MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 4, 2021

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2020 ("Q4'20" and "2020", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2020, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 4, 2021.

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 Fourth Quarter, 2020", "Normal Course Issuer Bid", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties". Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; the existence of a public health crisis (such as the current COVID-19 pandemic); and the assumptions described under the heading "Critical Accounting Estimates" herein.

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

Overview of Fourth Quarter, 2020

Interfor recorded Net earnings in Q4'20 of $149.1 million, or $2.24 per share, compared to $121.6 million, or $1.81 per share in Q3'20 and Net loss of $41.7 million, or $0.62 per share in Q4'19. Adjusted net earnings in Q4'20 was $164.7 million compared to $140.0 million in Q3'20 and Adjusted net loss of $17.4 million in Q4'19.

Adjusted EBITDA was a record $248.6 million on sales of $662.3 million in Q4'20 versus $221.7 million on sales of $644.9 million in Q3'20.

Interfor recorded Net earnings of $280.3 million, or $4.18 per share, in 2020, compared to Net loss of $103.8 million, or $1.54 per share in 2019. Adjusted EBITDA was $549.7 million on sales of $2.2 billion.

Notable items in the quarter:

- Strong Free Cash Flow Generation
  - Interfor generated $205.0 million of cash flow from operations before changes in working capital, or $3.07 per share, and an additional $24.9 million of cash from reduced working capital.
  - Capital spending was $36.0 million, including $21.7 million on high-return discretionary projects primarily in the U.S. South. US$96.1 million has been spent on the Company's Phase II strategic capital plan through December 31, 2020.
  - Net debt ended the quarter at $(75.4) million, or (7.5)% of invested capital, resulting in available liquidity of $787.5 million.
- Seasonally Robust Lumber Market
  - Interfor's average selling price was $842 per mfbm, down $68 per mfbm versus record levels in Q3'20. Movements in key benchmark prices were mixed compared to Q3'20 as the SYP Composite and Western SPF Composite benchmarks decreased by US$145 and US$59 to US$603 and US$652 per mfbm, respectively, while the KD H-F Stud 2x4 9' benchmark increased by US$43 to US$807 per mfbm.
- Production Increased to Meet Demand
  - Total lumber production in Q4'20 was 687 million board feet, representing an increase of 45 million board feet quarter-over-quarter. The U.S. South and U.S. Northwest regions accounted for 361 million board feet and 136 million board feet, respectively, compared to 331 million board feet and 118 million board feet in Q3'20. Production in the B.C. region decreased to 190 million board feet from 193 million board feet in the preceding quarter.
  - Total lumber shipments were 683 million board feet, including agency and wholesale volumes, or 65 million board feet higher than Q3'20.
- Softwood Lumber Duties Rate Adjustment
  - In Q4'20, the U.S. Department of Commerce published the final rates for countervailing ("CV") and anti-dumping ("AD") duties based on the results of its first administrative review of shipments for the years ended December 31, 2017 and 2018. The final combined rates for 2017 and 2018 were 8.83% and 8.99% respectively, compared to the cash deposit rate of 20.23%. To reflect lower amended final rates, Interfor recorded a $38.4 million reduction to duties expense in Q4'20.

Effective December 2020, the final rate of 8.99% was applied to new lumber shipments.

- Cumulative duties of US$134.0 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. Except for US$32.9 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Normal Course Issuer Bid ("NCIB")

On November 5, 2020, the Company announced a NCIB commencing on November 11, 2020 and ending on November 10, 2021, for the purchase of up to 5,981,751 common shares. During Q4 2020, Interfor purchased 1,327,420 common shares under the Company's NCIB for total consideration of $24.4 million.

The Company believes that, from time to time, the market price of its common shares may be attractive and their purchase would represent a prudent allocation of capital.

Outlook

North American lumber markets over the near term are expected to remain robust and above historical trends, albeit volatile, as relatively low levels of lumber inventories industry-wide combined with demand ahead of the 2021 home building and renovation season put pressure on available lumber supply from manufacturers.

Interfor expects lumber demand to continue to grow over the mid-term, as repair and renovation activities and U.S. housing starts benefit from favourable underlying economic fundamentals and trends.

Interfor's strategy of maintaining a diversified portfolio of operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle.

While uncertainty remains as to the duration and extent of the economic impact from the COVID-19 pandemic, Interfor is well positioned with its strong balance sheet and significant available liquidity.

