**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Prepared as of February 9, 2023**

**This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2022 ("Q4'22" and "2022", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2022, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 9, 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 Fourth Quarter, 2022", "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". Material factors and assumptions used to develop the forward-looking information in this report include the existence of a public health crisis; 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 ("U.S."); environmental impacts of the Company's operations; labour availability; information systems security; and the assumptions described under the heading "Critical Accounting Estimates" herein.

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

## Overview of Fourth Quarter, 2022

Interfor recorded a Net loss in Q4'22 of $72.2 million, or $1.40 per share compared to Net earnings of $3.5 million, or $0.06 per share in Q3'22 and $69.7 million, or $1.15 per share in Q4'21.

Adjusted EBITDA was a loss of $68.7 million on sales of $810.3 million in Q4'22 versus Adjusted EBITDA of $129.5 million on sales of $1.0 billion in Q3'22 and Adjusted EBITDA of $149.5 million on sales of $675.9 million in Q4'21.

Notable items in the quarter:

- Moderating Lumber Demand and Lower Prices
  - Lumber demand moderated during the quarter due in part to rising interest rates across North America, contributing to significantly lower lumber prices quarter-over-quarter. Interfor's average selling price was $699 per mfbm, down $101 per mfbm versus Q3'22. The SYP Composite, Western SPF Composite, KD H-F Stud 2x4 9' and ESPF Composite price benchmarks decreased quarter-over-quarter by US$94, US$130, US$166 and US$159 per mfbm to US$461, US$420, US$461 and US$498 per mfbm, respectively.
  - The decline in lumber prices contributed to the Company recording $58.6 million in log and lumber inventory valuation adjustments in Q4'22 compared to $20.5 million in Q3'22.
- Lumber Production Balanced with Demand
  - Lumber production totaled 874 million board feet, representing a decrease of 112 million board feet quarter-over-quarter. This decrease reflects temporary production curtailments during Q4'22, primarily related to economic conditions and market uncertainty impacting lumber demand and to accelerate ongoing capital and maintenance projects. The decrease was partially offset by the Eatonton, GA and DeQuincy, LA sawmills ramping up to designed production capacity, and the acquisition of Chaleur Forest Products ("Chaleur").
  - The U.S. South and U.S. Northwest regions accounted for 404 million board feet and 135 million board feet, respectively, compared to 470 million board feet and 159 million board feet in Q3'22. The Eastern Canada region produced 212 million board feet, including 19 million board feet related to Chaleur, versus 198 million board feet in Q3'22. Production in the B.C. region decreased to 123 million board feet from 159 million board feet in Q3'22.
  - Lumber shipments were 939 million board feet, or 125 million board feet lower than Q3'22, leading to a net reduction of lumber inventories by 41 million board feet during the quarter, excluding lumber inventory acquired as part of the Chaleur acquisition. Lumber inventories ended the quarter within our target range. Interfor is continuing to closely manage inventory levels, including announcing on January 11, 2023, a temporary reduction in lumber production for Q1'23 by at least 100 million board feet mostly concentrated outside of the U.S. South region.
- Financial Flexibility Maintained
  - Net debt at quarter-end was $720.4 million, or 26.2% of invested capital, while available liquidity was ample at $481.2 million.
  - On December 16, 2022, the Company completed an expansion of its Revolving Term Line ("Term Line"). The commitment under the facility increased by $100 million to a total of $600 million.

- On December 1, 2022, the Company completed US$200 million of long-term debt financing with Prudential Private Capital. The Company's Senior Secured Notes now total US$489.2 million, with a weighted average interest rate of 5.30% and maturities in the years 2023-2033.

- Acquisition of Chaleur Forest Products
  - On November 30, 2022, the Company acquired 100% of the equity interests in the entities comprising Chaleur Forest Products from an affiliate of the Kilmer Group. The acquisition includes two modern and well-capitalized sawmill operations with a combined annual lumber production capacity of 350 million board feet, a woodlands management division that manages approximately 30% of the total Crown forest in New Brunswick and the assumption of US$83.5 million of countervailing ("CV") and anti-dumping ("AD") duty deposits. The Company paid total consideration of $383.7 million, which was funded from drawings on the Term Line.
- Strategic Capital Investments
  - Capital spending was $103.4 million, including $63.3 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.
- Normal Course Issuer Bid ("NCIB") Renewal
  - 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, which represents 10% of the Company's public float. The Company did not purchase any of its common shares during the quarter.
- Ongoing Monetization of Coastal B.C. Operations
  - As part of the Company's ongoing strategic review of its Coastal B.C. operations, which has resulted in the divestiture of all its manufacturing capacity in the region and several tenure transfers to date, Interfor has requested the Ministry of Forests to subdivide and transfer a number of forest tenures from its 1.57 million cubic metres of annual harvesting rights.
  - Subject to Ministry approval and certain contractual consents for which timing remains uncertain, the proposed tenure transfers are expected to result in approximately 558,607 cubic metres of the Company's timber harvesting rights being transferred to First Nation controlled entities, and 104,486 cubic metres being transferred to non-First Nation companies. Interfor is continuing the strategic review of its remaining Coastal B.C. timber harvesting rights, and may request approval for the disposition of additional forest tenures and permits in the future.
- Softwood Lumber Duties
  - On January 24, 2023, the DoC issued its preliminary CV and AD duty rates of 2.19% and 6.05% for a combined all other rate of 8.24%. The rate is the result of the DoC's fourth administrative review and is subject to change until its final rate determinations which are expected in mid-2023. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of December 31, 2022 to reflect the preliminary duty rates announced.

