Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2021

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, 2021 ("Q2'21" and "YTD'21", respectively). It should be read in conjunction with the unaudited condensed consolidated interim financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and six months ended June 30, 2021, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's unaudited condensed consolidated interim financial statements. This MD&A has been prepared as of August 5, 2021.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Second Quarter, 2021", "Expanded Organic Growth in the U.S. South", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties" herein, and in Interfor's 2020 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 2020 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, 2021

Robust lumber prices in North America and strong operating performance during the second quarter of 2021 led to Interfor realizing record financial results, including records for Net earnings, Adjusted EBITDA and cash flow from operations.

Interfor recorded Net earnings in Q2’21 of $419.2 million, or $6.45 per share, compared to $264.5 million, or $4.01 per share in Q1’21 and $3.2 million, or $0.05 per share in Q2’20. Adjusted net earnings in Q2’21 were $433.5 million compared to $270.6 million in Q1’21 and $10.6 million in Q2’20.

Adjusted EBITDA was $611.3 million on sales of $1.1 billion in Q2’21 versus $392.1 million on sales of $849.3 million in Q1’21. $484.5 million of cash flow was generated from operations before changes in working capital, or $7.46 per share.

These record financial results bolstered Interfor’s balance sheet and enabled the deployment of a significant amount of capital in the quarter. Interfor’s balanced approach to capital allocation included growth through a four-sawmill acquisition and strategic capital expenditures, and rewarding shareholders with returns of capital through share repurchases and a special cash dividend.

Even with a significant amount of capital deployed in the quarter, Interfor’s balance sheet remains very well positioned to support further strategic investment. Net debt ended the quarter at $(490.7) million, or (46.1)% of invested capital, resulting in available liquidity of $1.2 billion.

Notable items in the quarter:

- Record Production Balanced with Shipments
  - Total lumber production in Q2’21 was 716 million board feet, representing an increase of 29 million board feet quarter-over-quarter and setting an Interfor production record. The U.S. South and U.S. Northwest regions accounted for 387 million board feet and 137 million board feet, respectively, compared to 338 million board feet and 141 million board feet in Q1’21. The Summerville sawmill, acquired March 12, 2021, contributed to the increased output in the U.S. South region with a full quarter of its production. Production in the B.C. region decreased to 192 million board feet from 208 million board feet in the preceding quarter.
  - Total lumber shipments were 714 million board feet, or 48 million board feet higher than Q1’21.
  - Interfor’s average selling price was $1,419 per mfbm, up $276 per mfbm versus Q1’21. The key benchmark prices increased quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9’ benchmarks increasing by US$113, US$384 and US$447 per mfbm to US$1,028, US$1,319 and US$1,609 per mfbm, respectively.
- Strategic Capital Investments
  - Capital spending was $40.6 million, including $24.2 million on high-return discretionary projects. The majority of this discretionary spending was focused on the ongoing multi-year rebuild of the Eatonton, GA sawmill, which will be substantially complete in Q4’21. Inclusive of this project, US$120.8 million has been spent on the Company’s Phase II strategic capital plan through June 30, 2021.
- Acquisition of Four US Sawmills and Restart of the DeQuincy, LA Operation
  - On July 9, 2021, Interfor concluded the acquisition of four sawmill operations located in Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR from Georgia-Pacific Wood Products LLC and GP Wood Products LLC. The Company paid total consideration of US$372.0 million.
  - This acquisition added high quality assets with 720 million board feet of annual lumber production capacity, increasing Interfor’s total capacity by approximately 23% to 3.9 billion board feet.
  - Interfor is restarting operations at the sawmill in DeQuincy, LA, which has annual lumber production capacity of 200 million board feet. Lumber production is expected to begin in the first half of 2022. The sawmill was idled in May 2020 by its previous owner at the outset of the COVID-19 pandemic.