Financial and Operating Highlights[1]

	Unit	For the three months ended Dec. 31 2020	Dec. 31 2019	Sept.30 2020	For the year ended Dec. 31 2020	2019	2018[2]
Financial Highlights[3]							
Total sales	$MM	662.3	456.8	644.9	2,183.6	1,875.8	2,186.6
Lumber	$MM	575.0	385.2	562.4	1,838.8	1,576.1	1,841.0
Logs, residual products and other	$MM	87.3	71.6	82.5	344.8	299.7	345.6
Operating earnings (loss)	$MM	203.2	(49.0)	171.4	402.5	(128.8)	157.9
Net earnings (loss)	$MM	149.1	(41.7)	121.6	280.3	(103.8)	111.1
Net earnings (loss) per share, basic	$/share	2.24	(0.62)	1.81	4.18	(1.54)	1.59
Adjusted net earnings (loss)[4]	$MM	164.7	(17.4)	140.0	316.1	(58.1)	113.5
Adjusted net earnings (loss) per share, basic[4]	$/share	2.47	(0.26)	2.08	4.71	(0.86)	1.63
Operating cash flow per share (before working capital changes)[4]	$/share	3.07	0.24	3.19	7.39	0.68	4.12
Adjusted EBITDA[4]	$MM	248.6	17.6	221.7	549.7	63.4	291.6
Adjusted EBITDA margin[4]	%	37.5%	3.9%	34.4%	25.2%	3.4%	13.3%
Total assets	$MM	1,843.2	1,341.9	1,731.9	1,843.2	1,341.9	1,565.3
Total debt	$MM	382.0	259.8	400.2	382.0	259.8	272.8
Net debt[4]	$MM	(75.4)	224.9	88.7	(75.4)	224.9	63.8
Net debt to invested capital[4]	%	(7.5)%	21.3%	8.3%	(7.5)%	21.3%	6.2%
Annualized return on invested capital[4]	%	95.8%	6.6%	81.3%	53.4%	6.1%	29.1%
Operating Highlights							
Lumber production	million fbm	687	668	642	2,377	2,646	2,635
Total lumber sales	million fbm	683	681	618	2,441	2,668	2,680
Lumber sales - Interfor produced	million fbm	675	671	609	2,404	2,626	2,638
Lumber sales - wholesale and commission	million fbm	8	10	9	37	42	42
Lumber - average selling price[5]	$/thousand fbm	842	566	910	753	591	687
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3030	1.3200	1.3321	1.3415	1.3269	1.2957
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.2732	1.2988	1.3339	1.2732	1.2988	1.3642

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

Summary of Fourth Quarter 2020 Financial Performance

Sales

Interfor recorded $662.3 million of total sales, up 45.0% from $456.8 million in the fourth quarter of 2019, driven by the sale of 683 million board feet of lumber at an average price of $842 per mfbm. Average selling price increased $276 per mfbm, or 48.8%, while lumber sales volume remained consistent, as compared to the same quarter of 2019.

Increases in the average selling price of lumber reflect higher prices for Southern Yellow Pine, Western SPF and KD HF Stud 2x4 9' in Q4'20 as compared to Q4'19.

The SYP Composite benchmark increased by US$263 to US$603 per mfbm while the Western SPF Composite and the KD HF Stud 2x4 9' benchmarks increased by US$298 and US$460 to US$652 and US$807 per mfbm, respectively.

Sales generated from logs, residual products and other increased by $15.7 million or 21.9% in Q4'20 compared to Q4'19 due mainly to increased availability of surplus logs.

Operations

Production costs increased by $9.3 million, or 2.2%, compared to Q4'19 explained primarily by accruals for short term incentive compensation.

Lumber production of 687 million board feet in Q4'20 was 19 million board feet higher than Q4'19.

Production from the Canadian operations increased by 3 million board feet to 190 million board feet in Q4'20, compared to Q4'19, due to increased operating schedules and slightly higher productivity from the B.C. Interior sawmills. Production from the Company's U.S. South sawmills totaled 361 million board feet in Q4'20, up 19 million board feet compared to Q4'19, due to increased operating schedules related to market demand. Production from the Company's U.S. Northwest operations totaled 136 million board feet in Q4'20, down 3 million board feet compared to Q4'19, due to the sale of the sawmill in Gilchrist, Oregon on October 29, 2020, partially offset by higher productivity from the U.S. Northwest stud mills.

Interfor recorded a recovery of $23.9 million of duties in the quarter, due to the adjustment of $38.4 million related to finalization of the CV and AD rates as a result of the first administrative review by the U.S. Department of Commerce. This was offset by $14.5 million of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S. during the quarter, up $3.3 million from Q4'19. The increase is attributable to higher prices and higher shipments to the U.S. from Canadian sawmills partially offset by lower cash deposit rates as compared to Q4'19.

Depreciation of plant and equipment was $21.9 million, up $1.2 million from Q4'19, due to the completion of Phase I capital projects in the U.S. South partially offset by the sale of the sawmill in Gilchrist, Oregon on October 29, 2020. Depletion and amortization of timber, roads and other was $10.5 million, down $3.7 million from Q4'19, primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $10.3 million, up $1.3 million from Q4'19 primarily as a result of accruals for short term incentive compensation partially offset by cost efficiencies realized during the COVID-19 pandemic.

The $10.3 million long term incentive compensation expense mostly reflects the impact of a 57.3% increase in the price of Interfor common shares used to value share-based awards during the quarter. The long term incentive compensation expense of $1.3 million in Q4'19 resulted primarily from a 4.8% increase in the market price of Interfor common shares used to value share-based awards.

