Interfor Corporation
First Quarter Report
For the three months ended March 31, 2023

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three months ended March 31, 2023 ("Q1'23"). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three months ended March 31, 2023, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of May 4, 2023.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of First Quarter, 2023", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy. Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2022 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; Indigenous reconciliation; the softwood lumber trade dispute between Canada and the United States; environmental impacts of the Company's operations; labour availability; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2022 annual Management's Discussion and Analysis.

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

Overview of First Quarter, 2023

Interfor recorded a Net loss in Q1'23 of $41.3 million, or $0.80 per share, compared to $72.2 million, or $1.40 per share in Q4'22 and Net earnings of $397.0 million, or $6.69 per share in Q1'22.

Adjusted EBITDA was $26.1 million on sales of $829.9 million in Q1'23 versus negative Adjusted EBITDA of $68.7 million on sales of $810.3 million in Q4'22 and Adjusted EBITDA of $570.1 million on sales of $1.3 billion in Q1'22.

Notable items in the quarter:

- Lower Lumber Prices
  - Lumber prices continued to reflect softened demand driven by the elevated interest rate environment. Interfor's average selling price was $639 per mfbm, down $60 per mfbm versus Q4'22. The Western SPF Composite, SYP Composite, KD H-F Stud 2x4 9' and ESPF Composite price benchmarks decreased quarter-over-quarter by US$21, US$19, US$33 and US$24 per mfbm to US$399, US$442, US$428 and US$474 per mfbm, respectively.
- Lumber Production Balanced with Demand
  - Lumber production totaled 1.0 billion board feet, representing an increase of 157 million board feet quarter-over-quarter. This growth was mostly driven by a decrease in temporary production curtailments in Q1'23 compared to Q4'22 and the first full quarter of contribution from two sawmills acquired in November 2022.
  - The U.S. South and U.S. Northwest regions accounted for 473 million board feet and 142 million board feet, respectively, compared to 404 million board feet and 135 million board feet in Q4'22. The Eastern Canada region produced 250 million board feet versus 212 million board feet in Q4'22. Production in the B.C. region increased to 166 million board feet from 123 million board feet in Q4'22.
  - Lumber shipments were 1.0 billion board feet, or 65 million board feet higher than Q4'22.
- Financial Flexibility Maintained
  - Net debt at quarter-end was $880.0 million, or 30.7% of invested capital, while available liquidity was ample at $321.4 million.
  - Liquidity is expected to be strengthened during the remainder of 2023 by the draw down of seasonally high working capital and income tax refunds totaling approximately $98.0 million related to over-installments for the 2022 tax year.
- Strategic Capital Investments
  - Capital spending was $63.7 million, including $45.4 million on discretionary projects. The majority of this discretionary spending was focused on the multi-year rebuild of the Thomaston, GA sawmill, a new planer at the Castlegar, B.C. sawmill and upgrades to the Perry, GA sawmill.
  - Total capital expenditures planned for 2023 have been reduced to approximately $210.0 million from $240.0 million in response to ongoing lumber market weakness. This reduction reflects the delay of certain components of ongoing strategic capital projects.
- Ongoing Monetization of Coastal B.C. Operations
  - The Company is continuing to work with the Ministry of Forests to subdivide and transfer a number of forest tenures from its 1.57 million cubic metres of annual harvesting rights. The timing remains uncertain as to when the Ministry approval and certain contractual consents may be received.
- Softwood Lumber Duties
  - Interfor expensed $10.7 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on shipments of softwood lumber from its Canadian operations to the U.S. at a combined rate of 8.59%.

- Interfor has cumulative duties of US$520.6 million, or approximately $10.00 per share after-tax, held in trust by U.S. Customs and Border Protection as at March 31, 2023. Except for US$156.8 million recorded as a receivable in respect of overpayments arising from duty rate adjustments and the fair value of rights to duties acquired, Interfor has recorded the duty deposits as an expense.

Outlook

North American lumber markets over the near term are expected to be volatile as the economy continues to adjust to inflationary pressures, elevated interest rates, labour shortages and geo-political uncertainty.

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

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

Financial and Operating Highlights[1]

	Unit	For the three months ended Mar. 31 2023	Mar. 31 2022	Dec. 31 2022
Financial Highlights[2]				
Total sales	$MM	829.9	1,349.0	810.3
Lumber	$MM	642.5	1,212.5	656.3
Logs, residual products and other	$MM	187.4	136.5	154.0
Operating earnings (loss)	$MM	(36.2)	512.7	(114.8)
Net earnings (loss)	$MM	(41.3)	397.0	(72.2)
Net earnings (loss) per share, basic	$/share	(0.80)	6.69	(1.40)
Operating cash flow per share (before working capital changes)[3,5]	$/share	0.47	6.18	(1.75)
Adjusted EBITDA[3]	$MM	26.1	570.1	(68.7)
Adjusted EBITDA margin[3]	%	3.1%	42.3%	(8.5%)
Total assets	$MM	3,695.1	3,081.4	3,619.8
Total debt	$MM	946.2	403.1	798.0
Net debt[3]	$MM	880.0	340.2	720.4
Net debt to invested capital[3]	%	30.7%	15.8%	26.2%
Annualized return on capital employed[3]	%	(5.0%)	86.6%	(13.8%)
Operating Highlights				
Lumber production	million fbm	1,031	917	874
Lumber sales	million fbm	1,004	843	939
Lumber - average selling price[4]	$/thousand fbm	639	1,410	699
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3525	1.2662	1.3578
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3533	1.2496	1.3544

Notes:

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

Summary of First Quarter 2022 Financial Performance

Sales

Interfor recorded $829.9 million of total sales, down 38.5% from $1,349.0 million in the first quarter of 2022, driven by the sale of 1.0 billion board feet of lumber at an average price of $639 per mfbm. Average selling price decreased $771 per mfbm, or 54.7%, and lumber sales volume increased 161 million board feet, or 19.1%, as compared to the same quarter of 2022.

