine Months Sept. 30, 2023 | | | Nine Months Sept. 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 | | 6,731 | | | 20,801 | |
| Effect of shares repurchased | | - | | | (4,735,550) | |
| Basic earnings (loss) per share | $ (97.8) | 51,441,626 | $ (1.90) | $ 670.4 | 56,089,428 | $ 11.95 |
| Effect of dilutive securities: | | | | | | |
| Stock options | | 102,544 | | | 203,928 | |
| Diluted earnings (loss) per share | $ (97.8) | 51,441,626* | $ (1.90) | $ 670.4 | 56,293,356 | $ 11.91 |

***** 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.

## 13. 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 Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| United States | $ 658.3 | $ 743.7 | $ 1,979.1 | $ 3,037.9 |
| Canada | 159.2 | 271.9 | 507.1 | 640.7 |
| Japan | 2.8 | 6.6 | 12.1 | 30.9 |
| Other export | 4.8 | 3.9 | 16.4 | 15.3 |
| China/Taiwan | 3.0 | 9.5 | 15.1 | 48.9 |
| | $ 828.1 | $ 1,035.6 | $ 2,529.8 | $ 3,773.7 |

Sales by product line are as follows:

| | Three Months Sept. 30, 2023 | Three Months Sept. 30, 2022 | Nine Months Sept. 30, 2023 | Nine Months Sept. 30, 2022 |
|---|---|---|---|---|
| Lumber and other wood products | $ 700.7 | $ 895.3 | $ 2,124.1 | $ 3,397.6 |
| Wood chips and other by-products | 71.2 | 79.2 | 227.6 | 213.4 |
| Logs | 38.2 | 48.8 | 139.6 | 138.2 |
| Other | 18.0 | 12.3 | 38.5 | 24.5 |
| | $ 828.1 | $ 1,035.6 | $ 2,529.8 | $ 3,773.7 |

## 14. Financial instruments:

At September 30, 2023, the fair value of the Company's Long-term debt was less than its carrying value by $19.7 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 September 30, 2023, the Company had no outstanding obligations under derivative financial instruments.

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

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

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards. 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 | Cash deposit rates in effect | Final rates |
|---|---|---|
| First administrative review - 2017 – Combined AD & CV rates | 20.23% | 8.83% |
| First administrative review - 2018 – Combined AD & CV rates | 20.23% | 8.99% |
| Second administrative review - 2019 – Combined AD & CV rates | 20.23% | 17.91% |

| | Cash deposit rates in effect Jan to Nov | Cash deposit rates in effect Dec | Final rates |
|---|---|---|---|
| Third administrative review – 2020 - Combined AD & CV rates | 20.23% | 8.99% | 8.59% |
| Fourth administrative review – 2021 - Combined AD & CV rates | 8.99% | 17.90% | 8.05% |

| 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 to Dec 31 | 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 |

| Sixth administrative review | Cash deposit rates in effect Jan 1 to Jul 31 | Cash deposit rates in effect Aug 1 to Sep 12 | Cash deposit rates in effect Sep 13 onwards | Final rates |
|---|---|---|---|---|
| 2023 | | | | |
| AD | 4.76% | 6.20% | 6.26% | Pending review |
| CV | 3.83% | 1.79% | 1.79% | Pending review |
| Total | 8.59% | 7.99% | 8.05% | Pending review |

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 | 27.5 |
| Acquired rights to duty deposits | 244.8 |
| | $ 540.0 |

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:

| | | Sept. 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 |
| Fourth administrative review | 5.0 | 6.3 | - | - |
| Purchase price for acquired duty deposits | 101.0 | 131.2 | 101.0 | 131.2 |
| Revaluation to the quarter-end exchange rate | - | 8.2 | - | 8.1 |
| Duties recognized as duty deposits receivable | $ 161.8 | $ 218.8 | $ 156.8 | $ 212.4 |
| Interest recognized on duty deposits receivable | 16.3 | 21.9 | 11.1 | 15.0 |
| | $ 178.1 | $ 240.7 | $ 167.9 | $ 227.4 |

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

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.

INTERFOR

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