Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2020

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and six months ended June 30, 2020 ("Q2'20" and "YTD'20", respectively). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and six months ended June 30, 2020, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of August 6, 2020.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Second Quarter, 2020", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2019 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; information systems security; the existence of a public health crisis (such as the current COVID-19 pandemic); and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2019 annual Management's Discussion and Analysis.

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

Overview of Second Quarter, 2020

Interfor recorded net earnings in Q2'20 of $3.2 million, or $0.05 per share, compared to $6.3 million, or $0.09 per share in Q1'20 and a net loss of $11.2 million, or $0.17 per share in Q2'19. Adjusted net earnings were $10.6 million in Q2'20 compared to $0.7 million in Q1'20 and an Adjusted net loss of $16.2 million in Q2'19.

Adjusted EBITDA was $42.8 million on sales of $396.8 million in Q2'20 versus $36.6 million on sales of $479.6 million in Q1'20.

Notable items in the quarter included:

- Strengthened Financial Position
  - Net debt ended the quarter at $239.1 million, or 21.6% of invested capital, resulting in available liquidity of $496.9 million.
  - Interfor generated $37.6 million of cash flow from operations before changes in working capital, or $0.56 per share. Working capital investment decreased by $65.4 million from efforts to optimize lumber and log inventory levels in response to the COVID-19 pandemic.
  - Capital spending was $23.6 million, including $18.9 million on high-return discretionary projects, primarily in the U.S. South. US$76.1 million has been spent on the Company's Phase II strategic capital plan through June 30, 2020.
  - With its strengthened financial position, Interfor has increased its planned capital expenditures for 2020 by $20 million to a total of approximately $120 million.
- Lumber Production Decline Due to COVID-19 Related Curtailments
  - Total lumber production in Q2'20 was 421 million board feet, down 206 million board feet quarter-over-quarter. This decline reflects Interfor's previously announced plan to temporarily reduce production across its operations in response to the COVID-19 pandemic. By the end of Q2'20, the Company's lumber production had returned to rates typical for the period preceding the pandemic.
  - Production in the B.C. region declined to 115 million board feet from 186 million board feet in the preceding quarter. The U.S. South and U.S. Northwest regions accounted for 230 million board feet and 76 million board feet, respectively, compared to 311 million board feet and 130 million board feet in Q1'20.
  - Lumber inventory levels decreased 68 million board feet over the course of Q2'20.
- Mixed Lumber Price Movements
  - Movements in the key benchmark prices were mixed quarter-over-quarter with the Western SPF Composite and KD H-F Stud 2x4 9' benchmarks decreasing by US$30 and US$16 per mfbm to US$350 and US$415 per mfbm, respectively, while the SYP Composite increased by US$77 per mfbm to US$428 per mfbm. Interfor's average lumber selling price increased $53 from Q1'20 to $646 per mfbm.
  - While lumber prices fell sharply in the initial stages of COVID-19, industry-wide production curtailments and growing demand have contributed to the strengthening price environment since mid-April 2020.
- Softwood Lumber Duties
  - Interfor expensed $7.4 million of duties in the quarter, representing the full amount of countervailing and anti-dumping duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%. Cumulative duties of US$106.7 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by U.S. Customs and Border Protection.

- On February 3, 2020 the U.S. Department of Commerce issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates remain preliminary, with final rate determinations not expected until November 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of June 30, 2020 to reflect the preliminary revised duty rates.

Outlook

Near-term lumber demand is expected to remain strong, as repair and renovation lumber demand continues to be robust and U.S. housing starts recover from the initial impacts of the COVID-19 pandemic. Industry-wide lumber production curtailments in March resulted in supply shortages and higher lumber prices. However, recovery of the economy in North America continues to be impacted by uncertainties related to COVID-19.

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

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

Financial and Operating Highlights[1]

		For the 3 months ended			For the 6 months ended	
	Unit	Jun. 30 2020	Jun. 30 2019	Mar. 31 2020	Jun. 30 2020	Jun. 30 2019
Financial Highlights[2]						
Total sales	$MM	396.8	481.3	479.6	876.4	932.5
Lumber	$MM	322.1	406.9	379.3	701.4	787.4
Logs, residual products and other	$MM	74.7	74.4	100.3	175.0	145.1
Operating earnings (loss)	$MM	13.3	(18.2)	14.6	27.9	(35.0)
Net earnings (loss)	$MM	3.2	(11.2)	6.3	9.5	(26.5)
Net earnings (loss) per share, basic	$/share	0.05	(0.17)	0.09	0.14	(0.39)
Adjusted net earnings (loss)[3]	$MM	10.6	(16.2)	0.7	11.4	(28.9)
Adjusted net earnings (loss) per share, basic[3]	$/share	0.16	(0.24)	0.01	0.17	(0.43)
Operating cash flow per share (before working capital changes)[3]	$/share	0.56	0.15	0.57	1.13	0.40
Adjusted EBITDA[3]	$MM	42.8	12.6	36.6	79.4	28.9
Adjusted EBITDA margin[3]	%	10.8%	2.6%	7.6%	9.1%	3.1%
Total assets	$MM	1,538.8	1,459.8	1,569.5	1,538.8	1,459.8
Total debt	$MM	408.8	261.7	425.6	408.8	261.7
Net debt[3]	$MM	239.1	198.2	322.0	239.1	198.2
Net debt to invested capital[3]	%	21.6%	17.9%	26.7%	21.6%	17.9%
Annualized return on invested capital[3]	%	14.8%	4.6%	12.9%	14.7%	5.4%
Operating Highlights						
Lumber production	million fbm	421	647	627	1,047	1,293
Total lumber sales	million fbm	499	674	641	1,140	1,295
Lumber sales - Interfor produced	million fbm	488	664	632	1,120	1,274
Lumber sales - wholesale and commission	million fbm	11	10	9	20	21
Lumber - average selling price[4]	$/thousand fbm	646	603	592	616	608
Average USD/CAD exchange rate[5]	1 USD in CAD	1.3862	1.3377	1.3449	1.3651	1.3336
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.3628	1.3087	1.4187	1.3628	1.3087