- Interfor expensed $15.1 million of duties in the quarter, representing the full amount of CV and 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$512.3 million, or approximately $9.85 per share after-tax, held in trust by U.S. Customs and Border Protection as at December 31, 2022. 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, higher 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 and constrained overall 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]

| | | For the three months ended | | | For the year ended Dec. 31 | | |
|---|---|---|---|---|---|---|---|
| | Unit | Dec.31 2022 | Dec. 31 2021 | Sep. 30 2022 | 2022 | 2021 | 2020 |
| **Financial Highlights[2]** | | | | | | | |
| Total sales | $MM | 810.3 | 675.9 | 1,035.6 | 4,584.0 | 3,289.1 | 2,183.6 |
| Lumber | $MM | 656.3 | 591.5 | 837.8 | 3,897.4 | 2,926.3 | 1,838.8 |
| Logs, residual products and other | $MM | 154.0 | 84.4 | 197.8 | 686.6 | 362.8 | 344.8 |
| Operating earnings (loss) | $MM | (114.8) | 99.2 | 75.9 | 859.6 | 1,077.9 | 402.5 |
| Net earnings (loss) | $MM | (72.2) | 69.7 | 3.5 | 598.2 | 819.0 | 280.3 |
| Net earnings (loss) per share, basic | $/share | (1.40) | 1.15 | 0.06 | 10.89 | 12.88 | 4.18 |
| Operating cash flow per share (before working capital changes)[3,5] | $/share | (1.75) | 2.25 | (0.02) | 9.45 | 16.79 | 7.38 |
| Adjusted EBITDA[3] | $MM | (68.7) | 149.5 | 129.5 | 1,059.4 | 1,246.8 | 549.7 |
| Adjusted EBITDA margin[3] | % | (8.5%) | 22.1% | 12.5% | 23.1% | 37.9% | 25.2% |
| | | | | | | | |
| Total assets | $MM | 3,619.8 | 2,603.5 | 3,294.6 | 3,619.8 | 2,603.5 | 1,843.2 |
| Total debt | $MM | 798.0 | 375.7 | 396.4 | 798.0 | 375.7 | 382.0 |
| Net debt[3] | $MM | 720.4 | (162.9) | 249.7 | 720.4 | (162.9) | (75.4) |
| Net debt to invested capital[3] | % | 26.2% | (11.1%) | 10.5% | 26.2% | (11.1%) | (7.5%) |
| Annualized return on capital employed[3] | % | (13.8%) | 18.2% | 5.6% | 29.6% | 55.7% | 26.7% |
| | | | | | | | |
| **Operating Highlights** | | | | | | | |
| Lumber production | million fbm | 874 | 758 | 986 | 3,792 | 2,891 | 2,377 |
| Lumber sales | million fbm | 939 | 719 | 1,064 | 3,928 | 2,852 | 2,441 |
| Lumber - average selling price[4] | $/thousand fbm | 699 | 822 | 800 | 992 | 1,026 | 753 |
| | | | | | | | |
| Average USD/CAD exchange rate[6] | 1 USD in CAD | 1.3578 | 1.2603 | 1.3056 | 1.3013 | 1.2535 | 1.3415 |
| Closing USD/CAD exchange rate[6] | 1 USD in CAD | 1.3544 | 1.2678 | 1.3707 | 1.3544 | 1.2678 | 1.2732 |

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 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 $0.06 – Q4 2021.
6 Based on Bank of Canada foreign exchange rates.

## Summary of Fourth Quarter 2022 Financial Performance

### Sales

Interfor recorded $810.3 million of total sales, up 19.9% from $675.9 million in the fourth quarter of 2021, driven by the sale of 939 million board feet of lumber at an average price of $699 per mfbm.  Lumber sales volume increased 220 million board feet, or 30.5% and average selling price decreased $123 per mfbm, or 15.0%, as compared to the same quarter of 2021.

Decreases in the average selling price of lumber reflect lower prices for Western SPF, Southern Yellow Pine and Hem-Fir in Q4'22 as compared to Q4'21. The Western SPF Composite, SYP Composite and KD H-F Stud 2x4 9' benchmarks decreased by US$233, US$183 and US$272 per mfbm to US$420, US$461 and US$461 per mfbm, respectively.

Sales generated from logs, residual products and other increased by $69.6 million or 82.4% in Q4'22 compared to Q4'21 due mainly to I-Joist sales from a plant acquired in February 2022, an increase in the volume of logs sold and an increase in volume of chips produced and sold.

Operations

Production costs increased by $337.9 million, or 66.5%, compared to Q4'21, explained by a 30.5% increase in lumber sales volume, a $58.6 million increase in log and lumber inventory valuation adjustments to reflect lumber price declines, inventory purchase accounting adjustments related to the new acquisition in Eastern Canada, inflationary impacts on costs and a weaker Canadian Dollar on average.

Lumber production of 874 million board feet in Q4'22 was 116 million board feet higher than Q4'21.

Production from the Company's U.S. South and U.S. Northwest sawmills decreased by 6 million board feet and 30 million board feet to 404 million board feet and 135 million board feet, respectively, versus the comparable quarter of 2021. The decrease in the U.S. South is primarily related to the curtailment announced in October 2022 partially offset by the restart of operations at the sawmill in DeQuincy, LA in Q1'22. The new Eastern Canada region acquired in 2022 contributed production of 212 million board feet in the quarter. Production from the Company's B.C. operations of 123 million board feet represented a reduction of 60 million board feet compared to Q4'21. The production from the B.C. operations decreased mainly due to the curtailment announced in October 2022 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 $15.1 million for Q4'22, up $10.7 million from Q4'21. The increase is due to higher shipments to the U.S. from Canadian sawmills primarily related to the acquired operations in Eastern Canada.

Depreciation of plant and equipment was $39.6 million in Q4'22, up $12.5 million from Q4'21, due primarily to the acquired operations in Eastern Canada and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $11.7 million, up $3.3 million from Q4'21, primarily due to the acquired operations in Eastern Canada.

Corporate and Other

Selling and administration expenses were $17.8 million, up $4.1 million from Q4'21 primarily related to other corporate activities and accruals for short term incentive compensation.

Long-term incentive compensation recovery was $4.2 million in Q4'22 versus a $8.1 million expense in Q4'21, primarily as a result of the impact of a 14.2% decrease in the price of Interfor common shares used to value share-based awards during Q4'22 compared to a 19.5% increase during Q4'21.