- Special Cash Dividend
  - On May 12, 2021, Interfor's Board of Directors declared a one-time special cash dividend of $2.00 per share, which was paid on June 28, 2021 to shareholders of record on May 28, 2021. The special dividend resulted in an aggregate distribution of $130.6 million. The dividend was funded from cash on hand.
- Normal Course Issuer Bid ("NCIB")
  - During Q2'21, Interfor purchased 1,688,770 common shares under the Company's NCIB for total consideration of $49.4 million.
  - Interfor has purchased 3,790,610 common shares for total consideration of $94.2 million since the outset of its NCIB, representing an average price of $24.84 per share, or 1.02 times book value per share at June 30, 2021. The NCIB will continue to be used to opportunistically purchase Interfor common shares at attractive prices.
- Sale of Former Sawmill Property
  - On July 21, 2021, the Company completed the sale of property, plant and equipment at its former Hammond sawmill located in Maple Ridge, B.C. for net cash proceeds of $40.0 million, representing $0.63 per common share outstanding at June 30, 2021. This sale contributes to the successful reconfiguration of Interfor's B.C. Coastal operations announced on September 3, 2019, which resulted in the monetization of approximately $40.0 million of working capital following the closure of the Hammond sawmill and led to increased profitability from its remaining forestry operations.
- Softwood Lumber Duties
  - On May 21, 2021, the U.S. Department of Commerce issued its preliminary revised countervailing ("CV") and anti-dumping ("AD") duty rates based on completion of its second administrative review for the year ended December 31, 2019. The preliminary combined rate for 2019 is 18.32%, compared to a cash deposit rate of 20.23%.
  - Interfor expensed $19.2 million of duties in the quarter, representing the full amount of CV and AD duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 8.99%.
  - Cumulative duties of US$158.2 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by the U.S. Except for US$32.9 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Expanded Organic Growth in the U.S. South

Interfor is expanding its multi-year strategic capital plan with an additional US$230 million of strategic investments in its U.S. South platform through 2024. These investments include re-initiation of the major rebuild of the Thomaston, GA sawmill, a follow-on investment at the recently acquired sawmill in Summerville, SC, a second phase to the modernization of the Georgetown, SC sawmill, and several other targeted upgrades. In total, these investments are expected to grow annual lumber production by about 250 million board feet and further optimize conversion costs, improve lumber recovery, and enhance grade and product mix. Each project is expected to generate very attractive risk-adjusted returns at conservative lumber prices.

Interfor's total capital expenditures are expected to be approximately $175 million in 2021, up $25 million from prior guidance as certain projects have been accelerated, and likely in the range of $200 - $250 million in 2022, as the Company executes on its expanded strategic capital plans.

Wildfire Season

Significant wildfires are currently in progress in the U.S. Northwest and B.C. Interior regions in which Interfor has operations. The start of the annual wildfire season has been accelerated by abnormally dry conditions and wildfires are now impacting log harvesting activities and rail availability to varying extents across these regions; the B.C. government currently has a restriction on all log harvesting activities in the B.C. Interior. As a result, Interfor announced on July 29, 2021 supply related downtime at its B.C. Interior sawmills which will reduce lumber production by at least 50 million board feet in the third quarter of this year. Interfor is monitoring the situation closely and will take ongoing actions to protect the safety of its employees and contractors, the communities in which it operates and its assets.

Outlook

North American lumber markets over the near term are expected to remain above historical trends driven by continued strong demand from new housing starts, albeit with volatility driven by the level of demand from repair and remodel activity as the North American economy adjusts to the COVID-19 pandemic recovery.

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

Interfor's strategy of maintaining a diversified portfolio of operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. While uncertainty remains as to the duration and extent of the economic impact from the COVID-19 pandemic, Interfor is well positioned with its strong balance sheet and significant available liquidity.

Financial and Operating Highlights[1]