Notes:

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

Summary of Second Quarter 2020 Financial Performance

Sales

Interfor recorded $396.8 million of total sales, down 17.6% from $481.3 million in the second quarter of 2019, driven by the sale of 499 million board feet of lumber at an average price of $646 per mfbm. Lumber sales volume decreased 175 million board feet, or 26.0%, while average selling price increased $43 per mfbm, or 7.0%, as compared to the same quarter of 2019.

Increases in the average selling price of lumber reflect higher prices for Southern Yellow Pine, Western SPF and Hem-Fir in Q2'20 as compared to Q2'19. The SYP Composite benchmark increased by US$55 to US$428 per mfbm while the Western SPF Composite and the KD HF Stud 2x4 9' benchmarks increased by US$27 and US$77 to US$350 and US$415 per mfbm, respectively. Realized lumber prices in Canadian Dollar terms were also affected by the weakening of the Canadian Dollar against the U.S. Dollar by 3.6% on average in Q2'20 as compared to Q2'19.

Sales generated from logs, residual products and other increased by $0.3 million or 0.4% in Q2'20 compared to Q2'19 mainly due to the reconfiguration of the B.C. Coastal business resulting in increased availability of logs for sale offset by a decrease in sale of chips.

Operations

Production costs decreased by $110.9 million, or 24.8%, compared to Q2'19, explained primarily by a 26.0% decrease in lumber sales volume slightly offset by a weaker Canadian Dollar on average.

Lumber production of 421 million board feet in Q2'20 was 226 million board feet lower than Q2'19. This decline is explained by the temporary COVID-19 related curtailments announced in March 2020 and the closure of the Hammond sawmill in Q4'19.

Production from the Canadian operations decreased by 72 million board feet to 115 million board feet in Q2'20, compared to Q2'19. Production from the Company's U.S. South and Pacific Northwest operations totaled 230 million and 76 million board feet in Q2'20, down 90 million and 64 million board feet compared to Q2'19, respectively.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $7.4 million for Q2'20, down $3.5 million from Q2'19. The decrease is due to lower shipment volume to the U.S. from Canadian sawmills as compared to Q2'19.

Depreciation of plant and equipment was $15.6 million in Q2'20, down $3.8 million from Q2'19 as a result of COVID-19 related curtailments and the closure of the Hammond sawmill in Q4'19. Depletion and amortization of timber, roads and other was $8.1 million, down $4.1 million from Q2'19, primarily due to a 48.7% decline in log production volume in B.C as a result of temporary COVID-19 curtailments.

Corporate and Other

Selling and administration expenses were $9.4 million, down $0.4 million from Q2'19 primarily as a result of cost efficiencies realized during the COVID-19 pandemic.

The $5.6 million long term incentive compensation expense mostly reflects the impact of an 85.3% increase during the quarter in the market price for Interfor Common Shares used to value incentives. The long term incentive compensation recovery of $0.9 million in Q2'19 resulted primarily from a 7.6% decrease in the market price for Interfor Common Shares.

Capital asset write-downs and restructuring costs in Q2'20 and Q2'19 were negligible.

Finance costs increased to $5.2 million in Q2'20 from $3.3 million in Q2'19 due to the completion of the additional US$100 million Senior Secured Note financing with Prudential Private Capital on March 26, 2020. Q2'20 finance costs were also impacted by lower interest income rates as compared to Q2'19.

Other foreign exchange loss of $5.0 million in Q2'20 and $0.3 million in Q2'19 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The Company held higher U.S. Dollar cash balances in Q2'20 compared to Q2'19 primarily due to the US$100 million Prudential Senior Secured Note issuance in Q1'20.

Other income of $0.6 million in Q2'20 and $6.5 million in Q2'19 resulted primarily from the gains recognized as a result of compensation received on the extinguishment of timber licenses on the B.C. Coast.

Income Taxes

The Company recorded income tax expense of $0.6 million in Q2'20 at an effective tax rate of 15%, comprised of a $0.2 million current income tax recovery and a $0.8 million deferred tax expense. The Company recorded an income tax recovery of $4.2 million in Q2'19 at an effective tax rate of 27%, comprised of $0.2 million in current income tax expense offset by a $4.4 million deferred tax recovery. The decrease in the effective tax rate is primarily due to adjustments for tax refunds received during the period.

Net Earnings

The Company recorded net earnings of $3.2 million, or $0.05 per share, compared to a net loss of $11.2 million, or $0.17 per share in Q2'19. Operating margins and net earnings were positively impacted by higher lumber prices.