Asset and goodwill write-downs and restructuring costs in Q4'20 were $1.8 million, primarily related to severance and other closure costs. The asset write-downs and restructuring costs in Q4'19 were $30.4 million. This included an impairment charge of $13.1 million for goodwill related to the reconfiguration of the Company's B.C. Coastal business and $16.1 million in impairments against sawmill assets in the U.S. Northwest to reflect their fair value as well as cash costs of $1.2 million for discontinued operations.

Finance costs decreased to $1.9 million in Q4'20 from $3.7 million in Q4'19 primarily as a result of $3.0 million of interest income accrued on the long-term receivable for the CV and AD duty rate finalization partially offset by an increase in interest expense due to higher loan balances.

Other foreign exchange loss of $8.2 million in Q4'20 and $0.5 million in Q4'19 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The Company held higher U.S. Dollar cash balances on average during Q4'20 compared to Q4'19 primarily due strong cash flow from operations during 2020. The closing Canadian Dollar weakened by 4.6% in Q4'20 compared to 1.9% in Q4'19.

Other expense of $0.1 million in Q4'20 and $0.3 million in Q4'19 resulted from the disposal of surplus and scrapped equipment.

Income Taxes

The Company recorded income tax expense of $43.9 million in Q4'20 at an effective tax rate of 23%, comprised of $5.4 million current income tax expense and $38.5 million deferred tax expense. The Company recorded an income tax recovery of $11.9 million in Q4'19 at an effective tax rate of 22%, comprised of $0.8 million in current income tax recovery and a $11.1 million deferred tax recovery. Current income tax expense for Q4' 2020 was limited by the use of non-capital tax loss carry-forwards in both Canada and the U.S. Non-capital tax loss carry-forward balances remain in Canada as at December 31, 2020.

Net Earnings

The Company recorded Net earnings of $149.1 million, or $2.24 per share, compared to Net loss $41.7 million, or $0.62 per share in Q4'19. Operating margins and net earnings were positively impacted by higher lumber prices.

Summary of 2020 Financial Performance

Sales

Interfor recorded $2.2 billion in total sales, up 16.4% from $1.9 billion in 2019, driven by the sale of 2.4 billion board feet of lumber at an average price of $753 per mfbm. Lumber sales volume decreased 227 million board feet, or 8.5%, while average selling price increased $162 per mfbm, or 27.4%, as compared to 2019.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in 2020 as compared to 2019. The Western SPF Composite and SYP Composite benchmarks increased US$179 to US$523 per mfbm and US$167 to US$533 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark increased US$259 to US$604 per mfbm for 2020 as compared to 2019. Realized lumber prices also increased in Canadian Dollar terms by the 1.1% weakening of the Canadian Dollar against the U.S. Dollar in 2020 as compared to 2019.

Sales generated from logs, residual products and other increased by $45.1 million or 15.0% as compared to 2020 due mainly to the reconfiguration of the B.C. Coastal business resulting in increased availability of logs for sale partially offset by a decrease in the sale of chips.

Operations

Production costs decreased by $145.4 million or 8.4% as compared to 2019 explained primarily by a decline of 8.5% in lumber sales volume.

Lumber production of 2.4 billion board feet in 2020 was 269 million board feet lower than 2019. This decline is explained by the closure of the Hammond sawmill in Q4'19, project-related downtime in the U.S. South, sale of the Gilchrist sawmill and the temporary COVID-19 related curtailments announced in March 2020.

Production from the Canadian operations decreased by 91 million board feet to 684 million board feet in 2020, compared to 2019. Production from the Company's U.S. South and Pacific Northwest operations totaled 1.2 billion and 459 million board feet in 2020, down 91 million and 87 million board feet compared to 2020, respectively.

CV and AD duty deposits totalled $13.8 million in 2020, comprised of $52.2 million expensed on shipments from B.C. to the U.S. during the year, offset by a $38.4 million recovery related to finalization of the CV and AD rates as a result of the first administrative review by the U.S. Department of Commerce for the years ended December 31, 2017 and 2018.

Depreciation of plant and equipment was $78.5 million, down 2.4% from 2019, with reductions from the closure of the Hammond sawmill in Q4'19 and sale of the Gilchrist sawmill in October 2020 outweighing full depreciation on completed capital projects. Depletion and amortization of timber, roads and other was $37.1 million, down 16.3% as compared with 2019, primarily due to decreased conventional logging on the B.C. Coast, as well as the absence of amortization on an intangible asset recognized on acquisition of certain sawmills in the U.S. South that became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $41.0 million, up $2.2 million from 2019, as a result of accruals for short term incentive compensation partially offset by cost efficiencies realized during the COVID-19 pandemic.

The $12.5 million Long term incentive compensation expense reflects the impact of a 58.8% increase during 2020 in the price of Interfor common shares used to value share-based awards. The $3.4 million Long term incentive compensation expense in 2019 reflects the impact of a 7.5% increase in the market price of Interfor common shares used to value share-based awards and incentive awards maturing.