Asset write-downs and restructuring costs in Q4'22 were a $1.0 million recovery due to severance adjustments. The asset write-downs and restructuring costs in Q4'21 were $6.8 million, primarily related to severance and non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company's strategic capital projects.

Finance costs increased to $4.6 million in Q4'22 from $4.4 million in Q4'21 primarily as a result of interest expense on higher borrowings to fund the acquired operations in Eastern Canada.

Other foreign exchange gain of $11.3 million in Q4'22 and loss of $4.5 million in Q4'21 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The foreign exchange gain of $10.1 million recorded on intercompany funding in the quarter remains unrealized, and there was an offsetting loss recorded in Other comprehensive income for a net nil impact on Equity.

Other expense of $4.7 million in Q4'22 primarily relates to losses on the disposal of surplus property, plant and equipment and the change in the fair value of the minority interest in GreenFirst Forest Products Inc. Other income of $7.8 million in Q4'21 relates primarily to a gain recognized as a result of compensation received on the sale of forest tenures in B.C.

Income Taxes

The Company recorded an income tax recovery of $40.7 million in Q4'22 at an effective tax rate of 36%, comprised of a $58.3 million current income tax recovery and a $17.6 million deferred tax expense. The effective tax rate exceeds the statutory tax rate due to book to filing adjustments and the tax effect of the depreciation of the U.S. Dollar on U.S. Dollar denominated short-term intercompany funding. The Company recorded income tax expense of $28.5 million in Q4'21 at an effective tax rate of 29%, comprised of $1.9 million in current income tax and $26.6 million in deferred tax.

Net Earnings

The Company recorded a Net loss of $72.2 million, or $1.40 per share, compared to Net earnings of $69.7 million, or $1.15 per share in Q4'21. Operating margins and Net earnings were impacted by substantially lower lumber prices and higher operating costs partially offset by the unrealized foreign exchange gain on intercompany funding and higher sales volumes.

## Summary of 2022 Financial Performance

Sales

Interfor recorded $4.6 billion of total sales, up 39.4% from $3.3 billion in 2021, driven by the sale of 3.9 billion board feet of lumber at an average price of $992 per mfbm. Lumber sales volume increased 1.1 billion board feet, or 37.7%, while average selling price decreased $34 per mfbm, or 3.3%, as compared to 2021.

The decrease in the average selling price of lumber reflects lower prices across all benchmark products in 2022 as compared to 2021. The Western SPF Composite, SYP Composite, and KD H-F Stud 2x4 9' benchmarks decreased by US$105, US$60, and US$198 per mfbm to US$742, US$704, and US$818 per mfbm, respectively. This was partially offset by realized lumber prices increasing in Canadian Dollar terms by the 3.8% weakening of the Canadian Dollar against the U.S. Dollar in 2022 as compared to 2021.

Sales generated from logs, residual products and other increased by $323.8 million or 89.3% as compared to 2021 due mainly to I-Joist sales from a plant acquired in February 2022, an increase in volume of chips produced and sold and an increase in the volume of logs sold.

Operations

Production costs increased by $1.4 billion or 73.6% as compared to 2021, explained by a 37.7% increase in lumber sales volume, a $87.5 million increase in log and lumber inventory valuation adjustments to reflect lumber price declines, inventory purchase accounting adjustments related to acquisitions in Eastern Canada, inflationary impacts on costs, increased logging in the BC Coastal operations, higher log costs in the U.S. Northwest and a weaker Canadian Dollar on average.

Lumber production of 3.8 billion board feet in 2022 was 901 million board feet higher than 2021.

Production from the Company's U.S. South and U.S. Northwest sawmills totaled 1.8 billion board feet and 631 million board feet, respectively in 2022, up 248 million board feet and 31 million board feet, respectively compared to 2021. These increases are primarily the result of acquisitions in 2021 of sawmills in Summerville, SC, Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR. The new Eastern Canada region acquired in 2022 contributed production of 718 million board feet in the year. Production from the Company's B.C. operations of 651 million board feet represented a reduction of 94 million board feet compared to 2021. The production from the B.C. operations decreased mainly due to the sale of the Acorn sawmill during Q2'22 and the curtailment announced in October 2022.

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 $84.9 million for 2022, up $42.8 million from 2021. The increase is due to higher shipments to the U.S. from Canadian sawmills primarily related to the acquired operations in Eastern Canada and higher cash deposit rates as compared to 2021, partially offset by the $26.1 million recovery related to the finalization of the CV and AD rates by the U.S. Department of Commerce for the third administrative review.

Depreciation of plant and equipment was $154.9 million, up 59.5% from 2021, due primarily to the acquired operations in Eastern Canada, the acquisition of sawmills in 2021 and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $39.7 million, up $10.3 million from 2021 primarily due to the acquired operations in Eastern Canada and increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $67.2 million, up $14.8 million from 2021, primarily related to the acquired operations in Eastern Canada, other corporate activities and accruals for short-term incentive compensation.

Long-term incentive compensation recovery was $8.4 million in 2022 versus a $31.7 million expense in 2021, primarily as a result of the impact of a 46.0% decrease in the price of Interfor common shares used to value share-based awards during 2022 compared to a 61.7% increase during 2021. The long-term incentive compensation in 2021 included adjustments to awards to reflect the special cash dividend.

Asset write-downs and restructuring costs in 2022 totalled $4.0 million, primarily related to severance and non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company's strategic capital projects. The charges totaling $10.2 million in 2021 were of a similar nature.

Finance costs decreased to $15.7 million from $17.8 million in 2021, primarily due to interest income accrued on the long-term receivable for the CV and AD duty rate finalization for the third administrative review, partially offset by interest expense on higher borrowings to fund the acquisition of operations in Eastern Canada.

Other foreign exchange loss of $43.1 million in 2022 and $2.4 million in 2021 result primarily from the period-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The foreign exchange loss of $53.3 million recorded on intercompany funding in 2022 remains unrealized, and there was an offsetting gain recorded in Other comprehensive income for a net nil impact on Equity.