Summary of Year-to-Date 2020 Financial Performance

Sales

Interfor recorded $876.4 million of total sales, down 6.0% from $932.5 million in the first half of 2019, driven by the sale of 1.1 billion board feet of lumber at an average price of $616 per mfbm. Lumber sales volume decreased 155 million board feet, or 12.0%, while average selling prices increased $8 per mfbm, or 1.3%, as compared to the first six months of 2019.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'20 as compared to YTD'19. The Western SPF Composite and SYP Composite benchmarks increased US$24 to US$365 per mfbm and US$5 to US$390 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark increased US$76 to US$423 per mfbm for YTD'20 as compared to YTD'19. Realized lumber prices also increased in Canadian Dollar terms by the 2.4% weakening of the Canadian Dollar against the U.S. Dollar in YTD'20 as compared to YTD'19.

Sales generated from logs, residual products and other increased by $29.9 million or 20.6% as compared to the same period of 2019 due mainly to the reconfiguration of the B.C. Coastal business resulting in increased availability of logs for sale.

Operations

Production costs decreased by $100.9 million or 11.7% over the first half of 2019, explained primarily by a decline of 12.0% in lumber sales volume partially offset by a weaker Canadian Dollar, on average versus YTD'19.

Lumber production of 1.0 billion board feet in YTD'20 was 246 million board feet lower than YTD'19. This decline is explained by project-related downtime and ramp-ups in the U.S. South, the temporary COVID-19 related curtailments announced in March 2020 and the closure of the Hammond sawmill in Q4'19.

Production from the Canadian operations decreased by 82 million board feet to 301 million in YTD'20, compared to YTD'19. Production from the Company's U.S. South and Pacific Northwest operations totaled 542 million and 205 million board feet in YTD'20, down 94 million and 70 million board feet compared to YTD'19, respectively.

Interfor expensed $18.0 million of U.S. CV and AD duty deposits in YTD'20, representing the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S. This expense decreased by $4.0 million over the first half of 2020, attributable to lower shipment volume to the U.S. from Canadian sawmills as compared to YTD'19.

Depreciation of plant and equipment was $35.7 million, down 8.9% from the first half of 2019. This decrease is attributable to downtime related to capital projects at several of the U.S. South mills, COVID-19 related curtailments and the closure of the Hammond sawmill in Q4'19.

Depletion and amortization of timber, roads and other was $18.6 million, down $3.3 million from YTD'19 due to lower amortization rates of B.C. Coastal logging due to a lower depletable cost base associated with the cut blocks that were harvested during 2020, as well the absence of amortization on an intangible asset recognized on acquisition of certain sawmills in the U.S. South that became fully amortized in Q1'19.

Corporate and Other

Selling and administration expenses were $18.7 million, down $1.7 million from the first half of 2019, as a result of management's effort to streamline costs and cost efficiencies realized during the COVID-19 pandemic.

The $3.3 million long term incentive compensation recovery reflects the impact of a 27.0% decrease during YTD'20 in the price of Interfor Common Shares used to value share-based awards, partially offset by incentive awards maturing. The $1.1 million long term incentive compensation expense in YTD'19 reflects the impact of incentive awards maturing.

Finance costs increased to $9.3 million from $7.5 million in the first half of 2019 primarily due to the completion of the additional US$100 million Senior Secured Note financing with Prudential Private Capital on March 26, 2020, partially offset by the write-off of unamortized deferred financing fees associated with extinguished credit facilities in Q1'19.

Capital asset write-downs and restructuring costs in YTD'20 totalled $0.5 million primarily associated with Hammond closure activities. The YTD'19 restructuring charges relate to costs associated with non-cash impairments of an intangible asset and certain equipment in the U.S. South.

Other foreign exchange losses of $5.8 million in YTD'20 and negligible foreign exchange gains in YTD'19 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding, and cash held by Canadian operations. Interfor held higher U.S. Dollar cash balances on average in YTD'20 as compared to YTD'19 primarily due to the issuance of the US$100 million Prudential Senior Secured Notes in Q1'20.

Other income of $0.5 million in YTD'20 and $6.3 million in YTD'19 relate primarily to gains recognized as a result of compensation received on the extinguishment of timber licenses on the BC. Coast.

Income Taxes

The Company recorded an income tax expense of $3.8 million in YTD'20 at an effective tax rate of 28%, comprised of a $0.1 million current tax expense and a $3.6 million deferred tax expense. The YTD'19 income tax recovery of $9.7 million, representing an effective tax rate of 27%, is comprised of a $0.4 million current tax expense offset by a $10.1 million deferred tax recovery.

Net Earnings (Loss)

The Company recorded net earnings of $9.5 million, or $0.14 per share, compared to net loss of $26.5 million, or $0.39 per share, in the same period of 2019. Operating margins and net earnings were positively impacted by higher lumber prices.

Summary of Quarterly Results[1]