The decrease in the average selling price of lumber reflect lower prices across all benchmark products in Q1'23 as compared to Q1'22. The Western SPF Composite, SYP Composite, KD H-F Stud 2x4 9' and ESPF Composite benchmarks decreased by US$760, US$677, US$865, and US$777 per mfbm to US$399, US$442, US$428, and US$474 per mfbm, respectively. This was partially offset by realized lumber prices increasing in Canadian Dollar terms due to the weakening of the Canadian Dollar against the U.S. Dollar in Q1'23 by 6.8% as compared to Q1'22.

Sales generated from logs, residual products and other increased by $50.9 million or 37.3% in Q1'23 compared to Q1'22 due mainly to a full quarter of contribution from the Eastern Canada operations acquired in Q1'22 and Q4'22 which increased the volume of logs sold and the volume of chips produced and sold.

Operations

Production costs increased by $42.9 million, or 5.8%, compared to Q1’22, explained by a 19.1% increase in lumber sales volume, inflationary impacts on costs, a weaker Canadian Dollar on average and a net $67.0 million increase in the net realizable value provision for log and lumber inventories recorded in Q1’23 versus Q1’22. The increase is partially offset by inventory purchase accounting adjustments recorded in Q1’22 related to the Eastern Canada operations acquired in Q1’22.

Lumber production of 1.0 billion board feet in Q1’23 was 114 million board feet higher than Q1’22.

Production from the Company’s U.S. South sawmills increased by 21 million board feet to 473 million board feet, while production from the U.S. Northwest sawmills decreased by 32 million board feet to 141 million board feet versus the comparable quarter of 2022. The increase in the U.S. South is primarily related to a full quarter of contribution from the restart of operations at the sawmill in DeQuincy, LA in Q1’22 and the rebuild of the Eatonton, GA sawmill that was completed in Q3’22. The decrease in the U.S. Northwest is primarily related to curtailments announced in January 2023. Production from the Company’s Eastern Canada operations increased by 154 million board feet to 250 million board feet compared to Q1’22 due to a full quarter of contribution from the Eastern Canada operations acquired in Q1’22 and Q4’22. Production from the Company’s B.C. operations of 166 million board feet represented a reduction of 30 million board feet compared to Q1’22. The production from the B.C. operations decreased mainly due to curtailments announced in January 2023 and the sale of the Acorn sawmill during Q2’22.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $10.7 million for Q1’23, down $25.1 million from Q1’22. The decrease is due to lower lumber sales prices and lower cash deposit rates, partially offset by higher shipments to the U.S. from Canadian sawmills as compared to Q1’22.

Depreciation of plant and equipment was $45.1 million in Q1’23, up $11.9 million from Q1’22, due primarily to the operations acquired in Eastern Canada in 2022 and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $12.2 million, up $3.1 million from Q1’22, primarily due to the operations acquired in Eastern Canada in 2022 and increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $17.2 million, down $0.4 million from Q1’22 primarily related to lower accruals for short term incentive compensation.

Long-term incentive compensation expense was $2.6 million in Q1’23, down $1.0 million from Q1’22, primarily due to incentive awards maturing and a decrease in the price of Interfor common shares used to value share-based awards during Q1’23 as compared to Q1’22.

Asset write-downs and restructuring costs in Q1’23 were $1.6 million, primarily related to non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company’s strategic capital projects and severance. The charges totaling $3.2 million in Q1’22 were of a similar nature.

Finance costs increased to $10.9 million in Q1’23 from $5.2 million in Q1’22, primarily due to interest expense on higher borrowings to fund the acquisition of the Eastern Canada operations in 2022, partially offset by interest income accrued on the long-term duties receivable.

Other foreign exchange gain was negligible in Q1’23 and $12.8 million in Q1’22 resulting 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 $5.6 million in Q1’23 primarily relates to the change in the fair value of the minority interest in GreenFirst Forest Products Inc., partially offset by net gains on the disposal of surplus property, plant and equipment and other. Other income of $8.7 million in Q1’22 primarily resulted from insurance proceeds the Company had recorded for a business interruption claim related to fire damage at a sawmill.

Income Taxes

The Company recorded an income tax recovery of $11.5 million in Q1'23 at an effective tax rate of 22%, comprised of a $5.5 million current income tax recovery and a $6.0 million deferred tax recovery. The Company recorded income tax expense of $132.0 million in Q1'22 at an effective tax rate of 25%, comprised of $122.6 million current income tax and $9.4 million deferred tax.

Net Earnings

The Company recorded a Net loss of $41.3 million, or $0.80 per share, compared to Net earnings of $397.0 million, or $6.69 per share in Q1'22. Operating margins and Net earnings were impacted by lower lumber prices and higher operating costs, partially offset by higher sales volumes.

