Interfor Corporation
First Quarter Report
For the three months ended March 31, 2020

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 months ended March 31, 2020 ("Q1'20"). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three months ended March 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 May 7, 2020.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of First Quarter, 2020", "Effects of COVID-19 and Interfor's Response", "Highlights of First Quarter, 2020", "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 headings "Risks and Uncertainties" and "Effects of COVID-19 and Interfor's Response" herein, and in Interfor's 2019 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber 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 and in Interfor's 2019 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 First Quarter, 2020

Interfor recorded net earnings in Q1’20 of $6.3 million, or $0.09 per share, compared to net losses of $41.7 million, or $0.62 per share in Q4’19 and $15.3 million, or $0.23 per share in Q1’19. Adjusted net earnings were $0.7 million in Q1’20 compared to Adjusted net losses of $17.4 million in Q4’19 and $12.7 million in Q1’19.

Adjusted EBITDA was $36.6 million on sales of $479.6 million in Q1’20 versus $17.6 million on sales of $456.8 million in Q4’19.

Net debt ended the quarter at $322.0 million, or 26.7% of invested capital, resulting in available liquidity of $430.9 million.

Effects of COVID-19 and Interfor’s Response

On March 11, 2020 the World Health Organization declared the COVID-19 outbreak a pandemic and to date, the pandemic and related government-imposed restrictions and quarantines have had an unprecedented impact on the global economy.

As a result, industry-wide demand for lumber products has declined substantially. Benchmark lumber prices weakened significantly through early April and have since found a level of support from industry-wide production curtailments that began in the second half of March.

Considerable uncertainty remains as to the duration and extent of the economic impact and in turn, the magnitude of impact on Interfor’s operations, demand for its products and financial outlook. However, Interfor is well positioned for this uncertainty with a strong balance sheet and significant available liquidity.

The Company has taken the following proactive measures to protect the health of its employees, balance its lumber production with reduced demand and safeguard its financial position in response to COVID-19:

- Interfor has modified its operational procedures, suspended all non-essential travel and adopted work-from-home measures in accordance with public health authority directives.
- On March 18, 2020 Interfor announced a temporary reduction in lumber production by approximately 35 million board feet per week across its operations in British Columbia, the U.S. Northwest and the U.S. South for an initial two-week period, representing approximately 60% of Interfor’s production capacity. On March 26, 2020 the Company announced a further production curtailment, resulting in a total reduction of approximately 50 million board feet for the week of March 30, 2020. The Company will continue to evaluate and adjust its operating schedule on a regular basis with consideration given to employee safety, market pricing and demand, and inventory levels.
- Cash conservation actions have been implemented to significantly reduce non-essential operating expenses and discretionary capital expenditures. On March 18, 2020 the Company announced a reduction of approximately $140 million of its capital expenditures planned for 2020 and 2021. With this reduction, Interfor’s capital expenditures are expected to be approximately $100 million in 2020 and substantially below $100 million in 2021.
- Interfor has modified components of its previously announced US$240 million Phase II strategic capital plan. The rebuild of the sawmill operation at Thomaston, GA has been postponed while the sawmill portion of the rebuild at the Eatonton, GA operation has been deferred with completion now planned for 2022. US$66.1 million has been spent on the Phase II plan through March 31, 2020. Interfor will re-evaluate its capital expenditures as market conditions continue to evolve and maintains significant flexibility to modify the rate of spending.

The Company will continue to be proactive in taking measures to safeguard the Company’s financial position, while remaining alert to opportunities that may become available.

Highlights of First Quarter, 2020

- Strengthened Liquidity
  - Available liquidity increased to $430.9 million, up $67.8 million from December 31, 2019.
  - On March 26, 2020 the Company completed the previously announced US$100 million of long-term debt financing with Prudential Private Capital. As a result, Interfor's long-term debt now totals US$300 million, with a weighted average interest rate of 4.08% and maturities principally in the years 2024-2030.
  - Interfor generated $38.4 million of cash flow from operations before changes in working capital, or $0.57 per share. Working capital investment increased by $19.1 million as a result of a seasonal increase in trade receivables.
  - Capital spending was $84.2 million, including $56.6 million for the acquisition of timber licences, roads and other assets, net of assumed liabilities from Canadian Forest Products Ltd. ("Canfor").
- Acquisition of B.C. Interior Cutting Rights from Canfor
  - On March 9, 2020, Interfor completed its acquisition from Canfor of two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior.
- Production Balanced with Shipments
  - Total lumber production in Q1'20 was 627 million board feet, down 41 million board feet from Q4'19. Production in the B.C. region declined to 186 million board feet from 187 million board feet in the preceding quarter. The U.S. South and U.S. Northwest regions accounted for 311 million board feet and 130 million board feet, respectively, compared to 342 million board feet and 139 million board feet in Q4'19.
  - Total lumber shipments were 641 million board feet, including Interfor produced volume of 632 million board feet and agency and wholesale volumes of 9 million board feet, or 40 million board feet lower than Q4'19.
  - Lumber inventory levels decreased 4 million board feet over the course of Q1'20.
- Higher Overall Lumber Prices in Q1'20
  - The key benchmark prices improved quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' increasing by US$11, US$26 and US$84 per mfbm to US$351, US$380 and US$431 per mfbm, respectively. Interfor's average lumber selling price increased $26 from Q4'19 to $592 per mfbm.
- Softwood Lumber Duties
  - On February 3, 2020 the U.S. Department of Commerce issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates remain preliminary, with final rate determinations not expected until September 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of March 31, 2020 to reflect the preliminary revised duty rates.
  - Interfor expensed $10.6 million of duties in the quarter, representing the full amount of countervailing and anti-dumping duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.
  - Cumulative duties of US$101.7 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by U.S. Customs and Border Protection. Except for US$3.3 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Outlook