	Unit	2020 Q2	2020 Q1	2019 Q4	2019 Q3	2019 Q2	2019 Q1	2018 (restated) [2] Q4	2018 (restated) [2] Q3
Financial Performance[3]									
Total sales	$MM	396.8	479.6	456.8	486.5	481.3	451.2	468.5	570.5
Lumber	$MM	322.1	379.3	385.2	403.5	406.9	380.5	387.7	480.3
Logs, residual products and other	$MM	74.7	100.3	71.6	83.0	74.4	70.7	80.8	90.2
Operating earnings (loss)	$MM	13.3	14.6	(49.0)	(44.8)	(18.2)	(16.8)	(16.9)	41.8
Net earnings (loss)	$MM	3.2	6.3	(41.7)	(35.6)	(11.2)	(15.3)	(13.5)	28.2
Net earnings (loss) per share, basic	$/share	0.05	0.09	(0.62)	(0.53)	(0.17)	(0.23)	(0.20)	0.40
Adjusted net earnings (loss)[4]	$MM	10.6	0.7	(17.4)	(11.8)	(16.2)	(12.7)	(20.2)	28.3
Adjusted net earnings (loss) per share, basic[4]	$/share	0.16	0.01	(0.26)	(0.17)	(0.24)	(0.19)	(0.29)	0.40
Operating cash flow per share (before working capital changes)[4]	$/share	0.56	0.57	0.24	0.03	0.15	0.25	0.14	1.04
Adjusted EBITDA[4]	$MM	42.8	36.6	17.6	16.8	12.6	16.3	8.9	72.5
Adjusted EBITDA margin[4]	%	10.8%	7.6%	3.9%	3.5%	2.6%	3.6%	1.9%	12.7%
Annualized return on invested capital[4]	%	14.8%	12.9%	6.6%	6.1%	4.6%	6.1%	3.6%	29.1%
Shares outstanding - end of period	million	67.3	67.3	67.3	67.3	67.3	67.3	67.8	69.4
Shares outstanding - weighted average	million	67.3	67.3	67.3	67.3	67.3	67.3	68.9	69.9
Operating Performance									
Lumber production	million fbm	421	627	668	685	647	646	607	674
Total lumber sales	million fbm	499	641	681	692	674	621	647	685
Lumber sales - Interfor produced	million fbm	488	632	671	681	664	610	639	675
Lumber sales - wholesale and commission	million fbm	11	9	10	11	10	11	8	10
Lumber - average selling price[5]	$/thousand fbm	646	592	566	583	603	613	599	701
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3862	1.3449	1.3200	1.3204	1.3377	1.3295	1.3204	1.3070
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3628	1.4187	1.2988	1.3243	1.3087	1.3363	1.3642	1.2945

Notes:

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

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

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

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Pacific Northwest in Q1'19 and in the U.S. South in Q3'18 and Q1'19. Market driven curtailments in the B.C. Interior impacted lumber production in Q4'18. The Hammond sawmill closure reduced lumber production and sales commencing in Q4'19.

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

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

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

Liquidity

Balance Sheet

Interfor's net debt at June 30, 2020 was $239.1 million, or 21.6% of invested capital, representing an increase of $14.3 million since December 31, 2019.

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

As at June 30, 2020 the Company had net working capital of $275.7 million and available liquidity of $496.9 million, based on the full borrowing capacity under its $350 million Revolving Term Line.

The Revolving Term Line and Senior Secured Notes are subject to financial covenants, including net debt to total capitalization ratios, and an EBITDA interest coverage ratio that could affect the Company's borrowing capacity under the Revolving Term Line.

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

	For the 3 months ended Jun. 30,		**For the 6 months ended Jun. 30,**	
Thousands of Dollars	**2020**	**2019**	**2020**	**2019**
Net debt				
Net debt, period opening	$322,036	$172,746	$224,860	$63,825
Issuance of Senior Secured Notes	-	-	140,770	-
Term Line net drawings (repayments)	-	-	(59)	750
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(16,770)	(5,520)	8,370	(11,850)
Decrease (increase) in cash and cash equivalents	(71,640)	30,028	(140,624)	98,918
Decrease in marketable securities	-	-	-	41,766
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening CAD	5,488	955	5,798	4,800
Net debt, period ending	$239,114	$198,209	$239,114	$198,209

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

Cash Flow from Operating Activities

The Company generated $76.0 million of cash flow from operations before changes in working capital in YTD'20, for an increase of $49.0 million over YTD'19. There was a net cash inflow from operations after changes in working capital of $122.3 million in YTD'20, with $46.3 million of cash generated in operating working capital.

A focused effort to reduce log and lumber inventories contributed to the $67.3 million inflow from inventories, while decreased sales contributed to the $29.6 million outflow related to trade receivables.

In YTD'19, $26.9 million of cash was generated from operations before changes in working capital, with $53.0 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $107.7 million in YTD’20, with $56.6 million for the acquisition from Canfor of timber licences and other assets, net of assumed liabilities, $46.0 million for plant and equipment and $5.1 million for development of roads and bridges.

Discretionary mill improvements of $40.1 million in YTD’20 include several projects in the U.S., the most significant of which relate to the modernization of the Eatonton sawmill in Georgia and installation of a twin infeed at the Molalla sawmill in Oregon.

Maintenance capital investments excluding roads totaled $5.9 million in YTD’20.

In YTD’19, investing activities were $53.5 million, with capital spending of $94.9 million for plant and equipment, timber licenses and other intangibles and $13.5 million for development of roads offsetting $46.8 million in proceeds from maturing Marketable securities and deposits and $8.1 million in proceeds on disposal of plant, equipment, and other. Discretionary and maintenance mill improvements totaled $83.5 million and $11.4 million, respectively, in YTD’19, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash inflow of $126.1 million in YTD’20 resulted from the US$100 million Senior Secured Note financing with Prudential Private Capital, partly offset by interest and lease liability payments of $8.5 million and $6.0 million, respectively.

The net cash outflow of $19.4 million in YTD’19 included $7.8 million used to purchase shares under the Company’s normal course issuer bid (“NCIB”), interest payments of $5.4 million, lease liability payments of $5.8 million and debt refinancing costs of $1.2 million slightly offset by $0.8 million in short term funding activities under the Revolving Term Line.