Summary of Quarterly Results[1]

		2023	2022				2021		
	Unit	**Q1**	**Q4**	**Q3**	**Q2**	**Q1**	**Q4**	**Q3**	**Q2**
Financial Performance[2]									
Total sales	$MM	829.9	810.3	1,035.6	1,389.1	1,349.0	675.9	664.3	1,099.7
Lumber	$MM	642.5	656.3	837.8	1,190.8	1,212.5	591.5	559.6	1,012.9
Logs, residual products and other	$MM	187.4	154.0	197.8	198.3	136.5	84.4	104.7	86.8
Operating earnings (loss)	$MM	(36.2)	(114.8)	75.9	385.9	512.7	99.2	54.8	568.3
Net earnings (loss)	$MM	(41.3)	(72.2)	3.5	269.9	397.0	69.7	65.6	419.2
Net earnings (loss) per share, basic	$/share	(0.80)	(1.40)	0.06	4.92	6.69	1.15	1.05	6.45
Operating cash flow per share (before working capital changes)[3,5]	$/share	0.47	(1.75)	(0.02)	4.43	6.18	2.25	1.09	7.46
Adjusted EBITDA[3]	$MM	26.1	(68.7)	129.5	428.6	570.1	149.5	93.9	611.3
Adjusted EBITDA margin[3]	%	3.1%	(8.5%)	12.5%	30.9%	42.3%	22.1%	14.1%	55.6%
Annualized return on capital employed[3]	%	(5.0%)	(13.8%)	5.6%	52.9%	86.6%	18.2%	16.0%	110.8%
Shares outstanding - end of period	million	51.4	51.4	51.4	54.8	55.8	60.8	60.8	63.6
Shares outstanding - weighted average	million	51.4	51.4	54.1	54.9	59.4	60.8	62.7	65.0
Operating Performance									
Lumber production	million fbm	1,031	874	986	1,016	917	758	731	716
Lumber sales	million fbm	1,004	939	1,064	1,082	843	719	753	714
Lumber - average selling price[4]	$/thousand fbm	639	699	800	1,104	1,410	822	744	1,419
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3525	1.3578	1.3056	1.2768	1.2662	1.2603	1.2600	1.2282
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3533	1.3544	1.3707	1.2886	1.2496	1.2678	1.2741	1.2394

Notes:

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

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

Lumber production and sales decreased commencing in Q2'22 with the sale of the Acorn specialty sawmill. Lumber production in Q4'22 and Q1'23 were reduced due to the temporary market-related curtailments announced in October 2022 and January 2023, respectively.

Lumber production and sales increased in Q3’21 with the acquisition of the sawmills in Bay Springs, MS, Fayette, AL and Philomath, OR, in Q1’22 with the acquisition of operations in Eastern Canada and the restart of the sawmill in DeQuincy, LA and in Q4’22 with the acquisition of sawmills in Belledune, NB and Bathurst, NB.

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

Liquidity

Balance Sheet

Interfor’s Net debt at March 31, 2023 was $880.0 million, or 30.7% of invested capital, representing an increase of $159.6 million from the level of Net debt at December 31, 2022.

As at March 31, 2023 the Company had net working capital of $512.9 million and available liquidity of $321.4 million, based on the available borrowing capacity under its $600 million Revolving Term Line (“Term Line”).

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

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

	For the three months ended		
Thousands of Dollars	**Mar. 31 2023**	**Dec. 31 2022**	**Mar. 31 2022**
Net debt			
Net debt (cash), period opening	$720,361	$249,718	$(162,886)
Net issuance of Senior Secured Notes	-	270,160	-
Revolving Term Line net drawings	149,478	133,430	31,150
Decrease in cash and cash equivalents	10,810	73,812	478,203
Foreign currency translation impact on U.S. Dollar denominated cash and cash equivalents and debt	(656)	(6,759)	(6,287)
Net debt, period ending	$879,993	$720,361	$340,180

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line was increased by $100 million to a total of $600 million.

On December 1, 2022, the Company issued US$200 million of Series H Senior Secured Notes, bearing interest at 7.06% with principal payments of US$66.7 million due on December 26, 2031, 2032 and on final maturity in 2033.

Cash Flow from Operating Activities

The Company generated $24.2 million of cash flow from operations before changes in working capital in Q1’23, representing a decrease of $342.5 million over Q1’22. There was a net cash outflow from operations after changes in working capital of $84.6 million in Q1’23, with $108.8 million of cash invested in operating working capital primarily related to seasonal factors.

Increased lumber shipments contributed to the $53.9 million outflow related to trade receivables while seasonal log and lumber inventory builds contributed to the $32.5 million outflow from inventories. Timing of payments contributed to the $26.0 million outflow from trade accounts payable and provisions.

In Q1’22, $281.2 million of cash was generated from operations, with $85.5 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $58.1 million, with $63.1 million for property, plant and equipment, partially offset by $4.1 million in proceeds on disposal of property, plant and equipment and other.

Discretionary mill improvements of $45.4 million in Q1'23 were mainly focused on the multi-year rebuild of the Thomaston, GA sawmill, a new planer at the Castlegar, B.C. sawmill, a kiln rebuild at the Bay Springs, MS sawmill and upgrades to the Perry, GA sawmill.

Maintenance capital investments excluding roads totaled $17.7 million in Q1'23.

In Q1'22, investing activities totaled $587.0 million, with $537.7 million for the acquisition of the Eastern Canada operations and $51.0 million for property, plant and equipment, partially offset by $1.2 million in proceeds on disposal of property, plant and equipment.

Discretionary and maintenance mill improvements totalled $34.8 million and $16.2 million, respectively, in Q1'22, of which the majority was invested in the multi-year rebuild of the Eatonton, GA sawmill and a new planer at the Castlegar, B.C. sawmill.