Other income of $14.0 million in 2022 primarily relates to insurance proceeds the Company has recorded for a business interruption claim related to fire damage at one sawmill, the gain on the sale of the Acorn speciality sawmill and related working capital, and the sale of a forest license, partially offset by the change in the fair value of the minority interest in GreenFirst Forest Products Inc. Other income of $31.3 million in 2021 primarily resulted from the sale of property, plant and equipment at the Company's former Hammond sawmill as well as compensation received for the sale of forest tenures in B.C.

Income Taxes

The Company recorded income tax expense of $216.6 million in 2022 at an effective tax rate of 27%, comprised of $184.6 million in current tax and $32.0 million in deferred tax. The Company recorded income tax expense of $270.1 million in 2021 at an effective tax rate of 25%, comprised of $205.5 million in current income tax and $64.6 million in deferred tax.

Net Earnings

The Company recorded Net earnings of $598.2 million, or $10.89 per share, compared to $819.0 million, or $12.88 per share in 2021. Operating margins and Net earnings were impacted by lower lumber prices, higher operating costs and the unrealized foreign exchange loss on intercompany funding, partially offset by higher sales volumes.

## Summary of Quarterly Results[1]

| | | 2022 | | | | 2021 | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Unit | Q4 | Q3 | Q2 | Q1 | Q4 | Q3 | Q2 | Q1 |
| **Financial Performance[2]** | | | | | | | | | |
| Total sales | $MM | 810.3 | 1,035.6 | 1,389.1 | 1,349.0 | 675.9 | 664.3 | 1,099.7 | 849.3 |
| Lumber | $MM | 656.3 | 837.8 | 1,190.8 | 1,212.5 | 591.5 | 559.6 | 1,012.9 | 762.4 |
| Logs, residual products and other | $MM | 154.0 | 197.8 | 198.3 | 136.5 | 84.4 | 104.7 | 86.8 | 86.9 |
| Operating earnings (loss) | $MM | (114.8) | 75.9 | 385.9 | 512.7 | 99.2 | 54.8 | 568.3 | 355.6 |
| Net earnings (loss) | $MM | (72.2) | 3.5 | 269.9 | 397.0 | 69.7 | 65.6 | 419.2 | 264.5 |
| Net earnings (loss) per share, basic | $/share | (1.40) | 0.06 | 4.92 | 6.69 | 1.15 | 1.05 | 6.45 | 4.01 |
| Operating cash flow per share (before working capital changes)[3,5] | $/share | (1.75) | (0.02) | 4.43 | 6.18 | 2.25 | 1.09 | 7.46 | 5.73 |
| Adjusted EBITDA[3] | $MM | (68.7) | 129.5 | 428.6 | 570.1 | 149.5 | 93.9 | 611.3 | 392.1 |
| Adjusted EBITDA margin[3] | % | (8.5%) | 12.5% | 30.9% | 42.3% | 22.1% | 14.1% | 55.6% | 46.2% |
| Annualized return on capital employed[3] | % | (13.8%) | 5.6% | 52.9% | 86.6% | 18.2% | 16.0% | 110.8% | 79.2% |
| Shares outstanding - end of period | million | 51.4 | 51.4 | 54.8 | 55.8 | 60.8 | 60.8 | 63.6 | 65.3 |
| Shares outstanding - weighted average | million | 51.4 | 54.1 | 54.9 | 59.4 | 60.8 | 62.7 | 65.0 | 65.9 |
| **Operating Performance** | | | | | | | | | |
| Lumber production | million fbm | 874 | 986 | 1,016 | 917 | 758 | 731 | 716 | 687 |
| Lumber sales | million fbm | 939 | 1,064 | 1,082 | 843 | 719 | 753 | 714 | 666 |
| Lumber - average selling price[4] | $/thousand fbm | 699 | 800 | 1,104 | 1,410 | 822 | 744 | 1,419 | 1,143 |
| Average USD/CAD exchange rate[6] | 1 USD in CAD | 1.3578 | 1.3056 | 1.2768 | 1.2662 | 1.2603 | 1.2600 | 1.2282 | 1.2660 |
| Closing USD/CAD exchange rate[6] | 1 USD in CAD | 1.3544 | 1.3707 | 1.2886 | 1.2496 | 1.2678 | 1.2741 | 1.2394 | 1.2575 |

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 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 decreased commencing in Q4'22 due to the curtailment announced in October 2022.

Lumber production and sales increased commencing in Q1'21 with the acquisition of the sawmill in Summerville, SC, 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 has 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 December 31, 2022 was $720.4 million, or 26.2% of invested capital, representing an increase of $883.2 million from the level of Net cash at December 31, 2021.

As at December 31, 2022 the Company had net working capital of $452.6 million and available liquidity of $481.2 million, based on the available borrowing capacity under its $600 million 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 | | | For the year ended | |
|---|---|---|---|---|---|
| Thousands of Dollars | Dec. 31, 2022 | Dec. 31, 2021 | Sept. 30, 2022 | Dec. 31, 2022 | Dec. 31, 2021 |
| **Net debt** | | | | | |
| Net debt (cash), period opening | $ 249,718 | $ (133,829) | $ 101,991 | $ (162,886) | $ (75,432) |
| Net issuance (repayment) of Senior Secure Notes | 270,160 | - | - | 263,155 | (6,671) |
| Revolving Term Line net drawings | 133,430 | 2,198 | - | 129,580 | 2,199 |
| Impact on U.S. Dollar denominated debt from weakening (strengthening) CAD | (1,984) | (1,851) | 23,741 | 29,557 | (1,813) |
| Decrease (increase) in cash and cash equivalents | 73,812 | (31,623) | 130,156 | 480,272 | (79,639) |
| Impact on U.S. Dollar denominated cash and cash equivalents from strengthening (weakening) CAD | (4,775) | 2,219 | (6,170) | (19,317) | (1,530) |
| Net debt (cash), period ending | $ 720,361 | $ (162,886) | $ 249,718 | $ 720,361 | $ (162,886) |

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line has been 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 payments of US$66.7 million due on December 26, 2031, 2032 and on final maturity in 2033.