Asset write-downs and restructuring costs in 2020 totalled $15.3 million. This included $10.8 million of non-cash impairments for asset write-downs on buildings, equipment and parts inventory related to the sale of the sawmill in Gilchrist, Oregon. The sale was completed on October 29, 2020.

Asset and goodwill write-downs and restructuring costs in 2019 were $64.0 million. This included $14.5 million in asset impairments for asset write-downs on buildings, equipment and other assets related to the permanent closure of Interfor's Hammond sawmill, $13.1 million for the impairment of goodwill and $19.1 million in costs for severance and other closure costs. In addition, the Company took $16.1 million in impairments against sawmill assets in the U.S. Northwest to reflect their fair value, and $1.8 million against certain equipment in the U.S. South scheduled to be replaced as part of capital projects in the region.

Finance costs increased to $16.0 million in 2020 from $15.0 million in 2019 primarily due to the completion of the additional US$100 million Senior Secured Note financing with Prudential Private Capital on March 26, 2020, partially offset by the write-off of unamortized deferred financing fees associated with extinguished credit facilities in Q1'19 and $3.0 million of interest income relating to the long-term duties receivable recorded as a result of the CV and AD duties rate finalization.

Other foreign exchange loss of $16.9 million in 2020 and $0.3 million in 2019 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding and cash held by Canadian operations. Interfor held higher U.S. Dollar cash balances on average in 2020 due to increased sales during the year.

Other income was $0.3 million in 2020 and $5.9 million in 2019. The 2019 amount related primarily to gains recognized as a result of compensation received on the extinguishment of timber licenses on the B.C. Coast.

Income Taxes

The Company recorded an income tax expense of $89.6 million in 2020 at an effective tax rate of 24%, comprised of $7.1 million current tax expense and a $82.5 million deferred tax expense. The 2019 income tax recovery of $34.4 million, representing an effective tax rate of 25% is comprised of negligible current tax expense and a $34.4 million deferred tax recovery. Current income tax expense for 2020 was limited by the use of non-capital tax loss carry-forwards in both Canada and the U.S. Non-capital tax loss carry-forward balances remain in Canada as at December 31, 2020.

Net Earnings

The Company recorded Net earnings of $280.3 million, or $4.18 per share, compared to a Net loss of $103.8 million, or $1.54 per share in 2019. Operating margins and Net earnings were positively impacted by higher lumber prices.

Summary of Quarterly Results[1]

	Unit	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1
Financial Performance[2]									
Total sales	$MM	662.3	644.9	396.8	479.6	456.8	486.5	481.3	451.2
Lumber	$MM	575.0	562.4	322.1	379.3	385.2	403.5	406.9	380.5
Logs, residual products and other	$MM	87.3	82.5	74.7	100.3	71.6	83.0	74.4	70.7
Operating earnings (loss)	$MM	203.2	171.4	13.3	14.6	(49.0)	(44.8)	(18.2)	(16.8)
Net earnings (loss)	$MM	149.1	121.6	3.2	6.3	(41.7)	(35.6)	(11.2)	(15.3)
Net earnings (loss) per share, basic	$/share	2.24	1.81	0.05	0.09	(0.62)	(0.53)	(0.17)	(0.23)
Adjusted net earnings (loss)[3]	$MM	164.7	140.0	10.6	0.7	(17.4)	(11.8)	(16.2)	(12.7)
Adjusted net earnings (loss) per share, basic[3]	$/share	2.47	2.08	0.16	0.01	(0.26)	(0.17)	(0.24)	(0.19)
Operating cash flow per share (before working capital changes)[3]	$/share	3.07	3.19	0.56	0.57	0.24	0.03	0.15	0.25
Adjusted EBITDA[3]	$MM	248.6	221.7	42.8	36.6	17.6	16.8	12.6	16.3
Adjusted EBITDA margin[3]	%	37.5%	34.4%	10.8%	7.6%	3.9%	3.5%	2.6%	3.6%
Annualized return on invested capital[3]	%	95.8%	81.3%	14.8%	12.9%	6.6%	6.1%	4.6%	6.1%
Shares outstanding - end of period	million	66.0	67.3	67.3	67.3	67.3	67.3	67.3	67.3
Shares outstanding - weighted average	million	66.7	67.3	67.3	67.3	67.3	67.3	67.3	67.3
Operating Performance									
Lumber production	million fbm	687	642	421	627	668	685	647	646
Total lumber sales	million fbm	683	618	499	641	681	692	674	621
Lumber sales - Interfor produced	million fbm	675	609	488	632	671	681	664	610
Lumber sales - wholesale and commission	million fbm	8	9	11	9	10	11	10	11
Lumber - average selling price[4]	$/thousand fbm	842	910	646	592	566	583	603	613
Average USD/CAD exchange rate[5]	1 USD in CAD	1.3030	1.3321	1.3862	1.3449	1.3200	1.3204	1.3377	1.3295
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.2732	1.3339	1.3628	1.4187	1.2988	1.3243	1.3087	1.3363

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 before duties.
5 Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by typical industry-wide seasonality, levels of lumber production, log costs, market prices for lumber, the USD/CAD foreign currency exchange rate and long term asset impairments and restructuring charges.