Cash Flow from Financing Activities

The net cash inflow of $131.9 million in Q1'23 resulted from $149.5 million in Term Line net drawings, partially offset by interest payments of $13.1 million and lease liability payments of $4.5 million.

The net cash outflow of $172.5 million in Q1'22 resulted from $194.3 million used to purchase shares under the Company's NCIB, interest payments of $5.0 million and lease liability payments of $4.5 million. This was partially offset by $31.2 million in Term Line net drawings.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of March 31, 2023:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	$600,000	$661,989	$1,261,989
Less:			
Drawings	284,193	661,989	946,182
Outstanding letters of credit included in line utilization	60,622	-	60,622
Unused portion of facility	$255,185	$ -	255,185
Add:			
Cash and cash equivalents			66,189
Available liquidity at March 31, 2023			$321,374

Interfor's Term Line matures in December 2026 and its Senior Secured Notes have maturities in the years 2023-2033.

As of March 31, 2023, the Company had commitments for capital expenditures totaling $156.9 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, 2023.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At March 31, 2023, such instruments aggregated $129.7 million (December 31, 2022 - $130.6 million).

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

Financial Instruments and Other Instruments

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q1'23 or Q1'22.

Outstanding Shares

As of May 4, 2023, Interfor had 51,441,803 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of May 4, 2023, there were 546,035 stock options outstanding with exercise prices ranging from $9.78 to $37.68 per common share.

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

During the first three months of 2022, Interfor purchased 5,026,305 common shares at a cost of $194.3 million and cancelled 4,672,836 of these common shares, with the remaining 353,469 common shares cancelled in April 2022. The common shares were purchased under the previous NCIB that expired November 10, 2022.

Controls and Procedures

During the quarter ended March 31, 2023, the Company included within its internal controls over financial reporting ("ICFR") framework the design of disclosure controls and procedures ("DC&P") and ICFR for the Eastern Canada operations acquired on February 22, 2022 and November 30, 2022. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the quarter ended March 31, 2023 that materially affected, or would be reasonably likely to materially affect, such controls.

Critical Accounting Estimates

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

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended March 31, 2023, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these are expected to have a significant effect on future financial statements.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes), and Annualized return on capital employed which are used by the Company and certain investors to evaluate operating performance and financial position.

These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

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

	For the three months ended		
Thousands of Canadian Dollars except number of shares and per share amounts	**Mar. 31 2023**	**Mar. 31 2022**	**Dec. 31 2022**
Adjusted EBITDA			
Net earnings (loss)	$(41,289)	$397,031	$(72,175)
Add:			
Depreciation of plant and equipment	45,054	33,113	39,594
Depletion and amortization of timber, roads and other	12,235	9,124	11,668
Finance costs	10,944	5,169	4,643
Income tax expense (recovery)	(11,497)	132,026	(40,687)
EBITDA	15,447	576,463	(56,957)
Add:			
Long-term incentive compensation expense (recovery)	2,636	3,671	(4,202)
Other foreign exchange gain	(17)	(12,823)	(11,274)
Other expense (income) excluding business interruption insurance	6,424	(395)	4,719
Asset write-downs and restructuring costs (recoveries)	1,594	3,198	(1,033)
Adjusted EBITDA	$26,084	$570,114	$(68,747)
Sales	$829,882	$1,349,038	$810,361
Adjusted EBITDA margin	3.1%	42.3%	(8.5%)
Net debt to invested capital			
Net debt			
Total debt	$946,182	$403,112	$797,967
Cash and cash equivalents	(66,189)	(62,932)	(77,606)
Total net debt	$879,993	$340,180	$720,361
Invested capital			
Net debt	$879,993	$340,180	$720,361
Shareholders' equity	1,985,246	1,817,371	2,027,038
Total invested capital	$2,865,239	$2,157,551	$2,747,399
Net debt to invested capital[1]	30.7%	15.8%	26.2%
Operating cash flow per share (before working capital changes)[2]			
Cash provided by (used in) operating activities	$(84,588)	$281,214	$10,306
Cash used in (generated from) operating working capital	108,829	85,478	(100,284)
Operating cash flow (before working capital changes)	$24,241	$366,692	$(89,978)
Weighted average number of shares - basic ('000)	*51,438*	*59,357*	*51,435*
Operating cash flow per share (before working capital changes)	$0.47	$6.18	$(1.75)
Annualized return on capital employed			
Net earnings (loss)	$(41,289)	$397,031	$(72,175)
Add:			
Finance costs	10,944	5,169	4,643
Income tax expense (recovery)	(11,497)	132,026	(40,687)
Earnings (loss) before income taxes and finance costs	$(41,842)	$534,226	$(108,219)
Capital employed			
Total assets	$3,695,105	$3,081,351	$3,619,833
Current liabilities	(342,977)	(472,686)	(325,997)
Less:			
Current portion of long-term debt	52,440	6,769	7,336
Current portion of lease liabilities	14,803	15,014	14,796
Capital employed, end of period	$3,419,371	$2,630,448	$3,315,968
Capital employed, beginning of period	3,315,968	2,303,177	2,938,800
Average capital employed	$3,367,670	$2,466,812	$3,127,384
Earnings (loss) before income taxes and finance costs divided by average capital employed	(1.2%)	21.7%	(3.5%)
Annualization factor	4.0	4.0	4.0
Annualized return on capital employed	(5.0%)	86.6%	(13.8%)

Notes:

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

2 Financial information has been adjusted for a reclassification in the presentation of unrealized foreign exchange loss (gain) within cashflow from operations resulting in a $/share change of $(0.20) – Q1 2022.