	Unit	For the 3 months ended Jun. 30 2021	Jun. 30 2020	Mar. 31 2021	For the 6 months ended Jun. 30 2021	Jun. 30 2020
Financial Highlights[2]						
Total sales	$MM	1,099.7	396.8	849.3	1,949.0	876.4
Lumber	$MM	1,012.9	322.1	762.4	1,775.3	701.4
Logs, residual products and other	$MM	86.8	74.7	86.9	173.7	175.0
Operating earnings	$MM	568.3	13.3	355.6	923.9	27.9
Net earnings	$MM	419.2	3.2	264.5	683.7	9.5
Net earnings per share, basic	$/share	6.45	0.05	4.01	10.45	0.14
Adjusted net earnings[3]	$MM	433.5	10.6	270.6	704.2	11.4
Adjusted net earnings per share, basic[3]	$/share	6.67	0.16	4.11	10.76	0.17
Operating cash flow per share (before working capital changes)[3]	$/share	7.46	0.56	5.73	13.17	1.13
Adjusted EBITDA[3]	$MM	611.3	42.8	392.1	1,003.4	79.4
Adjusted EBITDA margin[3]	%	55.6%	10.8%	46.2%	51.5%	9.1%
Total assets	$MM	2,409.4	1,538.8	2,159.7	2,409.4	1,538.8
Total debt	$MM	365.1	408.8	377.3	365.1	408.8
Net debt[3]	$MM	(490.7)	239.1	(236.0)	(490.7)	239.1
Net debt to invested capital[3]	%	(46.1%)	21.6%	(21.7%)	(46.1%)	21.6%
Annualized return on capital employed[3]	%	110.8%	2.4%	79.2%	96.1%	3.4%
Operating Highlights						
Lumber production	million fbm	716	421	687	1,402	1,047
Total lumber sales	million fbm	714	499	666	1,380	1,140
Lumber sales - Interfor produced	million fbm	713	488	662	1,375	1,120
Lumber sales - wholesale and commission	million fbm	1	11	4	5	20
Lumber - average selling price[4]	$/thousand fbm	1,419	646	1,143	1,286	616
Average USD/CAD exchange rate[5]	1 USD in CAD	1.2282	1.3862	1.2660	1.2470	1.3651
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.2394	1.3628	1.2575	1.2394	1.3628

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

Summary of Second Quarter 2021 Financial Performance

Sales

Interfor recorded $1.1 billion of total sales, up 177.1% from $396.8 million in the second quarter of 2020, driven by the sale of 714 million board feet of lumber at an average price of $1,419 per mfbm. Average selling price increased $773 per mfbm, or 119.7%, while lumber sales volume increased 215 million board feet, or 43.1%, as compared to the same quarter of 2020.

Increases in the average selling price of lumber reflect higher benchmark prices for Southern Yellow Pine, Western SPF and Hem-Fir in Q2'21 as compared to Q2'20.

The SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' benchmarks increased by US$600, US$969 and US$1,194 per mfbm to US$1,028, US$1,319 and US$1,609 per mfbm, respectively.

Sales generated from logs, residual products and other increased by $12.1 million or 16.2% in Q2'21 compared to Q2'20 mainly due to an increase in volume of chips sold partially offset by reduced availability of surplus logs.

Operations

Production costs increased by $120.2 million, or 35.7%, compared to Q2’20, explained primarily by a 43.1% increase in lumber sales volume and accruals for short term incentive compensation partially offset by a stronger Canadian Dollar on average.

Lumber production of 716 million board feet in Q2’21 was 295 million board feet higher than Q2’20.

Production from the Canadian operations increased by 77 million board feet to 192 million board feet in Q2’21, compared to Q2’20 during which temporary COVID-19 related curtailments were taken. Production from the Company’s U.S. South sawmills totaled 387 million board feet in Q2’21, up 157 million board feet compared to Q2’20, due to increased operating schedules related to market demand and the Summerville sawmill acquisition. Additionally, production from the U.S. South sawmills in Q2’20 was impacted by COVID-19 related curtailments and project-related downtime. Production from the Company’s U.S. Northwest operations totaled 137 million board feet in Q2’21, up 61 million board feet compared to Q2’20, due to increased operating schedules, higher productivity from the U.S. Northwest stud mills and COVID-19 related curtailments in Q2’20 offset by the sale of the sawmill in Gilchrist, Oregon in Q4’20.

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 $19.2 million for Q2’21, up $11.8 million from Q2’20. The increase is due to higher lumber sales prices and higher shipments to the U.S. from Canadian sawmills partially offset by lower cash deposit rates as compared to Q2’20.