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C., the U.S. Pacific Northwest, and the U.S. South in Q1'19. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. The Hammond sawmill closure reduced lumber production and sales commencing in Q4'19.

Asset and goodwill impairments and other costs resulting from the B.C. Coastal reorganization and other restructuring activities affected results in Q3'19 and Q4'19.

In the latter part of Q1'20 and majority of Q2'20, operations were impacted by the pandemic outbreak of COVID-19.

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

Liquidity

Balance Sheet

Interfor's Net debt at December 31, 2020 was $(75.4) million, or (7.5)% of invested capital, representing a decrease of $300.3 million from the level of Net debt at December 31, 2019.

As at December 31, 2020 the Company had net working capital of $563.4 million and available liquidity of $787.5 million, based on the full borrowing capacity under its $350 million Revolving Term Line.

The Revolving Term Line and Senior Secured Notes are subject to financial covenants, including net debt to total capitalization ratios, 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			For the year ended	
Thousands of Dollars	Dec. 31, 2020	Dec. 31, 2019	Sept. 30, 2020	Dec. 31, 2020	Dec. 31, 2019
Net debt					
Net debt, period opening	$88,705	$212,674	$239,114	$224,860	$63,825
Issuance of Senior Secure Notes	-	-	-	140,770	-
Term Line net drawings (repayments)	-	(1)	(23)	(82)	754
Impact on U.S. Dollar denominated debt from strengthening CAD	(18,210)	(5,099)	(8,647)	(18,488)	(13,834)
Decrease (increase) in cash and cash equivalents	(165,294)	16,994	(144,849)	(450,767)	127,659
Decrease in marketable securities	-	-	-	-	41,766
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening CAD	19,367	292	3,110	28,275	4,690
Net debt, period ending	$(75,432)	$224,860	$88,705	$(75,432)	$224,860

On March 26, 2020, the Company issued US$50,000,000 of Series F Senior Secured Notes, bearing interest at 3.34%, and US$50,000,000 of Series G Senior Secured Notes, bearing interest at 3.25%. Each series of these Senior Secured Notes have equal payments of US$16,667,000 due on each of March 26, 2028, 2029 and on maturity in 2030.

Cash Flow from Operating Activities

The Company generated $495.8 million of cash flow from operations before changes in working capital in 2020, for an increase of $450.3 million over 2019. There was a net cash inflow from operations after changes in working capital of $526.8 million in 2020, with $31.0 million of cash generated from operating working capital.

A focused effort to reduce log and lumber inventories contributed to the $22.0 million inflow from inventories and higher accruals for short-term incentive compensation contributed to the $41.0 million inflow from trade accounts payable and provisions. Increased sales contributed to the $30.2 million outflow related to trade receivables.

In 2019, $28.3 million of cash was generated from operations with $17.3 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $162.6 million, with $56.6 million for the acquisition from Canadian Forest Products Ltd. ("Canfor") of timber licences and other assets, net of assumed liabilities, $95.9 million for plant and equipment, and other intangibles and $14.7 million for development of roads and bridges partially offset by $4.5 million in proceeds on disposal of property, plant and equipment, and other.

Discretionary mill improvements of $78.1 million in 2020 include several projects in the U.S., the most significant of which relate to the modernization of the Eatonton sawmill in Georgia, and upgrades of the Georgetown sawmill in South Carolina and the Molalla sawmill in Oregon.

Maintenance capital investments excluding roads totaled $17.6 million in 2020.

In 2019, investing activities were $124.0 million, with capital spending of $158.7 million for plant and equipment and $22.4 million for development of roads, offset by $48.3 million in net proceeds from maturing Marketable securities and deposits and $8.9 million in proceeds on disposal of plant, equipment and other.

Discretionary and maintenance mill improvements totaled $135.0 million and $23.6 million, respectively, in 2019, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash inflow of $86.6 million in 2020 resulted from US$100 million Senior Secured Notes financing with Prudential Private Capital, partly offset by $24.4 million used to purchase shares under the Company's NCIB, as well as interest and lease liability payments of $17.6 million and $12.3 million, respectively.

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

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2020, including debt and interest payments and major capital improvements are summarized as follows:

		Payments due by Period			
Thousands of Canadian Dollars	**Total**	**Up to 1 Year**	**2-3 Years**	**4-5 Years**	**After 5 Years**
Trade accounts payable and provisions	$131,370	$131,370	$ -	$ -	$ -
Income taxes payable	4,394	4,394	-	-	-
Reforestation liability	46,674	16,182	13,387	8,105	9,000
Lease liabilities	45,234	12,350	13,683	7,371	11,830
Long term debt	480,895	22,394	43,798	109,894	304,809
Provisions and other liabilities	48,022	15,348	13,159	3,617	15,898
Capital commitments and other	83,190	82,540	650	-	-
Total obligations	$839,779	$284,578	$84,677	$128,987	$341,537

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2020:

Thousands of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit and maximum borrowing available	$350,000	$381,960	$731,960
Less:			
Drawings	-	381,960	381,960
Outstanding letters of credit included in line utilization	19,887	-	19,887
Unused portion of facility	$330,113	$ -	330,113
Add:			
Cash and cash equivalents			457,392
Available liquidity at December 31, 2020			$787,505

Interfor's Revolving Term Line matures in March 2024 and its Senior Secured Notes have maturities principally in the years 2024-2030.