On December 17, 2021, the Company completed an early renewal and expansion of its Term Line. The commitment under the facility was increased by $150 million to a total of $500 million, and the term was extended from March 2024 to December 2026.

Cash Flow from Operating Activities

The Company generated $518.9 million of cash flow from operations before changes in working capital in 2022, for a decrease of $548.6 million over 2021. There was a net cash inflow from operations after changes in working capital of $732.4 million in 2022, including $213.5 million of cash released from operating working capital.

Higher lumber shipments contributed to $141.0 million inflow from inventories and the collection of trade receivables recorded at higher lumber prices contributed to $135.4 million inflow related to trade receivables. Timing of payments contributed to $63.6 million outflow from trade accounts payable and provisions. Income tax installments of $472.0 million were made in 2022, of which $104.1 million is expected to be refunded in 2023.

In 2021, $1.1 billion of cash was generated from operations, with $15.1 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $1.2 billion in 2022, with $911.4 million for the acquisition of two businesses in Eastern Canada, $288.6 million for property, plant and equipment, $55.6 million for the investment in GreenFirst Forest Products Inc., $16.9 million for development of roads and bridges, $3.2 million for deposits and other assets, partially offset by $32.1 million in proceeds on disposal of property, plant and equipment and other.

Discretionary mill improvements of $189.6 million in 2022 were mainly focused on the multi-year rebuilds of the Eatonton, GA and Thomaston, GA sawmills, a new planer at the Castlegar, B.C. sawmill and upgrades to the Perry, GA sawmill.

Maintenance capital investments excluding roads totaled $99.0 million in 2022.

In 2021, investing activities were $656.5 million, with $539.9 million for the Summerville sawmill acquisition and four sawmills acquired from Georgia-Pacific, $160.2 million for plant and equipment and $16.5 million for development of roads and bridges, partially offset by $60.0 million in proceeds on disposal of property, plant and equipment and other.

Discretionary and maintenance mill improvements totalled $108.0 million and $52.2 million, respectively, in 2021, of which the majority was spent on a new planer at the Castlegar, B.C. sawmill, upgrades at the Perry, GA sawmill and the multi-year rebuild of the Eatonton, GA sawmill.

Cash Flow from Financing Activities

The net cash inflow of $31.1 million in 2022 resulted from a US$200 million Senior Secured Notes financing with Prudential Private Capital and $129.6 million in Term Line net drawings, partially offset by $327.8 million used to purchase shares under the Company's NCIB and SIB, $7.0 million for repayments of Senior Secured Notes, interest payments of $17.1 million and lease liability payments of $16.5 million.

The net cash outflow of $316.2 million in 2021 resulted from the $130.6 million special cash dividend payment, $152.9 million used to purchase shares under the Company's NCIB and $6.7 million for repayments of Senior Secured Notes. Interest and lease liability payments were $16.8 million and $13.3 million, respectively.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2022, including debt and interest payments and major capital commitments are summarized as follows:

| | | Payments due by Period | | | |
|---|---|---|---|---|---|
| Thousands of Canadian Dollars | Total | Up to 1 Year | 2 to 3 Years | 4 to 5 Years | After 5 Years |
| Trade accounts payable and provisions | $ 262,294 | $ 262,294 | $ - | $ - | $ - |
| Income taxes payable | 335 | 335 | - | - | - |
| Reforestation liability | 50,566 | 17,926 | 14,981 | 6,642 | 11,017 |
| Lease liabilities | 39,326 | 17,557 | 18,372 | 2,125 | 1,272 |
| Long-term debt | 1,063,185 | 43,597 | 155,150 | 276,674 | 587,764 |
| Provisions and other liabilities | 52,511 | 21,316 | 11,398 | 562 | 19,235 |
| Operating and capital commitments | 531,126 | 375,066 | 124,686 | 30,003 | 1,371 |
| Total obligations | $ 1,999,343 | $ 738,091 | $ 324,587 | $ 316,006 | $ 620,659 |

## Capital Resources

The following table summarizes Interfor's credit facilities and availability as of December 31, 2022:

| Thousands of Canadian Dollars | Revolving Term Line | Senior Secured Notes | Total |
|---|---|---|---|
| Available line of credit and maximum borrowing available | $ 600,000 | $ 662,527 | $ 1,262,527 |
| Less: | | | |
| Drawings | 135,440 | 662,527 | 797,967 |
| Outstanding letters of credit included in line utilization | 60,990 | - | 60,990 |
| Unused portion of facility | $ 403,570 | $ - | 403,570 |
| Add: | | | |
| Cash and cash equivalents | | | 77,606 |
| Available liquidity at December 31, 2022 | | | $ 481,176 |

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

As of December 31, 2022, the Company had commitments for capital expenditures totaling $179.6 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 year ended December 31, 2022.

## Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At December 31, 2022, such instruments aggregated $130.6 million (December 31, 2021 - $61.4 million).

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

## Financial Instruments and Other Instruments

From time to time, the Company may purchase high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. The Company did not purchase or hold any marketable securities in 2022 or 2021.

In addition, the Company may utilize financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company may also trade lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes.

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in 2022 or 2021.

### Borrowings

As at December 31, 2022, Interfor had US$100.0 million outstanding on its Term Line and US$489.2 million of fixed rate debt of Senior Secured Notes outstanding.

The Company's Term Line bears interest at the bank prime rate plus a premium, or, at the Company's option, at rates for Bankers' Acceptances for Canadian Dollar loans or at SOFR for U.S. Dollar loans, in all cases dependent upon a financial ratio of net debt to total capitalization.

The Company's Senior Secured Notes have a weighted average fixed interest rate of 5.30%.

Based on the Company's average borrowings under the Term Line, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $0.3 million in Net earnings.