Near-term lumber demand is expected to be negatively impacted by uncertainties related to COVID-19. However, industry-wide lumber production curtailments should help balance supply with demand.

Interfor expects demand for lumber to normalize over the mid- to long-term, particularly in the North American repair and renovation, residential and industrial segments.

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.

Financial and Operating Highlights[1]

		For the three months ended		
	Unit	Mar. 31, 2020	Mar. 31, 2019	Dec. 31, 2019
Financial Highlights[2]				
Total sales	$MM	479.6	451.2	456.8
Lumber	$MM	379.3	380.5	385.2
Logs, residual products and other	$MM	100.3	70.7	71.6
Operating earnings (loss)	$MM	14.6	(16.8)	(49.0)
Net earnings (loss)	$MM	6.3	(15.3)	(41.7)
Net earnings (loss) per share, basic	$/share	0.09	(0.23)	(0.62)
Adjusted net earnings (loss)[3]	$MM	0.7	(12.7)	(17.4)
Adjusted net earnings (loss) per share, basic[3]	$/share	0.01	(0.19)	(0.26)
Operating cash flow per share (before working capital changes)[3]	$/share	0.57	0.25	0.24
Adjusted EBITDA[3]	$MM	36.6	16.3	17.6
Adjusted EBITDA margin[3]	%	7.6%	3.6%	3.9%
Total assets	$MM	1,569.5	1,491.5	1,341.9
Total debt	$MM	425.6	267.3	259.8
Net debt[3]	$MM	322.0	172.7	224.9
Net debt to invested capital[3]	%	26.7%	15.6%	21.3%
Annualized return on invested capital[3]	%	12.9%	6.1%	6.6%
Operating Highlights				
Lumber production	million fbm	627	646	668
Total lumber sales	million fbm	641	621	681
Lumber sales - Interfor produced	million fbm	632	610	671
Lumber sales - wholesale and commission	million fbm	9	11	10
Lumber - average selling price[4]	$/thousand fbm	592	613	566
Average USD/CAD exchange rate[5]	1 USD in CAD	1.3449	1.3295	1.3200
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.4187	1.3363	1.2988

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

Summary of First Quarter 2020 Financial Performance

Sales

Interfor recorded $479.6 million of total sales, up 6.3% from $451.2 million in the first quarter of 2019, driven by the sale of 641 million board feet of lumber at an average price of $592 per mfbm. Lumber sales volume increased 20 million board feet, or 3.2%, while average selling price decreased $21 per mfbm, or 3.4%, as compared to the same quarter of 2019.

Declines in the average selling price of lumber reflect lower prices for Southern Yellow Pine, somewhat offset by higher prices for Western SPF and Hem-Fir in Q1'20 as compared to Q1'19. The Southern Yellow Pine benchmark declined by US$45 to US$351 per mfbm while the Western SPF Composite and the KD HF Stud 2x4 9' benchmarks increased by US$21 and US$74 to US$380 and US$431 per mfbm, respectively. Average sales realizations were also lower with a change in species mix and decline in specialty sales as a result of the closure of the Hammond sawmill in Q4'19. Realized lumber prices in Canadian Dollar terms were also affected by the weakening of the Canadian Dollar against the U.S. Dollar by 1.2% on average in Q1'20 as compared to Q1'19.

Sales generated from logs, residual products and other increased by $29.6 million or 41.9% in Q1'20 compared to Q1'19 due mainly to the reconfiguration of the B.C. Coastal business resulting in increased availability of logs for sale.

Operations

Production costs increased by $10.0 million, or 2.4%, compared to Q1'19, explained primarily by a 3.2% increase in lumber sales volume and a slightly weaker dollar on average.

Lumber production of 627 million board feet in Q1'20 was 19 million board feet lower than Q1'19. This decline is explained by project-related downtime and ramp-ups in the U.S. South, the COVID-19 related curtailments announced March 18, 2020 and the closure of the Hammond sawmill in Q4'19.