Risks and Uncertainties

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

Additional Information

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars except per share amounts)	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Sales (note 14)	$ 829,882	$ 1,349,038
Costs and expenses:		
Production	776,732	733,830
Selling and administration	17,201	17,628
Long-term incentive compensation expense	2,636	3,671
U.S. countervailing and anti-dumping duty deposits (note 16)	10,669	35,817
Depreciation of plant and equipment (note 9)	45,054	33,113
Depletion and amortization of timber, roads and other (note 9)	12,235	9,124
	864,527	833,183
Operating earnings (loss) before asset write-downs and restructuring costs	(34,645)	515,855
Asset write-downs and restructuring costs (note 10)	1,594	3,198
Operating earnings (loss)	(36,239)	512,657
Finance costs (note 11)	(10,944)	(5,169)
Other foreign exchange gain	17	12,823
Other income (expense) (note 12)	(5,620)	8,746
	(16,547)	16,400
Earnings (loss) before income taxes	(52,786)	529,057
Income tax expense (recovery):		
Current	(5,469)	122,580
Deferred	(6,028)	9,446
	(11,497)	132,026
Net earnings (loss)	$ (41,289)	$ 397,031
Net earnings (loss) per share		
Basic (note 13)	$ (0.80)	$ 6.69
Diluted (note 13)	$ (0.80)	$ 6.66

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Net earnings (loss)	$ (41,289)	$ 397,031
Other comprehensive loss:		
Items that will not be recycled to Net earnings (loss):		
Defined benefit plan actuarial gain, net of tax	649	2,786
Items that are or may be recycled to Net earnings (loss):		
Foreign currency translation differences for foreign operations, net of tax	(1,482)	(24,729)
Total other comprehensive loss, net of tax	(833)	(21,943)
Comprehensive income (loss)	$ (42,122)	$ 375,088

See accompanying notes to consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	$ (41,289)	$ 397,031
Items not involving cash:		
Depreciation of plant and equipment (note 9)	45,054	33,113
Depletion and amortization of timber, roads and other (note 9)	12,235	9,124
Deferred income tax expense (recovery)	(6,028)	9,446
Current income tax expense (recovery)	(5,469)	122,580
Finance costs (note 11)	10,944	5,169
Other assets	116	(40)
Reforestation liability	4,842	1,736
Provisions and other liabilities	(3,249)	(12,910)
Stock options	226	241
Write-down of plant, equipment and other (note 10)	1,454	1,223
Unrealized foreign exchange loss (gain)	184	(10,281)
Other expense (income)	5,620	(8,746)
Income taxes paid	(399)	(180,994)
	24,241	366,692
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(53,890)	(61,629)
Inventories	(32,468)	(21,412)
Prepayments	3,485	2,860
Trade accounts payable and provisions	(25,956)	(5,297)
	(84,588)	281,214
Investing activities:		
Additions to property, plant and equipment	(63,145)	(51,023)
Additions to roads and bridges	(515)	155
Acquisitions, net of cash acquired (note 5)	536	(537,679)
Proceeds on disposal of property, plant and equipment and other	4,114	1,190
Net proceeds from deposits and other assets	915	392
	(58,095)	(586,965)
Financing activities:		
Issuance of share capital, net of expenses (note 8)	104	377
Share repurchases, net of expenses (note 8)	-	(194,308)
Interest payments	(13,089)	(5,012)
Lease liability payments	(4,457)	(4,470)
Debt refinancing costs	(163)	(189)
Term line net drawings (note 7)	149,478	31,150
	131,873	(172,452)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(607)	2,574
Decrease in cash	(11,417)	(475,629)
Cash and cash equivalents, beginning of period	77,606	538,561
Cash and cash equivalents, end of period	$ 66,189	$ 62,932

See accompanying notes to consolidated financial statements.

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

(thousands of Canadian Dollars)	Mar. 31, 2023	Dec. 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	$ 66,189	$ 77,606
Trade accounts receivable and other	228,419	174,053
Income tax receivable	109,753	104,082
Inventories (notes 5 and 6)	429,376	396,908
Prepayments	22,157	25,932
	855,894	778,581
Employee future benefits	18,776	18,445
Deposits and other assets (note 16)	275,099	281,628
Right of use assets	33,691	33,998
Property, plant and equipment (note 5)	1,713,623	1,701,197
Roads and bridges (note 5)	32,099	38,050
Timber licences (note 5)	176,274	178,443
Goodwill and other intangible assets (note 5)	587,095	588,098
Deferred income taxes	2,554	1,393
	$ 3,695,105	$ 3,619,833
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 257,735	$ 285,604
Current portion of long-term debt (notes 7 and 15)	52,440	7,336
Reforestation liability	17,941	17,926
Lease liabilities	14,803	14,796
Income taxes payable	58	335
	342,977	325,997
Reforestation liability	33,750	28,671
Lease liabilities	20,220	20,456
Long-term debt (notes 7 and 15)	893,742	790,631
Employee future benefits	10,232	9,888
Provisions and other liabilities	20,702	24,166
Deferred income taxes (note 5)	388,236	392,986
Equity:		
Share capital (note 8)	408,861	408,713
Contributed surplus	5,657	5,475
Translation reserve	174,403	175,885
Retained earnings	1,396,325	1,436,965
	1,985,246	2,027,038
	$ 3,695,105	$ 3,619,833