### Foreign Currency

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

As at December 31, 2022, the Company had designated the US$100.0 million drawn on its Term Line and the US$489.2 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded a $117.5 million after-tax unrealized foreign exchange gain on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income in 2022 (2021 - $8.6 million).

## Outstanding Shares

As of February 9, 2023, Interfor had 51,434,895 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of February 9, 2023, there were 555,811 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.

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 completed the purchase of all 6,041,701 common shares allowable under the NCIB for total consideration of $227.2 million, representing an average price of $37.60 per share or 0.95 times book value per share at December 31, 2022.

On September 12, 2022, the Company purchased 3,355,704 common shares under its SIB for total consideration of $100.0 million at a price of $29.80 per share or 0.76 times book value per share at December 31, 2022. This completed the purchase of all common shares under the SIB.

During 2021, Interfor purchased 5,345,238 common shares at a cost of $152.9 million. The common shares were purchased under the previous NCIB that expired November 10, 2021.

## Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures ("DC&P"). Based on this evaluation, other than the scope limitations mentioned below, the CEO and CFO have concluded that the Company's DC&P were effective as of December 31, 2022.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, other than the scope limitations mentioned below, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2022.

As of December 31, 2022, the scope of the Company's design of DC&P and ICFR has been limited to exclude controls, policies and procedures of the operations acquired from an affiliate of Kelso & Company on February 22, 2022, and the controls, policies and procedures of the operations acquired from an affiliate of the Kilmer Group on November 30, 2022. As of December 31, 2022, we have not yet completed evaluating these controls and procedures or designing and implementing any necessary changes.

The contribution of the operations acquired February 22, 2022 to our audited consolidated financial statements for the year ended December 31, 2022 was approximately 21.8% of consolidated sales, approximately 9.1% of consolidated net earnings, and approximately 25.7% of consolidated total assets. Additional information about this acquisition is provided in Note 4(b) to Interfor's audited consolidated financial statements as at and for the year ended December 31, 2022.

The contribution of the operations acquired November 30, 2022 to our audited consolidated financial statements for the year ended December 31, 2022 was approximately 0.4% of consolidated sales, approximately (2.1%) of consolidated net earnings, and approximately 12.3% of consolidated total assets. Additional information about this acquisition is provided in Note 4(a) to Interfor's audited consolidated financial statements as at and for the year ended December 31, 2022.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the year ended December 31, 2022 that materially affected, or would be reasonably likely to materially affect, the Company's ICFR.

In April 2022, the Company successfully converted to a new Financial Reporting System. In connection with this implementation, the Company replaced multiple internal controls over financial reporting that were previously considered effective with similar internal controls that are also considered to be effective. In management's judgment, these changes do not have a material effect on internal controls over financial reporting.

## Critical Accounting Estimates

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

*Business Combinations*. Business combinations are accounted for using the acquisition method. The identifiable net assets acquired are measured at their fair value at the date of acquisition. Transaction costs, other than those associated with the issuance of debt or equity securities, are expensed as incurred.

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired property, plant and equipment and lumber inventory generally require the most judgment. For acquired property, plant and equipment these include replacement cost new estimates and physical depreciation assumptions and for acquired lumber inventory it includes acquisition date market price assumptions. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

*Valuation of Inventories*. Lumber inventories are valued at the lower of cost and net realizable value on a specific product basis. Log inventories are valued at the lower of cost and net realizable value on a sort or specific boom basis. The unit net realizable value for lumber inventories and for B.C. Coast log inventories is determined by reference to the average sales values by specific product in the period immediately following the reporting date. The unit net realizable value for B.C. Interior, Eastern Canada, and U.S. log inventories is determined by reference to the value of the projected lumber and residual outturns. The unit cost for lumber is based on a three month moving average cost, lagged by one month and adjusted for abnormal costs, as in the case of a curtailment.

The unit cost for logs in the B.C. Coast and Eastern Canada is based on a twelve month moving average cost lagged one month while B.C. Interior log unit costs are based on the three month moving average cost lagged one month, both adjusted for abnormal costs. Log inventories purchased from external sources are valued at acquisition cost. The Company records a charge to operating earnings when net realizable value is lower than carrying value. Downward movements in commodity prices could result in a material write-down of log and/or lumber inventories at any given time.

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

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

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

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

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

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

The Company assessed the recoverability of goodwill as at December 31, 2022 and 2021 and concluded that there was no impairment.

*Income Taxes*. The Company's provision for income taxes, both current and deferred, is based on various judgments, assumptions and estimates including the tax treatment of transactions recorded in the Company's consolidated financial statements. Interfor records provisions for income taxes based on the respective tax rules and regulations in the jurisdictions in which the Company operates. Due to the number of variables associated with the judgments, assumptions and estimates, and differing tax rules and regulations across the multiple jurisdictions, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known.

Income tax assets and liabilities, both current and deferred, are measured according to the income tax legislation that is expected to apply when the asset is realized or the liability settled. Deferred income tax assets and liabilities are comprised of the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, tax loss carry forwards and tax credits.

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

## Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the year ended December 31, 2022, and have not been applied in preparing the Company's audited 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: 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:

| Thousands of Canadian Dollars except number of shares and per share amounts | For the three months ended Dec. 31 2022 | Dec. 31 2021 | Sept. 30 2022 | For the year ended Dec. 31 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| **Adjusted EBITDA** | | | | | | |
| Net earnings (loss) | $(72,175) | $69,653 | $3,501 | $598,239 | $819,011 | $280,296 |
| Add: | | | | | | |
| Depreciation of plant and equipment | 39,594 | 27,053 | 40,551 | 154,905 | 97,143 | 78,459 |
| Depletion and amortization of timber, roads and other | 11,668 | 8,397 | 9,780 | 39,727 | 29,430 | 37,071 |
| Finance costs | 4,643 | 4,425 | 1,478 | 15,645 | 17,830 | 16,079 |
| Income tax expense (recovery) | (40,687) | 28,462 | 35,831 | 216,644 | 270,079 | 89,573 |
| EBITDA | (56,957) | 137,990 | 91,141 | 1,025,160 | 1,233,493 | 501,478 |
| Add: | | | | | | |
| Long-term incentive compensation expense (recovery) | (4,202) | 8,058 | 2,503 | (8,431) | 31,682 | 12,513 |
| Other foreign exchange loss (gain) | (11,274) | 4,468 | 46,918 | 43,120 | 2,355 | 16,881 |
| Other expense (income) excluding business interruption insurance | 4,719 | (7,816) | (11,857) | (4,448) | (31,338) | (336) |
| Asset write-downs and restructuring costs (recoveries) | (1,033) | 6,841 | 763 | 4,016 | 10,193 | 15,264 |
| Post closure wind-down costs | - | - | - | - | 451 | 3,914 |
| Adjusted EBITDA | $(68,747) | $149,541 | $129,468 | $1,059,417 | $1,246,836 | $549,714 |
| Sales | $810,361 | $675,895 | $1,035,597 | $4,584,045 | $3,289,146 | $2,183,609 |
| Adjusted EBITDA margin | (8.5%) | 22.1% | 12.5% | 23.1% | 37.9% | 25.2% |
| **Net debt to invested capital** | | | | | | |
| Net debt | | | | | | |
| Total debt | $797,967 | $375,675 | $396,361 | $797,967 | $375,675 | $381,960 |
| Cash and cash equivalents | (77,606) | (538,561) | (146,643) | (77,606) | (538,561) | (457,392) |
| Total net debt | $720,361 | $(162,886) | $249,718 | $720,361 | $(162,886) | $(75,432) |
| Invested capital | | | | | | |
| Net debt | $720,361 | $(162,886) | $249,718 | $720,361 | $(162,886) | $(75,432) |
| Shareholders' equity | 2,027,038 | 1,635,973 | 2,123,307 | 2,027,038 | 1,635,973 | 1,080,312 |
| Total invested capital | $2,747,399 | $1,473,087 | $2,373,025 | $2,747,399 | $1,473,087 | $1,004,880 |
| Net debt to invested capital (1) | 26.2% | (11.1%) | 10.5% | 26.2% | (11.1%) | (7.5%) |

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

| Thousands of Canadian Dollars except number of shares and per share amounts | For the three months ended Dec. 31 2022 | Dec. 31 2021 | Sept. 30 2022 | For the year ended Dec. 31 2022 | 2021 | 2020 |
|---|---|---|---|---|---|---|
| **Operating cash flow per share (before working capital changes)(2)** | | | | | | |
| Cash provided by operating activities | $10,306 | $86,203 | $47,031 | $732,357 | $1,052,381 | $526,784 |
| Cash used in (generated from) operating working capital | (100,284) | 50,729 | (47,908) | (213,469) | 15,093 | (31,774) |
| Operating cash flow (before working capital changes) | $(89,978) | $136,932 | $(877) | $518,888 | $1,067,474 | $495,010 |
| Weighted average number of shares - basic ('000) | *51,435* | *60,787* | *54,096* | *54,916* | *63,593* | *67,119* |
| Operating cash flow per share (before working capital changes) | $(1.75) | $2.25 | $(0.02) | $9.45 | $16.79 | $7.38 |
| **Annualized return on capital employed** | | | | | | |
| Net earnings (loss) | $(72,175) | $69,653 | $3,501 | $598,239 | $819,011 | $280,296 |
| Add: | | | | | | |
| Finance costs | 4,643 | 4,425 | 1,478 | 15,645 | 17,830 | 16,079 |
| Income tax expense (recovery) | (40,687) | 28,462 | 35,831 | 216,644 | 270,079 | 89,573 |
| Earnings (loss) before income taxes and finance costs | $(108,219) | $102,540 | $40,810 | $830,528 | $1,106,920 | $385,948 |
| Capital employed | | | | | | |
| Total assets | $3,619,833 | $2,603,510 | $3,294,576 | $3,619,833 | $2,603,510 | $1,843,187 |
| Current liabilities | (325,997) | (321,642) | (378,779) | (325,997) | (321,642) | (189,726) |
| Less: | | | | | | |
| Bank indebtedness | - | 2,202 | - | - | 2,202 | - |
| Current portion of long-term debt | 7,336 | 6,868 | 7,425 | 7,336 | 6,868 | 6,897 |
| Current portion of lease liabilities | 14,796 | 12,239 | 15,578 | 14,796 | 12,239 | 11,745 |
| Capital employed, end of period | $3,315,968 | $2,303,177 | $2,938,800 | $3,315,968 | $2,303,177 | $1,672,103 |
| Capital employed, beginning of period | 2,938,800 | 2,200,165 | 2,869,881 | 2,303,177 | 1,672,103 | 1,214,375 |
| Average capital employed | $3,127,384 | $2,251,671 | $2,904,340 | $2,809,573 | $1,987,640 | $1,443,239 |
| Earnings (loss) before income taxes and finance costs divided by average capital employed | (3.5%) | 4.6% | 1.4% | 29.6% | 55.7% | 26.7% |
| Annualization factor | 4.0 | 4.0 | 4.0 | 1.0 | 1.0 | 1.0 |
| Annualized return on capital employed | (13.8%) | 18.2% | 5.6% | 29.6% | 55.7% | 26.7% |

Note 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 $0.06 – Q4 2021.

## Risks and Uncertainties

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

### Public Health Crisis

The future emergence and spread of pathogens could have an adverse impact on global economic conditions, similar to the impact of the global COVID-19 pandemic. 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. It is difficult to accurately predict the severity of any such impact on the Company.

### Price Volatility

The Company's operating results are affected by fluctuations in the selling prices for lumber, engineered wood joists (I-Joists), logs and residual wood products.

Prices are affected by such factors as the general level of economic activity in the markets in which the Company sells its products, geopolitical uncertainty, interest rates, construction activity (in particular, housing starts in the U.S. and Canada), duty rates, supply shortages due to weather or logistical issues, and log and chip supply/demand relationships.