Production from the Canadian operations decreased by 10 million board feet to 186 million board feet in Q1'20, compared to Q1'19. Production from the Company's U.S. South and Pacific Northwest operations totaled 311 million and 130 million board feet in Q1'20, down 4 million and 5 million board feet compared to Q1'19, respectively.

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 $10.6 million for Q1'20, down $0.5 million from Q1'19.

Depreciation of plant and equipment was $20.1 million in Q1'20, up $0.4 million from Q1'19, with full depreciation on completed capital projects outweighing reductions resulting from capital asset impairments taken in Q3'19 and Q4'19. Depletion and amortization of timber, roads and other was $10.5 million, up $0.8 million from Q1'19, primarily due to increased conventional logging on the B.C. Coast slightly offset by the absence of amortization on an intangible asset recognized on acquisition of certain sawmills in the U.S. South that became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $9.2 million, down $1.4 million from Q1'19 which included incremental charges related to short term incentive compensation not reflected in the 2020 comparative.

The $8.9 million long term incentive compensation recovery mostly reflects the impact of a 60.6% decline during the quarter in the market price for Interfor Common Shares used to value incentives. The long-term incentive compensation expense of $2.0 million in Q1'19 resulted primarily from reflects the impact of incentive awards maturing, and an 8.1% increase in the market price for Interfor Common Shares.

Capital asset write-downs and restructuring costs in Q1'20 totalled $0.4 million for Hammond sawmill closure activities. Capital asset write-downs and restructuring costs in Q1'19 relate to non-cash impairments on buildings and equipment in the U.S. South that were replaced in conjunction with the Company's strategic capital projects.

Finance costs decreased to $4.1 million in Q1'20 from $4.2 million in Q1'19, which included a write-off of unamortized deferred financing fees associated with extinguished credit facilities. Q1'20 finance costs were also impacted by lower interest income on reduced cash and short-term investment balances as compared to Q1'19.

Other foreign exchange loss of $0.8 million in Q1'20 and Other foreign exchange gains of $0.3 million in Q1'19 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.

Other expense of $0.1 million in Q1'20 and $0.2 million Q1'19 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded income tax expense of $3.2 million in Q1'20, comprised of a $0.3 million current income tax expense and a $2.9 million deferred tax expense. The Company recorded an income tax recovery of $5.5 million in Q1'19, comprised of $0.2 million in current income tax expense and a $5.7 million deferred tax recovery.

Net Earnings

The Company recorded net earnings of $6.3 million, or $0.09 per share, compared to a net loss of $15.3 million, or $0.23 per share in Q1'19. Adjusted net earnings were $0.7 million, or $0.01 per share, compared to an Adjusted net loss of $12.7 million, or $0.19 per share in Q1'19.

Summary of Quarterly Results[1]

		2020	2019				2018 (restated)[2]		
	Unit	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial Performance[3]									
Total sales	$MM	479.6	456.8	486.5	481.3	451.2	468.5	570.5	619.9
Lumber	$MM	379.3	385.2	403.5	406.9	380.5	387.7	480.3	527.0
Logs, residual products and other	$MM	100.3	71.6	83.0	74.4	70.7	80.8	90.2	92.9
Operating earnings (loss)	$MM	14.6	(49.0)	(44.8)	(18.2)	(16.8)	(16.9)	41.8	86.4
Net earnings (loss)	$MM	6.3	(41.7)	(35.6)	(11.2)	(15.3)	(13.5)	28.2	63.7
Net earnings (loss) per share, basic	$/share	0.09	(0.62)	(0.53)	(0.17)	(0.23)	(0.20)	0.40	0.91
Adjusted net earnings (loss)[4]	$MM	0.7	(17.4)	(11.8)	(16.2)	(12.7)	(20.2)	28.3	68.9
Adjusted net earnings (loss) per share, basic[4]	$/share	0.01	(0.26)	(0.17)	(0.24)	(0.19)	(0.29)	0.40	0.98
Operating cash flow per share (before working capital changes)[4]	$/share	0.57	0.24	0.03	0.15	0.25	0.14	1.04	1.80
Adjusted EBITDA[4]	$MM	36.6	17.6	16.8	12.6	16.3	8.9	72.5	126.7
Adjusted EBITDA margin[4]	%	7.6%	3.9%	3.5%	2.6%	3.6%	1.9%	12.7%	20.4%
Annualized return on invested capital[4]	%	12.9%	6.6%	6.1%	4.6%	6.1%	3.6%	29.1%	49.9%
Shares outstanding - end of period	million	67.3	67.3	67.3	67.3	67.3	67.8	69.4	70.0
Shares outstanding - weighted average	million	67.3	67.3	67.3	67.3	67.3	68.9	69.9	70.0
Operating Performance									
Lumber production	million fbm	627	668	685	647	646	607	674	688
Total lumber sales	million fbm	641	681	692	674	621	647	685	700
Lumber sales - Interfor produced	million fbm	632	671	681	664	610	639	675	689
Lumber sales - wholesale and commission	million fbm	9	10	11	10	11	8	10	11
Lumber - average selling price[5]	$/thousand fbm	592	566	583	603	613	599	701	753
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3449	1.3200	1.3204	1.3377	1.3295	1.3204	1.3070	1.2911
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.4187	1.2988	1.3243	1.3087	1.3363	1.3642	1.2945	1.3168