Capital Resources

The following table summarizes Interfor’s credit facilities and availability as of June 30, 2020:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	$350,000	$408,840	$758,840
Less:			
Drawings	-	408,840	408,840
Outstanding letters of credit included in line utilization	22,849	-	22,849
Unused portion of facility	$327,151	$ -	327,151
Add:			
Cash and cash equivalents			169,726
Available liquidity at June 30, 2020			$496,877

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

As of June 30, 2020, the Company had commitments for capital expenditures totaling $45.0 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three and six months ended June 30, 2020.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At June 30, 2020, such instruments aggregated $70.4 million (December 31, 2019 - $67.1 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

The Company did not enter into any foreign exchange contracts, interest rate derivatives contracts or lumber futures contracts in Q2'20 or Q2'19.

Outstanding Shares

As of August 6, 2020, Interfor had 67,270,913 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

The Company's NCIB expired on March 6, 2020 and was not renewed. No Common Shares were purchased under the NCIB in the first half of 2020.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three and six months ended June 30, 2020, that have materially affected, or are reasonably likely to materially affect, its ICFR.

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

Critical Accounting Estimates

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended June 30, 2020. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Several new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended June 30, 2020, and have not been applied in preparing the Company's unaudited interim consolidated financial statements. None of these are expected to have a significant effect on future financial statements.

Non-GAAP Measures

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

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

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

	For the 3 months ended			For the 6 months ended	
Thousands of Canadian Dollars except number of shares and per share amounts	Jun. 30 2020	Jun. 30 2019	Mar. 31 2020	Jun. 30 2020	Jun. 30 2019
Adjusted Net Earnings (Loss)					
Net earnings (loss)	$3,235	$(11,159)	$6,309	$9,544	$(26,461)
Add:					
Capital asset write-downs and restructuring costs	115	87	371	486	1,752
Other foreign exchange loss (gain)	4,963	321	849	5,812	(19)
Long term incentive compensation expense (recovery)	5,629	(851)	(8,946)	(3,317)	1,132
Other (income) expense	(586)	(6,487)	115	(471)	(6,323)
Income tax effect of above adjustments	(2,712)	1,866	2,043	(669)	991
Adjusted net earnings (loss)	$10,644	$(16,223)	$741	$11,385	$(28,928)
Weighted average number of shares - basic ('000)	*67,260*	*67,252*	*67,260*	*67,260*	*67,300*
Adjusted net earnings (loss) per share	$0.16	$(0.24)	$0.01	$0.17	$(0.43)
Adjusted EBITDA					
Net earnings (loss)	$3,235	$(11,159)	$6,309	$9,544	$(26,461)
Add:					
Depreciation of plant and equipment	15,601	19,410	20,061	35,662	39,132
Depletion and amortization of timber, roads and other	8,108	12,201	10,530	18,638	21,938
Capital asset write-downs and restructuring costs	115	87	371	486	1,752
Finance costs	5,185	3,324	4,096	9,281	7,500
Other foreign exchange loss (gain)	4,963	321	849	5,812	(19)
Income tax expense (recovery)	563	(4,196)	3,205	3,768	(9,704)
EBITDA	37,770	19,988	45,421	83,191	34,138
Add:					
Long term incentive compensation expense (recovery)	5,629	(851)	(8,946)	(3,317)	1,132
Other (income) expense	(586)	(6,487)	115	(471)	(6,323)
Adjusted EBITDA	$42,813	$12,650	$36,590	$79,403	$28,947
Sales	$396,778	$481,345	$479,646	$876,424	$932,508
Adjusted EBITDA margin	10.8%	2.6%	7.6%	9.1%	3.1%
Net debt to invested capital					
Net debt					
Total debt	$408,840	$261,740	$425,610	$408,840	$261,740
Cash and cash equivalents	(169,726)	(63,531)	(103,574)	(169,726)	(63,531)
Total net debt	$239,114	$198,209	$322,036	$239,114	$198,209
Invested capital					
Net debt	$239,114	$198,209	$322,036	$239,114	$198,209
Shareholders' equity	869,443	911,409	882,917	869,443	911,409
Total invested capital	$1,108,557	$1,109,618	$1,204,953	$1,108,557	$1,109,618
Net debt to invested capital[1]	21.6%	17.9%	26.7%	21.6%	17.9%
Operating cash flow per share (before working capital changes)					
Cash provided by (used in) operating activities	$103,003	$32,302	$19,319	$122,322	$(26,048)
Cash used in (generated from) operating working capital	(65,439)	(22,443)	19,103	(46,336)	52,992
Operating cash flow (before working capital changes)	$37,564	$9,859	$38,422	$75,986	$26,944
Weighted average number of shares - basic ('000)	*67,260*	*67,252*	*67,260*	*67,260*	*67,300*
Operating cash flow per share (before working capital changes)	$0.56	$0.15	$0.57	$1.13	$0.40
Annualized return on invested capital					
Adjusted EBITDA	$42,813	$12,650	$36,590	$79,403	$28,947
Invested capital, beginning of period	$1,204,953	$1,106,255	$1,055,842	$1,055,842	$1,032,591
Invested capital, end of period	1,108,557	1,109,618	1,204,953	1,108,557	1,109,618
Average invested capital	$1,156,755	$1,107,937	$1,130,398	$1,082,200	$1,071,105
Adjusted EBITDA divided by average invested capital	3.7%	1.1%	3.2%	7.3%	2.7%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on invested capital	14.8%	4.6%	12.9%	14.7%	5.4%