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

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board of Directors:

"L. Sauder"
Director

"T.V. Milroy"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2022	**$ 408,713**	**$ 5,475**	**$ 175,885**	**$ 1,436,965**	**$ 2,027,038**
Net loss:	**-**	**-**	**-**	**(41,289)**	**(41,289)**
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	**-**	**-**	**(1,482)**	**-**	**(1,482)**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**649**	**649**
Contributions and distributions:					
Share issuance, net of expenses (note 8)	**148**	**(44)**	**-**	**-**	**104**
Stock options (note 8)	**-**	**226**	**-**	**-**	**226**
Balance at March 31, 2023	**$ 408,861**	**$ 5,657**	**$ 174,403**	**$ 1,396,325**	**$ 1,985,246**
Balance at December 31, 2021	**$ 484,721**	**$ 4,694**	**$ 58,420**	**$ 1,088,138**	**$ 1,635,973**
Net earnings:	**-**	**-**	**-**	**397,031**	**397,031**
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	**-**	**-**	**(24,729)**	**-**	**(24,729)**
Defined benefit plan actuarial gain, net of tax	**-**	**-**	**-**	**2,786**	**2,786**
Contributions and distributions:					
Share issuance, net of expenses (note 8)	**539**	**(162)**	-	-	**377**
Share repurchases, net of expenses (note 8)	**(40,687)**	-	**-**	**(153,621)**	**(194,308)**
Stock options (note 8)	**-**	**241**	**-**	**-**	**241**
Balance at March 31, 2022	**$ 444,573**	**$ 4,773**	**$ 33,691**	**$ 1,334,334**	**$ 1,817,371**

See accompanying notes to consolidated financial statements.

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2023 and 2022 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

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

These financial statements were approved by Interfor's Board of Directors on May 4, 2023.

(b) Basis of measurement:

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

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

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

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

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

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

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

(c) Critical accounting estimates:

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

3. Significant accounting policies:

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

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2023, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

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

5. Acquisitions:

a) Acquisition of Atlantic Canada Operations:

On November 30, 2022, a wholly-owned subsidiary of Interfor acquired 100% of the equity interests in the entities comprising Chaleur Forest Products ("Chaleur") from an affiliate of the Kilmer Group. The acquisition includes two sawmill operations and a woodlands management division. The Company paid consideration totaling $383,139,000 and the purchase price was funded from drawings on the Revolving Term Line (Note 7).

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

5. Acquisitions (continued):

a) Acquisition of Atlantic Canada Operations (continued):

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

Assets Acquired:	
Cash and cash equivalents	$ 8,317
Current assets including inventories	61,861
Countervailing and anti-dumping duties receivable and related interest (note 16)	46,536
Property, plant and equipment	94,211
Goodwill, timber licenses and other assets	259,869
	$ 470,794
Liabilities Assumed:	
Current liabilities	(29,870)
Other long-term liabilities	(1,453)
Deferred income taxes	(56,332)
	$ 383,139

The above is a preliminary estimate of the value of the assets acquired and liabilities assumed. The estimate will remain preliminary until the Company is able to (i) complete an external valuation of the property, plant and equipment acquired; (ii) complete a valuation of intangible assets acquired; and (iii) evaluate the fair value of other assets acquired and liabilities assumed. The final determination of the value of assets acquired and liabilities assumed, which is expected to be no later than one year from the acquisition date, could differ significantly from the amounts presented above.

Goodwill represents the excess of the purchase consideration compared to the estimated fair values of the identifiable assets acquired and liabilities assumed. The goodwill arising from the acquisition is expected not to be deductible for tax purposes.

b) Acquisition of Eastern Canada Operations:

On February 22, 2022, a wholly-owned subsidiary of Interfor acquired 100% of the equity interests of EACOM Timber Corporation ("EACOM") from an affiliate of Kelso & Company. The acquisition included seven sawmills, an I-Joist plant and a value-added remanufacturing plant. The Company paid consideration totaling US$572,403,000 ($729,299,000) and the purchase price was funded from cash on hand and drawings on the Revolving Term Line (Note 7).

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

Assets Acquired:	
Cash and cash equivalents	$ 193,212
Inventories (including lumber and other wood-products of $148,360,000)	247,094
Other current assets	136,686
Countervailing and anti-dumping duties receivable and related interest (note 16)	90,895
Property, plant and equipment	361,215
Roads and bridges	11,378
Timber licenses	41,708
Other assets	17,600
	$ 1,099,788
Liabilities Assumed:	
Current liabilities	(104,152)
Income taxes payable	(132,510)
Other long-term liabilities	(10,264)
Deferred income taxes	(123,563)
	$ 729,299
Consideration funded by:	
Cash and cash equivalents	582,778
Revolving Term Line	146,521
	$ 729,299

6. Inventories:

	Mar. 31, 2023	Dec. 31, 2022
Lumber and other wood products	$ 214,041	$ 183,073
Logs	152,987	152,369
Other	62,348	61,466
	$ 429,376	$ 396,908

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at March 31, 2023 was $72,508,000 (December 31, 2022 - $93,998,000).