Depreciation of plant and equipment was $22.7 million in Q2’21, up $7.1 million from Q2’20, due primarily to increased operating schedules and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $6.7 million, down $1.4 million from Q2’20, primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $12.1 million, up $2.7 million from Q2’20 primarily as a result of accruals for short term incentive compensation and costs related to various information technology system implementations.

The $11.1 million long term incentive compensation expense mostly reflects the impact of a 14.9% increase in the price of Interfor common shares used to value share-based awards during the quarter and adjustments to awards to reflect the special cash dividend. The long term incentive compensation expense of $5.6 million in Q2’20 mostly reflects the impact of an 85.3% increase in the market price of Interfor common shares used to value share-based awards.

Asset write-downs and restructuring costs in Q2’21 were $2.2 million, primarily related to non-cash impairments for asset write-downs on certain plant and equipment in the U.S. South as part of strategic capital projects in the region. The asset write-downs and restructuring costs in Q2’20 were negligible.

Finance costs decreased to $4.4 million in Q2’21 from $5.2 million in Q2’20 due to a decrease in interest expense in Canadian Dollars on U.S. Dollar borrowings as a result of the stronger Canadian Dollar on average in Q2’21 compared to Q2’20. Additionally, the decrease is due to interest income relating to the long-term duties receivable recorded in Q4 2020 as a result of the CV and AD duties rate finalization.

Other foreign exchange loss of $4.6 million in Q2’21 and $5.0 million in Q2’20 result primarily from the quarter-end revaluation of U.S. Dollar cash held by Canadian operations. The closing Canadian Dollar strengthened by 1.4% in Q2’21 (strengthened by 3.9% in Q2’20) offset by higher U.S. Dollar cash balances held in Q2’21 compared to Q2’20 primarily due to the strong cash flow from operations during the quarter.

Other expense of $1.0 million in Q2’21 primarily resulted from losses on disposal of surplus equipment. Other income of $0.6 million in Q2’20 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 $138.9 million in Q2’21 at an effective tax rate of 25%, comprised of $135.1 million in current income tax expense and $3.8 million in deferred tax expense. The Company recorded income tax expense of $0.6 million in Q2’20 at an effective tax rate of 15%, comprised of $0.2 million in current income tax recovery and a $0.8 million deferred tax expense.

Net Earnings

The Company recorded Net earnings of $419.2 million, or $6.45 per share, compared to Net earnings of $3.2 million, or $0.05 per share in Q2’20. Operating margins and Net earnings were positively impacted by higher lumber prices and higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company’s NCIB.

Summary of Year-to-Date 2021 Financial Performance

Sales

Interfor recorded $1.9 billion of total sales, up 122.4% from $876.4 million in the first half of 2020, driven by the sale of 1.4 billion board feet of lumber at an average price of $1,286 per mfbm. Average selling price increased $670 per mfbm, or 108.8%, while lumber sales volume increased 240 million board feet, or 21.1%, as compared to the first six months of 2020.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD’21 as compared to YTD’20. The Western SPF Composite and SYP Composite benchmarks increased US$762 to US$1,127 per mfbm and US$582 to US$972 per mfbm, respectively. The KD HF Stud 2x4 9’ benchmark increased US$963 to US$1,386 per mfbm for YTD’21 as compared to YTD’20. Realized lumber prices were slightly offset in Canadian Dollar terms by the 8.7% strengthening of the Canadian Dollar against the U.S. Dollar in YTD’21 as compared to YTD’20.

Sales generated from logs, residual products and other decreased by $1.3 million or 0.7% as compared to the same period of 2020 due mainly to reduced availability of surplus logs.

Operations

Production costs increased by $129.1 million or 17.0% over the first half of 2021, explained by an increase of 21.1% in lumber sales volume and accruals for short term incentive compensation partially offset by a stronger Canadian Dollar on average versus YTD’20.

Lumber production of 1.4 billion board feet in YTD’21 was 355 million board feet higher than YTD’20.