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

Risks and Uncertainties

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

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

Additional Information

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

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)

For the three and six months ended June 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Sales (note 13)	$ 396,778	$ 481,345	$ 876,424	$ 932,508
Costs and expenses:				
Production	337,134	448,043	760,362	861,226
Selling and administration	9,444	9,808	18,672	20,373
Long term incentive compensation expense (recovery)	5,629	(851)	(3,317)	1,132
U.S. countervailing and anti-dumping duty deposits (note 15)	7,387	10,844	17,987	21,962
Depreciation of plant and equipment (note 9)	15,601	19,410	35,662	39,132
Depletion and amortization of timber, roads and other (note 9)	8,108	12,201	18,638	21,938
	383,303	499,455	848,004	965,763
Operating earnings (loss) before write-downs and restructuring costs	13,475	(18,110)	28,420	(33,255)
Capital asset write-downs and restructuring costs (note 10)	115	87	486	1,752
Operating earnings (loss)	13,360	(18,197)	27,934	(35,007)
Finance costs (note 11)	(5,185)	(3,324)	(9,281)	(7,500)
Other foreign exchange gain (loss)	(4,963)	(321)	(5,812)	19
Other income	586	6,487	471	6,323
	(9,562)	2,842	(14,622)	(1,158)
Earnings (loss) before income taxes	3,798	(15,355)	13,312	(36,165)
Income tax expense (recovery)				
Current	(193)	233	136	393
Deferred	756	(4,429)	3,632	(10,097)
	563	(4,196)	3,768	(9,704)
Net earnings (loss)	$ 3,235	$ (11,159)	$ 9,544	$ (26,461)
Net earnings (loss) per share, basic and diluted (note 12)	$ 0.05	$ (0.17)	$ 0.14	$ (0.39)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2020 and 2019 (unaudited)

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Net earnings (loss)	$ 3,235	$ (11,159)	$ 9,544	$ (26,461)
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss), net of tax	(543)	(439)	(1,256)	133
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	(16,400)	(10,728)	29,683	(23,601)
Total other comprehensive income (loss), net of tax	(16,943)	(11,167)	28,427	(23,468)
Comprehensive income (loss)	$ (13,708)	$ (22,326)	$ 37,971	$ (49,929)

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six months ended June 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ 3,235	$ (11,159)	$ 9,544	$ (26,461)
Items not involving cash:				
Depreciation of plant and equipment (note 9)	15,601	19,410	35,662	39,132
Depletion and amortization of timber, roads and other (note 9)	8,108	12,201	18,638	21,938
Deferred income tax expense (recovery)	756	(4,429)	3,632	(10,097)
Current income tax expense (recovery)	(193)	233	136	393
Finance costs (note 11)	5,185	3,324	9,281	7,500
Other assets	(450)	304	486	321
Reforestation liability	(4,616)	(3,250)	(1,850)	(743)
Provisions and other liabilities	4,993	(801)	(5,300)	(1,004)
Stock options	234	209	490	317
Write-down (recovery) of plant and equipment (note 10)	(53)	88	(53)	1,811
Unrealized foreign exchange loss	5,350	216	5,791	160
Other income	(586)	(6,487)	(471)	(6,323)
	37,564	9,859	75,986	26,944
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(6,164)	(5,873)	(29,577)	(20,448)
Inventories	65,968	17,605	67,323	(9,565)
Prepayments	4,020	(2,873)	1,907	(5,742)
Trade accounts payable and provisions	1,609	13,862	6,671	(16,662)
Income tax refund (payment)	6	(278)	12	(575)
	103,003	32,302	122,322	(26,048)
Investing activities:				
Additions to property, plant and equipment	(21,116)	(58,904)	(45,988)	(94,830)
Additions to roads and bridges	(2,439)	(5,661)	(5,143)	(13,505)
Additions to intangible assets	-	(20)	-	(72)
Acquisition of timber license, roads and other assets, net of assumed liabilities (note 5)	-	-	(56,606)	-
Proceeds on disposal of property, plant and equipment and other	705	8,032	867	8,140
Net proceeds from (additions to) marketable securities, deposits and other assets	(681)	(11)	(879)	46,760
	(23,531)	(56,564)	(107,749)	(53,507)
Financing activities:				
Issuance of share capital, net of expenses (note 8)	-	17	-	80
Share repurchases (note 8)	-	-	-	(7,825)
Interest payments	(4,751)	(2,837)	(8,509)	(5,417)
Lease liability payments	(3,074)	(2,779)	(6,008)	(5,765)
Debt refinancing costs	(7)	(172)	(143)	(1,191)
Operating line net drawings (repayments)	-	5	(59)	5
Additions to long term debt (note 7)	-	-	140,770	197,925
Repayments of long term debt (note 7)	-	-	-	(197,175)
	(7,832)	(5,766)	126,051	(19,363)
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(5,488)	(955)	(5,798)	(3,703)
Increase (decrease) in cash	66,152	(30,983)	134,826	(102,621)
Cash and cash equivalents, beginning of period	103,574	94,514	34,900	166,152
Cash and cash equivalents, end of period	$ 169,726	$ 63,531	$ 169,726	$ 63,531

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2020 and December 31, 2019 (unaudited)