Notes:

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

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

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Pacific Northwest in Q1'19 and in the U.S. South in Q3'18 and 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. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results after Q1'17. In the latter part of Q1'20, earnings 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 March 31, 2020 was $322.0 million, or 26.7% of invested capital, representing an increase of $97.2 million since December 31, 2019.

In response to COVID-19, the Company has taken steps to significantly reduce its working capital through balancing inventory levels with demand and reducing discretionary spending and commitments. The Company is also actively reviewing the evolving Canadian and U.S. government stimulus programs to access any available support for its business operations and employees.

As at March 31, 2020 the Company had net working capital of $283.7 million and available liquidity of $430.9 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 that could affect the Company's borrowing capacity under the Revolving Term Line.

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		
Thousands of Canadian Dollars	**Mar. 31, 2020**	**Dec. 31, 2019**	**Mar. 31 2019**
Net debt			
Net debt, period opening	$224,860	$212,674	$63,825
Issuance of Senior Secured Notes	140,770	-	-
Term Line net drawings (repayments)	(59)	(1)	750
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	25,139	(5,099)	(6,330)
Decrease (increase) in cash and cash equivalents	(68,984)	16,994	68,890
Decrease in marketable securities	-	-	41,766
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening CAD	310	292	3,845
Net debt, period ending	$322,036	$224,860	$172,746

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.

Net debt was negatively impacted by a weakened Canadian Dollar as all debt held was denominated in U.S. Dollars.

Cash Flow from Operating Activities

The Company generated $38.4 million of cash flow from operations before changes in working capital in Q1'20, for an increase of $21.3 million over Q1'19 resulting from higher lumber shipments and log sales. There was a net cash inflow from operations after changes in working capital of $19.3 million in Q1'20, with $19.1 million of cash invested in operating working capital. A seasonal increase in sales contributed to the $23.4 million outflow related to trade receivables.

In Q1'19, $17.1 million of cash was generated from operations with $75.4 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $84.2 million, with $56.6 million for the acquisition from Canfor of timber licences and other assets, net of assumed liabilities, $24.9 million for plant and equipment and $2.7 million for development of roads and bridges.

Discretionary mill improvements of $21.2 million in Q1'20 include several projects in the U.S., the most significant of which relate to the modernization of the Eatonton sawmill in Georgia and installation of a twin infeed at the Molalla sawmill in Oregon.

Maintenance capital investments excluding roads totaled $3.7 million in Q1'20.

In Q1'19, $3.1 million was received from investing activities, with $46.8 million in proceeds from maturing marketable securities and deposits partly offset by capital spending of $36.0 million for plant and equipment, timber licenses and other intangibles and $7.8 million for development of roads. Discretionary and maintenance mill improvements totaled $32.1 million and $3.9 million, respectively, in Q1'19, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash inflow of $133.9 million in Q1'20 resulted from the US$100 million Senior Secured Note financing with Prudential Private Capital, partly offset by interest and lease liability payments of $3.8 million and $2.9 million, respectively.

The net cash outflow of $13.6 million in Q1'19 included $7.8 million used to purchase shares under the Company's NCIB, interest payments of $2.6 million, lease liability payments of $3.0 million and debt refinancing costs of $1.0 million.

Capital Resources

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

Thousands of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit and maximum borrowing available	$350,000	$425,610	$775,610
Less:			
Drawings	-	425,610	425,610
Outstanding letters of credit included in line utilization	22,630	-	22,630
Unused portion of facility	$327,370	$ -	327,370
Add:			
Cash and cash equivalents			103,574
Available liquidity at March 31, 2020			$430,944

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

As of March 31, 2020, the Company had commitments for capital expenditures totaling $76.8 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 months ended March 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 March 31, 2020, such instruments aggregated $71.9 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

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q1'20 or Q1'19.

Outstanding Shares

As of May 7, 2020, Interfor had 67,259,959 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

The Company's normal course issuer bid ("NCIB") expired on March 6, 2020 and was not renewed. No Common Shares were purchased under the NCIB in Q1'20.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2020, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Interfor has adopted work-from-home measures in accordance with public health authority directives driven by the COVID-19 pandemic and certain ICFR which were performed manually onsite are now being performed remotely by electronic means. The effectiveness of these changes in ICFR has been aided by the deployment of enhanced technology to allow for productive and secure remote access to IT systems by employees.