As of December 31, 2020, the Company had commitments for capital expenditures totaling $70.1 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 year ended December 31, 2020.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At December 31, 2020, such instruments aggregated $62.8 million (December 31, 2019 - $67.1 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

From time to time, the Company purchases high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. Primary considerations in selecting investments for the temporary employment of surplus funds are safety of principal and liquidity, with yield a secondary consideration. In addition, the Company utilizes financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

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

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

The Company did not trade any foreign exchange contracts, interest rate derivatives or lumber futures in 2020 and 2019.

Borrowings

As at December 31, 2020, Interfor had no floating rate debt outstanding on its credit facilities and US$300 million of fixed rate debt of Senior Secured Notes outstanding.

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

The Company's Senior Secured Notes have a weighted average fixed interest rate of 4.08%.

During 2020, the Company had minimal borrowings subject to variable interest rates under its credit facilities. As a result, based on the Company's average debt level during 2020, the sensitivity of a 100 basis point increase in interest rates would result in a negligible decrease in Net earnings.

Foreign Currency

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

As at December 31, 2020, the Company had designated the US$300 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded a $6.9 million after-tax unrealized foreign exchange loss on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2020 (2019 - $27.6 million).

Outstanding Shares

As of February 4, 2021, Interfor had 65,964,153 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of February 4, 2021, there were 634,273 stock options outstanding with exercise prices ranging from $9.78 to $23.26 per common share.

On November 5, 2020, the Company announced a NCIB whereby it can purchase for cancellation up to 5,981,751 common shares. Interfor purchased 1,327,420 shares at a cost of $24.4 million. All shares repurchased were cancelled. No common shares were purchased in 2020 under the Company's prior NCIB that expired on March 6, 2020.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2020.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2020.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2020, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

Critical Accounting Estimates

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

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

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

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

Key assumptions used are based on industry sources as well as management estimates. Significant assumptions include future sales volume, commodity prices, production costs and discount rates. Other assumptions include applicable foreign exchange rates, operating rates of the assets, the level of sales to the U.S. from Canada, the CV and AD duty rates, future capital required to maintain the assets in their current operating condition, and other items.

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

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

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

The Company assessed the recoverability of goodwill as at December 31, 2020 and concluded that there was no impairment.

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

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

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

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

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

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

Assumptions underlying the composition of deferred income tax assets and liabilities include estimates of future results of operations and the timing of the reversal of temporary differences as well as the tax rates and laws in the applicable jurisdictions at the time of the reversal. The composition of deferred income tax assets and liabilities is reasonably likely to change from period to period due to the uncertainties surrounding these assumptions.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2020, and have not been applied in preparing the Company's audited 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: Adjusted net earnings (loss), Adjusted net earnings (loss) per share, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes), and Annualized return on invested capital which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