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

7. Borrowings:

March 31, 2023	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 600,000	$ 661,989	$ 1,261,989
Drawings	284,193	661,989	946,182
Outstanding letters of credit	60,622	-	60,622
Unused portion of Revolving Term Line	$ 255,185	$ -	$ 255,185

December 31, 2022	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 600,000	$ 662,527	$ 1,262,527
Drawings	135,440	662,527	797,967
Outstanding letters of credit	60,990	-	60,990
Unused portion of Revolving Term Line	$ 403,570	$ -	$ 403,570

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

Twelve months ending	
March 31, 2024	$ 52,440
March 31, 2025	45,110
March 31, 2026	45,110
March 31, 2027	284,193
March 31, 2028	82,889
Thereafter	436,440
	$ 946,182

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

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Drawings at opening	$ 797,967	$ 375,675
Revolving Term Line net drawings	149,478	31,150
Effects of changes in foreign exchange rate	(1,263)	(3,713)
Drawings at March 31	$ 946,182	$ 403,112

(a) Revolving Term Line:

On December 16, 2022, the Company completed an expansion of its Revolving Term Line (the “Term Line”). The commitment under the Term Line was increased by $100,000,000 to a total of $600,000,000.

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

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

As at March 31, 2023, including letters of credit, the Term Line was drawn by $20,590,000 (December 31, 2022 - $20,925,000) and US$239,581,000 (December 31, 2022 - US$129,581,000), revalued at the quarter-end exchange rate to $324,225,000 (December 31, 2022 - $175,505,000), for total borrowings of $344,815,000 (December 31, 2022 - $196,430,000).

The US dollar drawings under the Term Line have been designated as a hedge against the Company’s investment in its U.S. operations and unrealized foreign exchange gains of $724,500 in the first quarter, 2023 (Quarter 1, 2022 – losses of $1,641,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

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

7. Borrowings (continued):

(b) Senior Secured Notes:

As at March 31, 2023, the Company's Senior Secured Notes consisted of the following:

	Mar. 31, 2023	Dec. 31, 2022
Series A (US$1,483,334) bearing interest at 4.33%	$ 2,007	$ 2,009
Series B (US$3,933,334) bearing interest at 4.02%	5,323	5,327
Series C (US$100,000,000) bearing interest at 4.17%	135,330	135,440
Series D (US$45,550,000) bearing interest at 4.95%	61,643	61,693
Series E (US$38,200,000) bearing interest at 4.82%	51,696	51,738
Series F (US$50,000,000) bearing interest at 3.34%	67,665	67,720
Series G (US$50,000,000) bearing interest at 3.25%	67,665	67,720
Series H (US$200,000,000) bearing interest at 7.06%	270,660	270,880
	$ 661,989	$ 662,527

The Senior Secured Notes have a weighted average fixed interest rate of 5.30% and maturities from June 26, 2023 to December 26, 2033.

On December 1, 2022, the Company issued US$200,000,000 of Series H Senior Secured Notes, bearing interest at 7.06% with payments of US$66.7 million due on December 26, 2031, 2032 and on final maturity in 2033.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange gains of $538,000 in the first quarter, 2023 (Quarter 1, 2022 - $5,361,000) 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, 2021	60,804,177	$ 484,721	$ 4,694
Exercise of stock options	28,123	613	(184)
Repurchase of common shares	(9,397,405)	(76,621)	-
Stock options	-	-	965
Balance, December 31, 2022	51,434,895	$ 408,713	$ 5,475
Exercise of stock options	6,908	148	(44)
Stock options	-	-	226
Balance, March 31, 2023	51,441,803	$ 408,861	$ 5,657

On July 26, 2022, Interfor announced a substantial issuer bid ("SIB") pursuant to which the Company offered to purchase up to $100,000,000 in value of its outstanding common shares for cancellation from holders of common shares for cash. The SIB proceeded by way of a "modified Dutch auction" procedure with a tender price range from $29.00 to $34.00 per common share.

On September 12, 2022, Interfor purchased for cancellation 3,355,704 common shares at a price of $29.80 per share for a cost of $100,000,000 with $27,172,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $72,828,000 to Retained earnings. This completed the purchase of all common shares under the SIB and all purchased common shares were cancelled.

On November 4, 2021, the Company announced a renewal of its NCIB commencing on November 11, 2021 and ending on November 10, 2022, for the purchase of up to 6,041,701 common shares. During 2022, Interfor purchased 6,041,701 common shares at an average price of $37.60 per share for a cost of $227,237,000 with $48,908,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $178,329,000 to Retained earnings. This completed the purchase of all 6,041,701 common shares allowable and all purchased common shares were cancelled.

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function is as follows:

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Production	$ 56,863	$ 41,771
Selling and administration	426	466
	$ 57,289	$ 42,237

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

10. Asset write-downs and restructuring costs:

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Write-down of plant and equipment	$ 1,454	$ 1,223
Severance and other closure costs	140	1,975
	$ 1,594	$ 3,198

11. Finance costs:

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Interest expense on:		
Borrowings	$ 12,840	$ 4,788
Lease liabilities	312	358
Pension obligations	747	406
Duty deposits	582	105
Interest revenue from:		
Duty deposits and other	(3,304)	(379)
Pension assets	(671)	(370)
Unwind of discount on provisions	253	119
Amortization of deferred finance costs	185	142
	$ 10,944	$ 5,169

12. Other income (expense):

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Business interruption insurance	$ 804	$ 8,351
Change in fair value of minority interest in GreenFirst	(7,745)	-
Net gains on disposal of property, plant and equipment and other	1,340	139
Net gains (losses) on lease modifications	(19)	256
	$ (5,620)	$ 8,746

The Company has recorded $804,000 (Quarter 1, 2022 - $8,351,000) for insurance proceeds from a business interruption claim related to fire damage at one of its operations in Eastern Canada which occurred prior to its acquisition.