Critical Accounting Estimates

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended March 31, 2020. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended March 31, 2020, and have not been applied in preparing the Company's unaudited interim consolidated 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 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:

	For the three months ended		
Thousands of Canadian Dollars except number of shares and per share amounts	Mar. 31, 2020	Mar. 31, 2019	Dec. 31, 2019
Adjusted Net Earnings (Loss)			
Net earnings (loss)	$6,309	$(15,302)	$(41,676)
Add:			
Capital asset and goodwill write-downs and restructuring costs	371	1,665	30,416
Other foreign exchange loss (gain)	849	(340)	510
Long term incentive compensation expense (recovery)	(8,946)	1,983	1,265
Other expense	115	164	298
Income tax effect of above adjustments	2,043	(875)	(8,241)
Adjusted net earnings (loss)	$741	$(12,705)	$(17,428)
Weighted average number of shares - basic ('000)	*67,260*	*67,348*	*67,257*
Adjusted net earnings (loss) per share	$0.01	$(0.19)	$(0.26)
Adjusted EBITDA			
Net earnings (loss)	$6,309	$(15,302)	$(41,676)
Add:			
Depreciation of plant and equipment	20,061	19,722	20,711
Depletion and amortization of timber, roads and other	10,530	9,737	14,214
Capital asset and goodwill write-downs and restructuring costs	371	1,665	30,416
Finance costs	4,096	4,176	3,740
Other foreign exchange loss (gain)	849	(340)	510
Income tax expense (recovery)	3,205	(5,508)	(11,851)
EBITDA	45,421	14,150	16,064
Add:			
Long term incentive compensation expense (recovery)	(8,946)	1,983	1,265
Other expense	115	164	298
Adjusted EBITDA	$36,590	$16,297	$17,627
Sales	$479,646	$451,163	$456,819
Adjusted EBITDA margin	7.6%	3.6%	3.9%
Net debt to invested capital			
Net debt			
Total debt	$425,610	$267,260	$259,760
Cash and cash equivalents	(103,574)	(94,514)	(34,900)
Total net debt	$322,036	$172,746	$224,860
Invested capital			
Net debt	$322,036	$172,746	$224,860
Shareholders' equity	882,917	933,509	830,982
Total invested capital	$1,204,953	$1,106,255	$1,055,842
Net debt to invested capital[1]	26.7%	15.6%	21.3%
Operating cash flow per share (before working capital changes)			
Cash provided by (used in) operating activities	$19,319	$(58,350)	$24,642
Cash used in (generated from) operating working capital	19,103	75,435	(8,334)
Operating cash flow (before working capital changes)	$38,422	$17,085	$16,308
Weighted average number of shares - basic ('000)	*67,260*	*67,348*	*67,257*
Operating cash flow per share (before working capital changes)	$0.57	$0.25	$0.24
Annualized return on invested capital			
Adjusted EBITDA	$36,590	$16,297	$17,627
Invested capital, beginning of period	$1,055,842	$1,032,591	$1,093,528
Invested capital, end of period	1,204,953	1,106,255	1,055,842
Average invested capital	$1,130,398	$1,069,423	$1,074,685
Adjusted EBITDA divided by average invested capital	3.2%	1.5%	1.6%
Annualization factor	4.0	4.0	4.0
Annualized return on invested capital	12.9%	6.1%	6.6%

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

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; labour disruptions; and information systems security. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

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.

Additional Information

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars except earnings per share)	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Sales (note 13)	$ 479,646	$ 451,163
Costs and expenses:		
Production	423,228	413,183
Selling and administration	9,228	10,565
Long term incentive compensation expense (recovery)	(8,946)	1,983
U.S. countervailing and anti-dumping duty deposits (note 15)	10,600	11,118
Depreciation of plant and equipment (note 9)	20,061	19,722
Depletion and amortization of timber, roads and other (note 9)	10,530	9,737
	464,701	466,308
Operating earnings (loss) before write-downs and restructuring costs	14,945	(15,145)
Capital asset write-downs and restructuring costs (note 10)	371	1,665
Operating earnings (loss)	14,574	(16,810)
Finance costs (note 11)	(4,096)	(4,176)
Other foreign exchange gain (loss)	(849)	340
Other expense	(115)	(164)
	(5,060)	(4,000)
Earnings (loss) before income taxes	9,514	(20,810)
Income tax expense (recovery)		
Current	329	160
Deferred	2,876	(5,668)
	3,205	(5,508)
Net earnings (loss)	$ 6,309	$ (15,302)
Net earnings (loss) per share, basic and diluted (note 12)	$ 0.09	$ (0.23)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three months ended March 31, 2020 and 2019 (unaudited)