Production from the Canadian operations increased by 98 million board feet to 399 million board feet in YTD’21, compared to YTD’20 during which temporary COVID-19 related curtailments were taken. Production from the Company’s U.S. South sawmills totaled 725 million board feet in YTD’21, up 183 million board feet compared to YTD’20, due to increased operating schedules related to market demand and the Summerville sawmill acquisition. Additionally, production from the U.S. South sawmills in YTD’20 was impacted by COVID-19 related curtailments and project-related downtime. Production from the Company’s U.S. Northwest operations totaled 278 million board feet in YTD’21, up 73 million board feet compared to YTD’20, due to increased operating schedules, higher productivity from the U.S. Northwest stud mills and COVID-19 related curtailments in YTD’20 offset by the sale of the sawmill in Gilchrist, Oregon in Q4’20.

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 $31.6 million for YTD’21, up $13.6 million from YTD’20. The increase is due to higher lumber sales prices and higher shipments to the U.S. from Canadian sawmills partially offset by lower cash deposit rates as compared to YTD’20.

Depreciation of plant and equipment was $44.2 million, up 23.9% from the first half of 2020, due primarily to increased operating schedules and the start-up of completed capital projects in the U.S. South. Depletion and amortization of timber, roads and other was $13.6 million, down $5.0 million from YTD’20 primarily due to decreased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $25.0 million, up $6.3 million from the first half of 2020, primarily as a result of accruals for short term incentive compensation and costs related to various information technology system implementations.

The $18.8 million long term incentive compensation expense reflects the impact of a 27.0% increase during YTD'21 in the price of Interfor Common Shares used to value share-based awards and adjustments to awards to reflect the special cash dividend. The $3.3 million long term incentive compensation recovery in YTD'20 reflects the impact of a 27.0% decrease in the market price of Interfor common shares used to value share-based awards, partially offset by incentive awards maturing.

Asset write-downs and restructuring costs in YTD'21 totalled $2.4 million, primarily related to non-cash impairments for asset write-downs on certain plant and equipment in the U.S. South as part of strategic capital projects in the region. The YTD'20 restructuring charges totalled $0.5 million primarily associated with Hammond closure activities.

Finance costs decreased to $9.0 million from $9.3 million in the first half of 2020 primarily due to interest income relating to the long-term duties receivable recorded in Q4 2020 as a result of the CV and AD duties rate finalization.

Other foreign exchange loss of $7.0 million in YTD'21 and $5.8 million in YTD'20 result primarily from the period-end revaluations of U.S. Dollar cash held by Canadian operations. Interfor held higher U.S. Dollar cash balances on average in YTD'21 as compared to YTD'20 due to the strong cash flow from operations during YTD'21.

Other income of $1.0 million in YTD'21 primarily resulted from the sale of surplus land on the B.C. Coast partially offset by losses on disposal of surplus equipment. Other income of $0.5 million in YTD'20 resulted primarily from the gains recognized as a result of compensation received on the extinguishment of timber licenses on the BC. Coast.

Income Taxes

The Company recorded income tax expense of $225.2 million in YTD'21 at an effective tax rate of 25%, comprised of $218.3 million in current tax expense and $6.9 million in deferred tax expense. The YTD'20 income tax expense of $3.8 million, at an effective tax rate of 28%, is comprised of a $0.1 million current tax expense and $3.6 million deferred tax expense.

Net Earnings

The Company recorded Net earnings of $683.7 million, or $10.45 per share, compared to Net earnings of $9.5 million, or $0.14 per share, in the same period of 2020. Operating margins and Net earnings were positively impacted by higher lumber prices and higher sales volumes. Net earnings per share was positively impacted by share purchases under the Company's NCIB.

Summary of Quarterly Results[1]