(thousands of Canadian Dollars)	Jun. 30, 2020	Dec. 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	$ 169,726	$ 34,900
Trade accounts receivable and other	119,712	86,608
Income tax receivable	1,888	1,995
Inventories (note 6)	119,934	181,577
Prepayments	19,460	20,449
	430,720	325,529
Employee future benefits	110	673
Deposits and other assets	9,988	9,296
Right of use assets	32,600	32,780
Property, plant and equipment	774,810	739,515
Roads and bridges	20,514	24,353
Timber licences (note 5)	116,837	60,596
Other intangible assets	3,032	3,480
Goodwill	145,570	138,734
Deferred income taxes	4,643	6,961
	$ 1,538,824	$ 1,341,917
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 120,095	$ 114,358
Current portion of long term debt (notes 7 and 14)	7,381	-
Reforestation liability	16,216	13,021
Lease liabilities	11,210	10,105
Income taxes payable	134	163
	155,036	137,647
Reforestation liability	29,853	27,401
Lease liabilities	26,023	27,718
Long term debt (notes 7 and 14)	401,459	259,760
Employee future benefits	13,132	11,843
Provisions and other liabilities	14,138	18,957
Deferred income taxes	29,740	27,609
Equity:		
Share capital (note 8)	533,685	533,685
Contributed surplus	4,961	4,471
Translation reserve	86,442	56,759
Retained earnings	244,355	236,067
	869,443	830,982
	$ 1,538,824	$ 1,341,917

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

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2019	$ 533,685	$ 4,471	$ 56,759	$ 236,067	$ 830,982
Net earnings:	-	-	-	9,544	9,544
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	29,683	-	29,683
Defined benefit plan actuarial loss, net of tax	-	-	-	(1,256)	(1,256)
Contributions:					
Stock options	-	490	-	-	490
Balance at June 30, 2020	$ 533,685	$ 4,961	$ 86,442	$ 244,355	$ 869,443
Balance at December 31, 2018	$ 537,534	$ 3,851	$ 84,393	$ 342,988	$ 968,766
Net loss:	-	-	-	(26,461)	(26,461)
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	(23,601)	-	(23,601)
Defined benefit plan actuarial gain, net of tax	-	-	-	133	133
Contributions and distributions:					
Share issuance, net of expenses (note 8)	115	(35)	-	-	80
Share repurchases	(4,086)	-	-	(3,739)	(7,825)
Stock options	-	317	-	-	317
Balance at June 30, 2019	$ 533,563	$ 4,133	$ 60,792	$ 312,921	$ 911,409

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2020 and 2019 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

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

These financial statements were approved by Interfor's Board of Directors on August 6, 2020.

(b) Basis of measurement:

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

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

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

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

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

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

(c) Critical accounting estimates:

Potential impacts of the COVID-19 outbreak on the Company's critical accounting estimates are being monitored on a regular basis. However, there were no significant identified changes during the quarter ended June 30, 2020. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2019, filed under the Company's profile on www.sedar.com.

3. Significant accounting policies:

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

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended June 30, 2020, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

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

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

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

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

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

6. Inventories:

	Jun. 30, 2020	Dec. 31, 2019
Lumber	$ 60,423	$ 91,702
Logs	34,786	70,422
Other	24,725	19,453
	$ 119,934	$ 181,577

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at June 30, 2020 was $7,652,000 (December 31, 2019 - $17,515,000).

7. Borrowings:

June 30, 2020	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 408,840	$ 758,840
Drawings	-	408,840	408,840
Outstanding letters of credit	22,849	-	22,849
Unused portion of Revolving Term Line	$ 327,151	$ -	$ 327,151

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

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

Twelve months ending	
June 30, 2021	$ 7,381
June 30, 2022	7,381
June 30, 2023	7,384
June 30, 2024	45,427
June 30, 2025	45,427
Thereafter	295,840
	$ 408,840

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

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Drawings at opening	$ 425,610	$ 267,260	$ 259,760	$ 272,840
Term Line net repayments	-	5	(59)	5
Additions to long term debt	-	-	140,770	197,925
Repayments of long term debt	-	-	-	(197,175)
Effects of changes in foreign exchange rates	(16,770)	(5,525)	8,369	(11,855)
Drawings at June 30	$ 408,840	$ 261,740	$ 408,840	$ 261,740

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

7. Borrowings (continued):

(a) Revolving Term Line and Operating Line:

The Revolving Term Line (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 LIBOR-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 June 30, 2020, including outstanding letters of credit, the Term Line was drawn by $19,051,000 (December 31, 2019 - $18,890,000) and US$2,787,000 (December 31, 2019 - US$2,204,000) revalued at the quarter-end exchange rate to $3,798,000 (December 31, 2019 - $2,863,000) for total borrowings of $22,849,000 (December 31, 2019 - $21,752,000). During the first six months of 2019, certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations and a foreign exchange gain of $750,000 was recognized in Foreign currency translation differences in Other comprehensive income.