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Net earnings (loss)	$ 6,309	$ (15,302)
Other comprehensive income (loss):		
Items that will not be recycled to Net earnings (loss):		
Defined benefit plan actuarial gain (loss), net of tax	(713)	572
Items that are or may be recycled to Net earnings (loss):		
Foreign currency translation differences for foreign operations, net of tax	46,083	(12,873)
Total other comprehensive income (loss), net of tax	45,370	(12,301)
Comprehensive income (loss)	$ 51,679	$ (27,603)

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ 6,309	$ (15,302)
Items not involving cash:		
Depreciation of plant and equipment (note 9)	20,061	19,722
Depletion and amortization of timber, roads and other (note 9)	10,530	9,737
Deferred income tax expense (recovery)	2,876	(5,668)
Income tax expense	329	160
Finance costs (note 11)	4,096	4,176
Other assets	936	17
Reforestation liability	2,766	2,507
Provisions and other liabilities	(10,293)	(203)
Stock options	256	108
Write-down of plant and equipment (note 10)	-	1,723
Unrealized foreign exchange loss (gain)	441	(56)
Other expense	115	164
	38,422	17,085
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(23,413)	(14,575)
Inventories	1,355	(27,170)
Prepayments	(2,113)	(2,869)
Trade accounts payable and provisions	5,062	(30,524)
Income taxes paid	6	(297)
	19,319	(58,350)
Investing activities:		
Additions to property, plant and equipment	(24,872)	(35,926)
Additions to roads and bridges	(2,704)	(7,844)
Additions to intangible assets	-	(52)
Acquisition of timber licences, roads, and other assets, net of assumed liabilities (note 5)	(56,606)	-
Proceeds on disposal of plant and equipment	162	108
Net proceeds from (additions to) marketable securities, deposits and other assets	(198)	46,771
	(84,218)	3,057
Financing activities:		
Issuance of share capital, net of expenses (note 8)	-	63
Share repurchases (note 8)	-	(7,825)
Interest payments	(3,758)	(2,580)
Lease liability payments	(2,934)	(2,986)
Debt refinancing costs	(136)	(1,019)
Operating line net repayments	(59)	-
Additions to long term debt (note 7)	140,770	197,925
Repayments of long term debt (note 7)	-	(197,175)
	133,883	(13,597)
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(310)	(2,748)
Increase (decrease) in cash	68,674	(71,638)
Cash and cash equivalents, beginning of period	34,900	166,152
Cash and cash equivalents, end of period	$ 103,574	$ 94,514

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2020 and December 31, 2019 (unaudited)

(thousands of Canadian Dollars)	Mar. 31, 2020	Dec. 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 103,574	$ 34,900
Trade accounts receivable and other	113,911	86,608
Income tax receivable	2,006	1,995
Inventories (note 6)	189,795	181,577
Prepayments	24,112	20,449
	433,398	325,529
Employee future benefits	110	673
Deposits and other assets	9,410	9,296
Right of use assets	34,321	32,780
Property, plant and equipment	795,324	739,515
Roads and bridges	22,027	24,353
Timber licences (note 5)	117,863	60,596
Other intangible assets	3,314	3,480
Goodwill	151,541	138,734
Deferred income taxes	2,200	6,961
	$ 1,569,508	$ 1,341,917
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 121,746	$ 114,358
Reforestation liability	15,841	13,021
Lease liabilities	11,819	10,105
Income taxes payable	342	163
	149,748	137,647
Reforestation liability	34,408	27,401
Lease liabilities	27,625	27,718
Long term debt (notes 7 and 14)	425,610	259,760
Employee future benefits	12,066	11,843
Provisions and other liabilities	9,242	18,957
Deferred income taxes	27,892	27,609
Equity:		
Share capital (note 8)	533,685	533,685
Contributed surplus	4,727	4,471
Translation reserve	102,842	56,759
Retained earnings	241,663	236,067
	882,917	830,982
	$ 1,569,508	$ 1,341,917

U.S. countervailing and anti-dumping duty deposits (note 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2019	$ 533,685	$ 4,471	$ 56,759	$ 236,067	$ 830,982
Net earnings:	-	-	-	6,309	6,309
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	46,083	-	46,083
Defined benefit plan actuarial loss, net of tax	-	-	-	(713)	(713)
Contributions:					
Stock options (note 8)	-	256	-	-	256
Balance at March 31, 2020	$ 533,685	$ 4,727	$ 102,842	$ 241,663	$ 882,917
Balance at December 31, 2018	$ 537,534	$ 3,851	$ 84,393	$ 342,988	$ 968,766
Net loss:	-	-	-	(15,302)	(15,302)
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	(12,873)	-	(12,873)
Defined benefit plan actuarial gain, net of tax	-	-	-	572	572
Contributions and distributions:					
Share issuance, net of expenses (note 8)	91	(28)	-	-	63
Share repurchases (note 8)	(4,086)	-	-	(3,739)	(7,825)
Stock options (note 8)	-	108	-	-	108
Balance at March 31, 2019	$ 533,539	$ 3,931	$ 71,520	$ 324,519	$ 933,509

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2020 and 2019 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements do not include all the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2019.