On May 2, 2022, Interfor acquired a total of 28,684,433 common shares in the capital of GreenFirst Forest Products Inc. ("GreenFirst") from Rayonier A.M. Canada G.P. The Company paid total cash consideration of $55,648,000. The minority interest in GreenFirst is recorded at fair value on the Statements of Financial Position in Deposits and other assets and changes in the fair value are recorded in the Statements of Earnings in Other income.

13. Net earnings (loss) per share:

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

	Three Months Mar. 31, 2023			Three Months Mar. 31, 2022		
	Net loss	Weighted average number of shares	Per share	Net earnings	Weighted average number of shares	Per share
Issued shares at December 31		51,434,895			60,804,177	
Effect of shares issued		3,272			10,458	
Effect of shares repurchased		-			(1,458,117)	
Basic earnings (loss) per share	$ (41,289)	51,438,167	$ (0.80)	$ 397,031	59,356,518	$ 6.69
Effect of dilutive securities:						
Stock options		109,807			228,211	
Diluted earnings (loss) per share	$ (41,289)	51,438,167*	$ (0.80)	$ 397,031	59,584,729	$ 6.66

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

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

14. Segmented information:

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

Sales by market are as follows:

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
United States	$ 621,160	$ 1,180,917
Canada	191,087	127,672
Japan	4,875	14,089
China/Taiwan	6,929	5,510
Other export	5,831	20,850
	$ 829,882	$ 1,349,038

Sales by product line are as follows:

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Lumber and other wood products	$ 670,200	$ 1,240,148
Logs	70,688	40,361
Wood chips and other by-products	80,294	61,253
Other	8,700	7,276
	$ 829,882	$ 1,349,038

15. Financial instruments:

At March 31, 2023, the fair value of the Company's Long-term debt was less than its carrying value by $10,275,000 (December 31, 2022 - $17,790,000) 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, 2023, the Company had no outstanding obligations under derivative financial instruments.

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

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

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

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

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

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

Year ended December 31				
First administrative review			Cash deposit rates in effect	Final rates
2017				
AD			6.04%	1.57%
CV			14.19%	7.26%
Total			20.23%	8.83%
2018				
AD			6.04%	1.57%
CV			14.19%	7.42%
Total			20.23%	8.99%
Second administrative review			Cash deposit rates in effect	Final rates
2019				
AD			6.04%	11.59%
CV			14.19%	6.32%
Total			20.23%	17.91%
Third administrative review		Cash deposit rates in effect Jan to Nov	Cash deposit rates in effect Dec	Final rates
2020				
AD		6.04%	1.57%	4.76%
CV		14.19%	7.42%	3.83%
Total		20.23%	8.99%	8.59%
Fourth administrative review		Cash deposit rates in effect Jan to Nov	Cash deposit rates in effect Dec	Preliminary rates
2021				
AD		1.57%	11.59%	6.05%
CV		7.42%	6.31%	2.19%
Total		8.99%	17.90%	8.24%
Fifth administrative review	Cash deposit rates in effect Jan 1 to Jan 9	Cash deposit rates in effect Jan 10 to Aug 8	Cash deposit rates in effect Aug 9 onwards	Final rates
2022				
AD	11.59%	11.59%	4.76%	Pending review
CV	6.31%	6.32%	3.83%	Pending review
Total	17.90%	17.91%	8.59%	Pending review

On January 24, 2023, the DoC issued its preliminary revised CV and AD duty rates based on completion of its fourth administrative review of shipments for the year ended December 31, 2021. The table above summarizes the cash deposit rates that were in effect for the year ended December 31, 2021 and the issued preliminary revised rates. Final rate determinations are expected to be published in mid-2023. At such time, the final rates determined and published for 2021 will be applied to new lumber shipments.

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

Amounts in US dollars	
2017	$ 18,424
2018	42,016
2019	33,765
2020	39,761
2021	36,478
2022	97,163
2023	8,234
Assumed rights to EACOM duty deposits	161,169
Assumed rights to Chaleur duty deposits	83,568
	$ 520,578

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

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

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

	Mar. 31, 2023		Dec. 31, 2022	
	USD	CAD	USD	CAD
Overpayment of duties per DoC administrative reviews reflected in the Statement of Earnings:				
First administrative review	$ 33,042	$ 42,724	$ 33,042	$ 42,724
Second administrative review	3,226	4,281	3,226	4,281
Third administrative review	19,545	26,101	19,545	26,101
Purchase price for acquired EACOM duties	68,397	87,097	68,397	87,097
Purchase price for acquired Chaleur duties	32,633	44,081	32,626	44,071
Revaluation to the quarter-end exchange rate	-	7,971	-	8,144
Duties recognized as duty deposits receivable	$ 156,843	$ 212,255	$ 156,836	$ 212,418
Interest recognized on duty deposits receivable	12,581	17,026	11,029	14,938
	$ 169,424	$ 229,281	$ 167,865	$ 227,356

On acquisition of the Eastern Canada operations the Company acquired CV and AD duties valued at US$68,397,000 ($87,097,000) and related interest receivable of US$2,983,000 ($3,798,000).

On acquisition of the Atlantic operations the Company acquired CV and AD duties valued at US$32,633,000 ($44,081,000) and related interest receivable of US$1,874,000 ($2,455,000).

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

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

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