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

Thousands of Canadian Dollars except number of shares and per share amounts	For the three months ended Dec. 31 2020	Dec. 31 2019	Sept. 30 2020	For the year ended Dec. 31, 2020	2019	2018[1]
Adjusted Net Earnings (Loss)						
Net earnings (loss)	$149,148	$(41,676)	$121,604	$280,296	$(103,785)	$111,058
Add:						
Asset and goodwill write-downs and restructuring costs	1,793	30,416	12,985	15,264	63,982	15,304
Other foreign exchange loss (gain)	8,162	510	2,907	16,881	275	(3,474)
Long term incentive compensation expense (recovery)	10,254	1,265	5,576	12,513	3,446	(7,829)
Other (income) expense	92	298	43	(336)	(5,925)	(1,188)
Post closure wind-down costs	949	-	3,085	4,034	-	4
Income tax effect of above adjustments	(5,652)	(8,241)	(6,206)	(12,527)	(16,117)	(396)
Adjusted net earnings (loss)	$164,746	$(17,428)	$139,994	$316,125	$(58,124)	$113,479
Weighted average number of shares - basic ('000)	*66,687*	*67,257*	*67,270*	*67,119*	*67,277*	*69,713*
Adjusted net earnings (loss) per share	$2.47	$(0.26)	$2.08	$4.71	$(0.86)	$1.63
Adjusted EBITDA						
Net earnings (loss)	$149,148	$(41,676)	$121,604	$280,296	$(103,785)	$111,058
Add:						
Depreciation of plant and equipment	21,947	20,711	20,850	78,459	80,438	80,065
Depletion and amortization of timber, roads and other	10,511	14,214	7,922	37,071	44,294	46,148
Asset and goodwill write-downs and restructuring costs	1,793	30,416	12,985	15,264	63,982	15,304
Finance costs	1,891	3,740	4,907	16,079	15,024	12,452
Other foreign exchange loss (gain)	8,162	510	2,907	16,881	275	(3,474)
Income tax expense (recovery)	43,889	(11,851)	41,916	89,573	(34,359)	39,092
EBITDA	237,341	16,064	213,091	533,623	65,869	300,645
Add:						
Long term incentive compensation expense (recovery)	10,254	1,265	5,576	12,513	3,446	(7,829)
Other (income) expense	92	298	43	(336)	(5,925)	(1,188)
Post closure wind-down costs	947	-	2,967	3,914	-	4
Adjusted EBITDA	$248,634	$17,627	$221,677	$549,714	$63,390	$291,632
Sales	$662,301	$456,819	$644,884	$2,183,609	$1,875,821	$2,186,567
Adjusted EBITDA margin	37.5%	3.9%	34.4%	25.2%	3.4%	13.3%
Net debt to invested capital						
Net debt						
Total debt	$381,960	$259,760	$400,170	$381,960	$259,760	$272,840
Cash and cash equivalents	(457,392)	(34,900)	(311,465)	(457,392)	(34,900)	(166,152)
Marketable securities	-	-	-	-	-	(42,863)
Total net debt	$(75,432)	$224,860	$88,705	$(75,432)	$224,860	$63,825
Invested capital						
Net debt	$(75,432)	$224,860	$88,705	$(75,432)	$224,860	$63,825
Shareholders' equity	1,080,312	830,982	983,225	1,080,312	830,982	968,766
Total invested capital	$1,004,880	$1,055,842	$1,071,930	$1,004,880	$1,055,842	$1,032,591
Net debt to invested capital[2]	(7.5)%	21.3%	8.3%	(7.5)%	21.3%	6.2%
Operating cash flow per share (before working capital changes)						
Cash provided by operating activities	$229,947	$24,642	$175,492	$526,784	$28,252	$265,612
Cash used in (generated from) operating working capital	(24,929)	(8,334)	39,346	(30,942)	17,322	21,457
Operating cash flow (before working capital changes)	$205,018	$16,308	$214,838	$495,842	$45,574	$287,069
Weighted average number of shares - basic ('000)	*66,687*	*67,257*	*67,270*	*67,119*	*67,277*	*69,713*
Operating cash flow per share (before working capital changes)	$3.07	$0.24	$3.19	$7.39	$0.68	$4.12

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

Thousands of Canadian Dollars	For the three months ended Dec. 31 2020	Dec. 31 2019	Sept. 30 2020	For the year ended Dec. 31, 2020	2019	2018
Annualized return on invested capital						
Adjusted EBITDA	$248,634	$17,627	$221,677	$549,714	$63,390	$291,632
Invested capital, beginning of period	$1,071,930	$1,093,528	$1,108,557	$1,055,842	$1,032,591	$968,852
Invested capital, end of period	1,004,880	1,055,842	1,071,930	1,004,880	1,055,842	1,032,591
Average invested capital	$1,038,405	$1,074,685	$1,090,244	$1,030,361	$1,044,217	$1,000,722
Adjusted EBITDA divided by average invested capital	23.9%	1.6%	20.3%	53.4%	6.1%	29.1%
Annualization factor	4.0	4.0	4.0	1.0	1.0	1.0
Annualized return on invested capital	95.8%	6.6%	81.3%	53.4%	6.1%	29.1%

Risks and Uncertainties

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

Public Health Crisis

In Q1'20, the Company identified a previously undisclosed risk of the existence of a public health crisis (such as the current global COVID-19 pandemic). The future emergence and spread of pathogens similar to COVID-19 could have an adverse impact on global economic conditions. In turn, such a public health crisis could have adverse consequences on Interfor's operations, financial results and liquidity. Areas of potential impact include the health and safety of its employees and contractors, product demand and pricing, availability of logs and operating supplies, availability of logistics and increased cyber-security risk. Given the ongoing and dynamic nature of the COVID-19 outbreak, it is difficult to accurately predict the severity of its impact on the Company. The extent of such impact will depend upon future developments, which are highly uncertain, including the rate of spread and severity of COVID-19 and government actions taken to mitigate its impact, among others.

Price Volatility

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

Competition

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

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

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

Availability and Cost of Log Supply

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

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

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

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

Natural or Man-Made Disasters

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

Currency Exchange Sensitivity

The Company's Canadian operations ordinarily sell approximately 75% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars and, to a lesser extent, in Japanese Yen.

While the Canadian operations also incur some U.S. Dollar–denominated expenses, primarily for ocean freight and other transportation, CV and AD duties, and for equipment operating leases, most expenses are incurred in Canadian Dollars. The Company's operations in the United States transact primarily in U.S. Dollars.