These financial statements were approved by Interfor's Board of Directors on May 7, 2020.

(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 payment arrangements are measured at fair value at each reporting date;

(ii) Equity-settled share-based payments are 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; and

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

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

(c) Critical accounting estimates:

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended March 31,2020. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

3. Significant accounting policies:

These financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2019 annual consolidated financial statements, which are available on www.sedar.com.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2020, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

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

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

5. Acquisition of B.C. Interior cutting rights:

On March 9, 2020, the Company completed the acquisition of two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior from Canadian Forest Products Ltd. The Company accounted for this transaction as an asset acquisition as substantially all of the fair value of the gross assets acquired is concentrated in a group of similar identifiable assets. The purchase price was allocated to the assets acquired and liabilities assumed on a relative fair value basis as follows:

Cash purchase price	$ 56,606
Net assets acquired:	
Timber licenses	$ 57,937
Roads	1,707
Other assets	1,139
Liabilities assumed	(4,177)
	$ 56,606

6. Inventories:

	Mar. 31, 2020	Dec. 31, 2019
Lumber	$ 97,132	$ 91,702
Logs	69,195	70,422
Other	23,468	19,453
	$ 189,795	$ 181,577

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at March 31, 2020 was $15,346,000 (December 31, 2019 - $17,515,000).

7. Borrowings:

March 31, 2020	Revolving Term Line	Senior Secured Notes	Total
Available credit	$ 350,000	$ 425,610	$ 775,610
Drawings	-	425,610	425,610
Outstanding letters of credit	22,630	-	22,630
Unused portion of Revolving Term Line	$ 327,370	$ -	$ 327,370

December 31, 2019	Revolving Term Line	Senior Secured Notes	Total
Available credit	$ 350,000	$ 259,760	$ 609,760
Drawings	-	259,760	259,760
Outstanding letters of credit	21,752	-	21,752
Unused portion of Revolving Term line	$ 328,248	$ -	$ 328,248

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

Twelve months ending	
March 31, 2021	$ -
March 31, 2022	7,685
March 31, 2023	7,685
March 31, 2024	54,975
March 31, 2025	47,290
Thereafter	307,975
	$ 425,610

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

	3 Months Mar. 31, 2020	3 Months Mar. 31, 2019
Drawings at opening	$ 259,760	$ 272,840
Term line net repayments	(59)	-
Additions to long term debt	140,770	197,925
Repayments of long term debt	-	(197,175)
Effects of changes in foreign exchange rates	25,139	(6,330)
Drawings at March 31	$ 425,610	$ 267,260

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

7. Borrowings (continued):

(a) Revolving Term Line:

The Revolving Term Line (the "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 LIBOR-based loans plus a margin, and in all cases dependent upon a financial ratio of net debt to total capitalization.

The 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 March 31, 2020, including outstanding letters of credit, the Line was drawn by $18,631,000 (December 31, 2019 - $18,890,000) and US$2,819,000 (December 31, 2019 - US$2,204,000) revalued at the quarter-end exchange rate to $3,999,000 (December 31, 2019 - $2,863,000) for total borrowings of $22,630,000 (December 31, 2019 - $21,752,000). In Q1'19, certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations and a foreign exchange gain of $750,000 was recognized in Foreign currency translation differences in Other comprehensive income.

(b) Senior Secured Notes:

As at March 31, 2020, the Company's Senior Secured Notes consisted of the following:

	Mar. 31, 2020	Dec. 31, 2019
Series A (US$4,450,000) bearing interest at 4.33% with Payments of US$1,483,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	$ 6,313	$ 5,780
Series B (US$11,800,000) bearing interest at 4.02% with Payments of US$3,933,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	16,741	15,326
Series C (US$100,000,000) bearing interest at 4.17% with Payments of US$33,333,000 due on March 26, 2024 and 2025 and the balance due on March 26, 2026	141,870	129,880
Series D (US$45,550,000) bearing interest at 4.95% with Payments of US$15,183,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	64,622	59,160
Series E (US$38,200,000) bearing interest at 4.82% with Payments of US$12,733,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	54,194	49,614
Series F (US$50,000,000) bearing interest at 3.34% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	70,935	-
Series G (US$50,000,000) bearing interest at 3.25% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	70,935	-
	$ 425,610	$ 259,760

On March 26, 2020, the Company issued US$50,000,000 of Series F Senior Secured Notes and US$50,000,000 of Series G Senior Secured Notes with interest rates and payment terms described in the table above.