(b) Senior Secured Notes:

As at June 30, 2020, the Company's Senior Secured Notes consisted of the following:

	Jun. 30, 2020	Dec. 31, 2019
Series A (US$4,450,000) bearing interest at 4.33% with Payments of US$1,483,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	$ 6,064	$ 5,780
Series B (US$11,800,000) bearing interest at 4.02% with Payments of US$3,933,000 due on June 26, 2021 and 2022 and the balance due on June 26, 2023	16,081	15,326
Series C (US$100,000,000) bearing interest at 4.17% with Payments of US$33,333,000 due on March 26, 2024 and 2025 and the balance due on March 26, 2026	136,280	129,880
Series D (US$45,550,000) bearing interest at 4.95% with Payments of US$15,183,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	62,076	59,160
Series E (US$38,200,000) bearing interest at 4.82% with Payments of US$12,733,000 due on August 14, 2027 and 2028 and the balance due on August 14, 2029	52,059	49,614
Series F (US$50,000,000) bearing interest at 3.34% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	68,140	-
Series G (US$50,000,000) bearing interest at 3.25% with Payments of US$16,666,666 due on March 26, 2028 and 2029 and the balance due on March 26, 2030	68,140	-
	$ 408,840	$ 259,760

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

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

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $8,310,000 in the first six months, 2020 (first six months, 2019 - $11,100,000 gain) and an unrealized foreign exchange gain of $16,770,000 in the second quarter, 2020 (Quarter 2, 2019 - $5,520,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

8. Share capital:

The transactions in share capital are described below:

	Number	Amount	Contributed Surplus
Balance, December 31, 2018	67,760,622	$ 537,534	$ 3,851
Exercise of stock options	14,437	237	(72)
Share repurchases	(515,100)	(4,086)	-
Stock options	-	-	692
Balance, December 31, 2019	67,259,959	$ 533,685	$ 4,471
Stock options	-	-	490
Balance, June 30, 2020	67,259,959	$ 533,685	$ 4,961

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

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

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

9. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Production	$ 23,060	$ 30,911	$ 53,028	$ 58,533
Selling and administration	649	700	1,272	2,537
	$ 23,709	$ 31,611	$ 54,300	$ 61,070

10. Capital asset write-downs and restructuring costs:

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Write-down (reversal of write-down) of plant and equipment	$ (53)	$ 88	$ (53)	$ 1,811
Severance and other closures (recovery)	168	(1)	539	(59)
	$ 115	$ 87	$ 486	$ 1,752

11. Finance costs:

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Interest expense on:				
Borrowings	$ 4,627	$ 3,182	$ 8,304	$ 6,398
Lease liabilities	467	511	967	1,031
Pension obligations	603	681	1,204	1,405
Interest revenue from:				
Marketable securities and other	(330)	(773)	(646)	(1,628)
Pension assets	(330)	(490)	(908)	(982)
Unwind of discount on provisions	68	143	202	304
Amortization of deferred finance costs	80	70	158	972
	$ 5,185	$ 3,324	$ 9,281	$ 7,500

12. Net earnings (loss) per share:

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

	3 Months Jun. 30, 2020			3 Months Jun. 30, 2019		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at March 31		67,259,959			67,251,487	
Effect of shares issued in quarter		-			670	
Basic earnings (loss) per share	$ 3,235	67,259,959	$ 0.05	$ (11,159)	67,252,157	$ (0.17)
Effect of dilutive securities:						
Stock options		-			22,198	
Diluted earnings (loss) per share	$ 3,235	67,259,959	$ 0.05	$ (11,159)	67,252,157*	$ (0.17)

	6 Months Jun. 30, 2020			6 Months Jun. 30, 2019		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,259,959			67,760,622	
Effect of shares issued in first six months		-			4,921	
Effect of shares repurchased in first six months		-			(465,522)	
Basic earnings (loss) per share	$ 9,544	67,259,959	$ 0.14	$ (26,461)	67,300,021	$ (0.39)
Effect of dilutive securities:						
Stock options		-			26,916	
Diluted earnings (loss) per share	$ 9,544	67,259,959	$ 0.14	$ (26,461)	67,300,021*	$ (0.39)

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

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

13. Segmented information:

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

Sales by market are as follows:

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
United States	$ 284,350	$ 344,604	$ 624,214	$ 667,476
Canada	67,309	66,669	161,990	128,419
Japan	21,028	29,676	42,244	56,026
China/Taiwan	15,148	15,881	27,024	27,460
Other export	8,943	24,515	20,952	53,127
	$ 396,778	$ 481,345	$ 876,424	$ 932,508

Sales by product line are as follows:

	3 Months Jun. 30, 2020	3 Months Jun. 30, 2019	6 Months Jun. 30, 2020	6 Months Jun. 30, 2019
Lumber	$ 322,142	$ 406,846	$ 701,431	$ 787,371
Logs	42,840	30,732	98,296	55,013
Wood chips and other by-products	27,896	41,921	70,615	84,115
Freight and other	3,900	1,846	6,082	6,009
	$ 396,778	$ 481,345	$ 876,424	$ 932,508

14. Financial instruments:

At June 30, 2020, the fair value of the Company's Long term debt exceeded its carrying value by $4,368,000 (December 31, 2019 - $19,958,000) measured based on the level 2 of the fair value hierarchy.

The fair values of other financial instruments approximate their carrying values due to their short-term nature.

As at June 30, 2020, the Company had no outstanding obligations under derivative financial instruments.

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

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

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, and subsequently amended to 6.04%. As a result, Interfor recorded a long term receivable of US$3,265,000 in Deposits and other assets on the Statement of Financial Position, of which US$3,187,000 remains outstanding at June 30, 2020 (December 31, 2019 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,343,000 (December 31, 2019 - $4,139,000).

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

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

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

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

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018, US$33,765,000 in 2019, and US$12,453,000 in the first six months of 2020, all of which remain held in trust by U.S. Customs and Border Protection. All duty deposits except US$3,265,000 (December 31, 2019 – US$3,265,000) noted above have been expensed at the cash deposit rates currently in effect with no adjustments recorded to reflect the preliminary revised rates.

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

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