Competition

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

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

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

Availability and Cost of Log Supply

The log requirements of the Company's sawmills are met using logs harvested from its timber tenures, by long-term trade and purchase agreements and by purchases on the open market and through timber sale bids and economic partnership agreements with First Nations and other parties. Logs produced but unsuitable for use in the Company's sawmills are either traded for suitable logs or sold on the open market.

The Company currently holds cutting rights in the provinces of B.C., Ontario, Quebec, and New Brunswick that represent an Allowable Annual Cut ("AAC") of approximately of 8.11 million cubic metres in the form of long-term replaceable tenures. Operating at normal capacity, these cutting rights provide approximately 80% of the logs required at the Company's Canadian sawmills. The remaining requirements are met either through purchase agreements or on the open market. The Provincial governments set sustainable harvest levels (AAC) for each management unit. Many factors affect the AAC, such as timber inventory, operable land base, growth rates, regulations, forest health, land use, and environmental and social considerations.

The provincial governments in Canada charge stumpage fees for harvesting timber from Crown lands. The stumpage systems in Canada are complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the U.S.

Each Province has a unique system for determining stumpage rates based on a number of factors which may include government revenue targets, market values for lumber and/or timber, costs associated with harvesting and delivering timber, and the characteristics of the timber and terrain. Changes to stumpage rates may increase or decrease the Company's cost of logs.

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

The Company relies almost entirely on purchased fibre, either on the open market or through purchase agreements, for its U.S. based sawmills. Purchased fibre is sourced primarily from privately held timberlands and state, federal and tribal lands.

Fluctuations in the price, quality or availability of log supply can have a material effect on the Company's business, financial position, results of operations and cash flow. In addition, weather-related issues can restrict timely access to log supply as well as increase cost for available logs.

<u>Natural or Man-Made Disasters</u>

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

<u>Currency Exchange Sensitivity</u>

The Company's Canadian operations sell approximately 65% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars.

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

A significant movement of the Canadian Dollar against the U.S. Dollar could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows.

<u>Government Regulation</u>

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

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

<u>Indigenous Reconciliation</u>

Indigenous peoples have claimed title and rights over substantial portions of Canada. Both the provincial and federal governments have been seeking to negotiate settlements with Indigenous peoples to address these claims, which includes a duty to consult with, and where appropriate, accommodate the interests of Indigenous peoples.

Interfor tenures overlap with the traditional territories of close to 100 different First Nations, and the Company has numerous agreements and initiatives in place to develop economic opportunities of mutual benefit. The Company is committed to working with Indigenous peoples and our forestry operations are conducted in accordance with our Indigenous Relations Policy.

Government policies respecting indigenous rights and interests continue to evolve and governments continue to announce and implement policy and legislative changes. In June 2021, the federal government passed legislation respecting the United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP").

The UNDRIP Act affirms UNDRIP as a universal international human rights instrument with application in Canadian law and provides a framework for the government of Canada to implement the UNDRIP. This framework will guide the changes required for implementation of federal laws to be consistent with the UNDRIP and the establishment of an action plan to achieve UNDRIP's objectives.

In B.C., the government passed legislation to start the process to reconcile provincial laws with the UNDRIP. The B.C. government also announced its intention to work in partnership with First Nations to temporarily defer harvest of up to 2.6 million hectares of old growth forests. Interfor continues to work with First Nations and the Province and does not currently anticipate any significant impact on its lumber production volumes in B.C. as a result of the proposed old growth deferrals.

In May 2018, the government of Ontario announced that it had signed historic resource revenue sharing agreements for forestry with First Nations, and commit Ontario to sharing 45% of government revenues from forestry stumpage.

In Quebec, the Nord-du-Quebec region is governed by a Paix des Braves agreement between the government and the Cree nation. The Algonquin comprise nine First Nations who live in communities located in the Outaouais and Abitibi-Témiscamingue regions of Quebec, without a treaty.

In New Brunswick, there are fifteen First Nation communities that have commercial harvesting agreements with the Minister of Natural Resources and Energy Development. Approximately 5% of the total Crown Forest annual allowable harvest has been allocated under these agreements.

The courts have also established that the Crown has a duty to consult with Indigenous peoples and, where appropriate, accommodate their interests. However, questions of responsibility and appropriateness of balancing interests will continue to evolve as the parties try to address these long-standing and complex issues. Developments will be assessed and monitored in the years ahead to determine the extent of any implications on Interfor's operations.

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market. Interfor's shipments to the U.S. from Canadian operations represent approximately 24% of Company-wide lumber production. Tariffs and other trade barriers that restrict or prevent access represent a continuing risk to the Company's Canadian based operations.

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

Cumulative duties of US$512.3 million have been paid by Interfor since inception of the current trade dispute and are held in trust by the U.S. pending all administrative reviews and conclusion of all appeals of U.S. decisions. Interfor has recorded the majority of these duty deposits as an expense, except for US$156.8 million which are recorded as a long-term receivable due to a reduction in rates as a result of the first, second and third administrative reviews, other process corrections and duties acquired as a result of acquisitions. Interfor is seeking to recover these deposits following successful appeals or through settlement.

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

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

The Company is exposed to the risk that the DoC may select Interfor to be a mandatory respondent in the petition filed by the U.S. Lumber Coalition. Interfor is currently charged the all other rate and if the Company is selected as a mandatory respondent it could result in the Company being charged a Company specific rate which could be higher or lower than the all other rate.

Environment

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

Labour Availability

Production disruptions resulting from walkouts or strikes, employee turnover, shortage of skilled labour, and ability to retain or hire employees could result in lost production and sales, which could have a material adverse impact on the Company's business. Approximately 28% of the Company's employees are members of various unions with collective agreements expiring in the years 2023 to 2027.

The Company believes that its current labour relations are stable and does not anticipate any significant related disruptions to its operations in the foreseeable future.

The Company depends on a variety of third parties that employ unionized workers to provide critical services to the Company. Labour disputes by these third parties could lead to disruptions at the Company's facilities.

Information Systems Security

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

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

## Additional Information

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