The Senior Secured Notes have a weighted average fixed interest rate of 4.08% and maturities from June 26, 2021 to March 26, 2030.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $25,080,000 in the first quarter, 2020 (Quarter 1, 2019 - $5,580,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

8. Share capital:

The transactions in share capital are described below:

	Number	Amount	Contributed Surplus
Balance, December 31, 2018	67,760,622	$ 537,534	$ 3,851
Exercise of stock options	14,437	237	(72)
Repurchase of common shares	(515,100)	(4,086)	-
Stock options	-	-	692
Balance, December 31, 2019	67,259,959	$ 533,685	$ 4,471
Stock options	-	-	256
Balance, March 31, 2020	67,259,959	$ 533,685	$ 4,727

During the first three months of 2020, the Company did not have any share repurchases (Quarter 1, 2019 – 515,100 common shares purchased at an average price of $15.19 per share for a cost of $7,825,000, of which $4,086,000 was charged against Share capital based on the average per share amount for Shares in that account as at the transaction date, and the balance to Retained earnings.)

The Company's normal course issuer bid, which began on March 7, 2019, expired on March 6, 2020 and has not been renewed.

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Production	$ 29,968	$ 27,622
Selling and administration	623	1,837
	$ 30,591	$ 29,459

10. Capital asset write-downs and restructuring costs:

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Write-down of plant and equipment	$ -	$ 1,723
Severance and other closure costs (recovery)	371	(58)
	$ 371	$ 1,665

11. Finance costs:

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Interest expense on:		
Borrowings	$ 3,677	$ 3,216
Lease liabilities	500	520
Pension obligations	601	724
Interest revenue from:		
Marketable securities and other	(316)	(855)
Pension assets	(578)	(492)
Unwind of discount on provisions	134	161
Amortization of deferred finance costs	78	902
	$ 4,096	$ 4,176

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 Mar. 31, 2020			Three Months Mar. 31, 2019		
	Net earnings	Weighted Average Number of Shares	Per share	Net loss	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,259,959			67,760,622	
Effect of shares issued in first three months		-			3,188	
Effect of shares repurchased in first three months		-			(415,393)	
Basic earnings (loss) per share	$ 6,309	67,259,959	$ 0.09	$ (15,302)	67,348,417	$ (0.23)
Effect of dilutive securities:						
Stock options		324			30,135	
Diluted earnings (loss) per share	$ 6,309	67,260,283	$ 0.09	$ (15,302)	67,348,417*	$ (0.23)

* 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 the calculation of diluted earnings (loss) per share.

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

13. Segmented information:

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

Sales by market are as follows:

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
United States	$ 339,864	$ 322,872
Canada	94,681	61,750
Japan	21,216	26,350
China/Taiwan	11,876	11,579
Other export	12,009	28,612
	$ 479,646	$ 451,163

Sales by product line are as follows:

	Three Months Mar.31, 2020	Three Months Mar.31, 2019
Lumber	$ 379,289	$ 380,525
Logs	55,456	24,281
Wood chips and other by-products	42,719	42,194
Freight and other	2,182	4,163
	$ 479,646	$ 451,163

14. Financial instruments:

At March 31, 2020, the fair value of the Company's Long term debt exceeded its carrying value by $4,903,000 (December 31, 2019 - $19,958,000) 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 March 31, 2020, the Company had no outstanding obligations under derivative financial instruments.

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. As a result of DoC corrections for this period, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at March 31, 2020 (December 31, 2019 – US$3,187,000) and revalued at the quarter-end exchange rate to $4,521,000 (December 31, 2019 - $4,139,000).

On February 3, 2020, the DoC issued its preliminary revised CV and AD duty rates based on completion of its first administrative review of shipments for the years ended December 31, 2017 and 2018. The following table summarizes the cash deposit rates currently in effect and the issued preliminary revised rates:

Year ended December 31	Cash deposit rates in effect	Preliminary revised rates
2017		
AD	6.04%	1.66%
CV	14.19%	6.71%
Total	20.23%	8.37%
2018		
AD	6.04%	1.66%
CV	14.19%	6.55%
Total	20.23%	8.21%

The DoC may further amend these preliminary revised duty rates at any time, with final rate determinations expected to be published in September 2020. At such time, the final rates determined and published will be applied to new lumber shipments. Cash deposit payments until then continue at a rate of 20.23%.

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018, US$33,765,000 in 2019, and US$7,491,000 in Quarter 1, 2020, all of which remain held in trust by U.S. Customs and Border Protection. All duty deposits except US$3,265,000 (December 31, 2019 – US$3,265,000) noted above have been expensed at the cash deposit rates currently in effect with no adjustments recorded to reflect the preliminary revised rates.

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

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to vigorously defend the Company's and industry's positions through various appeals processes, in conjunction with the B.C. and Canadian Governments. The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts, NAFTA or WTO panels to which the DoC and ITC determinations may be appealed.

INTERFOR

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