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

Government Regulation

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

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

Allowable Annual Cut ("AAC")

The Company holds cutting rights in B.C. that represent an AAC of approximately of 3.74 million cubic metres. Of this amount, 3.69 million cubic metres is in the form of replaceable tenures (5 Tree Farm Licences and 28 Forest Licences). The remaining portion is held in non-replaceable Timber Licences that will expire over time.

In March 2020, the Company received regulatory approval for the transfer of tenures in the Kamloops Region from Canfor with a combined AAC of 349,000 cubic metres.

The volume of timber harvested under Company tenures varies from year to year however the harvest over a five-year period must not exceed 110% of the AAC for that period. The Company is in compliance with the terms and conditions of its tenures.

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

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

In September 2020, the B.C. government released the Old Growth Strategic Review ("Review"), which included 14 recommendations to develop and implement an old-growth strategy. At the same time, the government announced the temporary deferral of old forest harvesting in nine areas throughout the province totaling 353,000 hectares.

Three of the deferred areas overlap portions of the Company's tenures however there are little to no impacts to our AAC. The B.C. government is working towards implementation of the 14 recommendations from the Review and have signaled their intention to protect additional old-growth stands. The impact of the additional protections cannot be estimated at this time.

Indigenous Peoples

Indigenous peoples have claimed rights and title over substantial portions of B.C., including areas where the Company's forest tenures are situated. This has created much uncertainty as to the status of competing rights over the Crown land base and its resources. Both the provincial and federal governments have been seeking to negotiate settlements with Indigenous peoples throughout B.C. and Canada to resolve their rights and title claims. Such settlements, interim measures, or other agreements that may result could involve a combination of cash, resources, grants of conditional rights to resources on public lands, and rights of self-government. The impact of Indigenous peoples claims or treaty settlements on the Company's forest tenures or the amounts of compensation to the Company, if any, cannot be estimated at this time.

The B.C. Government passed new legislation in November 2019 to reconcile B.C. laws with the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP"). This new legislation will provide, over time, a mechanism for consent-based decision making, which will increase the role of First Nations in resource-based activities. While the Province retains authority for making decisions in the public interest, UNDRIP will result in an increased role of First Nations in resource-based activities.

Furthermore, in December 2020, the federal government introduced legislation respecting UNDRIP. This fulfills the commitment made to table legislation by the end of 2020, and to move to adopt and implement UNDRIP in accordance with the Canadian Constitution. This framework and commitment document will guide the work required for implementation of federal laws to be consistent with the Declaration.

The courts have also established that the Crown has a duty to consult with Indigenous peoples and, where appropriate, accommodate their interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long-standing and complex issues. The government of B.C. has been working to improve the functional relationship between the Crown and Indigenous peoples prior to treaty settlement.

The Province of B.C. and some Indigenous peoples of B.C. have signed Reconciliation Protocols that provide a shared decision-making process for resource and land use, as well as new forest sector opportunities. These agreements overlap portions of the Company's tenures, and as First Nations become larger participants in the forest sector, it is expected Reconciliation Protocols will be signed across other areas of B.C. These agreements will be assessed and monitored in the years ahead to determine the extent of any implications on those operations.

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market. Interfor's shipments to the U.S. from Canadian operations represent approximately 15% of Company-wide lumber production. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking CV and 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 DoC combined all-others cash deposit duty rate of 20.23% was applicable to Interfor for the majority of 2020. The U.S. duty rate determinations are subject to annual Administrative Reviews and in the fourth quarter 2020, the DoC published its final revised CV and AD duty rates based on completion of its first Administrative Review for the years ended December 31, 2017 and 2018 of 8.83% and 8.99%, respectively. As a result, the DOC combined all-others cash deposit duty rate of 8.99% applies to Interfor's new lumber shipments from December 1, 2020 until the issuance of final revised rates as a result of the DoC's second Administrative Review, expected sometime in late 2021.

Cumulative duties of US$134.0 million have been paid by Interfor since inception of the current trade dispute and are held in trust by the U.S. pending all Administrative Reviews and conclusion of all appeals of U.S. decisions. Interfor has recorded the majority of these duty deposits as an expense, except for US$32.9 million which are recorded as a long-term receivable due to a reduction in rates as a result of the first Administrative Review and other process corrections. Interfor is seeking to recover these deposits following successful appeals or through settlement.

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

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

Stumpage Fees

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

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

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

Environment

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

Labour Disruptions

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

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities. The Company's Acorn, Grand Forks, and Castlegar sawmill employees are members of the Canadian United Steelworkers union ("USW"). The agreement with the USW for the Southern Interior has an expiry date of June 30, 2023, while the B.C. Coast USW agreement has an expiry date of June 14, 2024.

The Company also has 19 employees in the B.C. Interior who are members of the Canadian Merchant Service Guild ("CMSG"). The collective agreement with the CMSG expires September 30, 2021.

Workers at the Longview, Washington sawmill are represented by the International Association of Machinist and Aerospace Workers ("IAM"). The IAM collective agreement expires on November 15, 2024.

Information Systems Security

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

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

Additional Information

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