	Unit	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4	2019 Q3
Financial Performance[2]									
Total sales	$MM	1,099.7	849.3	662.3	644.9	396.8	479.6	456.8	486.5
Lumber	$MM	1,012.9	762.4	575.0	562.4	322.1	379.3	385.2	403.5
Logs, residual products and other	$MM	86.8	86.9	87.3	82.5	74.7	100.3	71.6	83.0
Operating earnings (loss)	$MM	568.3	355.6	203.2	171.4	13.3	14.6	(49.0)	(44.8)
Net earnings (loss)	$MM	419.2	264.5	149.1	121.6	3.2	6.3	(41.7)	(35.6)
Net earnings (loss) per share, basic	$/share	6.45	4.01	2.24	1.81	0.05	0.09	(0.62)	(0.53)
Adjusted net earnings (loss)[3]	$MM	433.5	270.6	164.7	140.0	10.6	0.7	(17.4)	(11.8)
Adjusted net earnings (loss) per share, basic[3]	$/share	6.67	4.11	2.47	2.08	0.16	0.01	(0.26)	(0.17)
Operating cash flow per share (before working capital changes)[3]	$/share	7.46	5.73	3.05	3.20	0.56	0.57	0.25	0.03
Adjusted EBITDA[3]	$MM	611.3	392.1	248.6	221.7	42.8	36.6	17.6	16.8
Adjusted EBITDA margin[3]	%	55.6%	46.2%	37.5%	34.4%	10.8%	7.6%	3.9%	3.5%
Annualized return on capital employed[3]	%	110.8%	79.2%	48.4%	45.6%	2.4%	4.0%	(16.0%)	(13.6%)
Shares outstanding - end of period	million	63.6	65.3	66.0	67.3	67.3	67.3	67.3	67.3
Shares outstanding - weighted average	million	65.0	65.9	66.7	67.3	67.3	67.3	67.3	67.3
Operating Performance									
Lumber production	million fbm	716	687	687	642	421	627	668	685
Total lumber sales	million fbm	714	666	683	618	499	641	681	692
Lumber sales - Interfor produced	million fbm	713	662	675	609	488	632	671	681
Lumber sales - wholesale and commission	million fbm	1	4	8	9	11	9	10	11
Lumber - average selling price[4]	$/thousand fbm	1,419	1,143	842	910	646	592	566	583
Average USD/CAD exchange rate[5]	1 USD in CAD	1.2282	1.2660	1.3030	1.3321	1.3862	1.3449	1.3200	1.3204
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.2394	1.2575	1.2732	1.3339	1.3628	1.4187	1.2988	1.3243

Notes:

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

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

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

The Hammond sawmill closure reduced lumber production and sales commencing in Q4'19, and the sale of the sawmill in Gilchrist, Oregon reduced lumber production and sales commencing in Q4'20. The Summerville sawmill acquisition increased lumber production and sales commencing in Q1'21.

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. Asset impairments resulting from the sale of the sawmill in Gilchrist, Oregon affected results in Q4'20.

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, 2021 was $(490.7) million, or (46.1)% of invested capital, representing a decrease of $415.3 million from the level of Net debt at December 31, 2020.

As at June 30, 2021 the Company had net working capital of $991.5 million and available liquidity of $1.2 billion, based on the full borrowing capacity under its $350 million Revolving Term Line.

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

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

	For the 3 months ended Jun. 30,		For the 6 months ended Jun. 30,	
Thousands of Dollars	2021	2020	2021	2020
Net debt				
Net debt, period opening	$(235,966)	$322,036	$(75,432)	$224,860
(Repayment) issuance of Senior Secured Notes	(6,671)	-	(6,671)	140,770
Revolving Term Line net repayments	-	-	-	(59)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(5,473)	(16,770)	(10,183)	8,370
Increase in cash and cash equivalents	(251,402)	(71,640)	(413,569)	(140,624)
Impact on U.S. Dollar denominated cash and cash equivalents from strengthening CAD	8,830	5,488	15,173	5,798
Net debt, period ending	$(490,682)	$239,114	$(490,682)	$239,114

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 $862.2 million of cash flow from operations before changes in working capital in YTD'21, for an increase of $786.2 million over YTD'20. There was a net cash inflow from operations after changes in working capital of $769.8 million in YTD'21, with $92.4 million of cash invested in operating working capital.

Higher lumber prices contributed to the $72.6 million outflow related to trade receivables and seasonally higher log inventories in B.C. contributed to the $33.2 million outflow for inventories. Higher taxable income resulted in income tax installment payments of $129.8 million in YTD'21. Income taxes payable increased by $84.8 million YTD'21, with payment of this expected to occur in installments over the remaining quarters of 2021 and in 2022.

In YTD'20, $76.0 million of cash was generated from operations, with $46.3 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $136.6 million in YTD'21, with $73.6 million for the acquisition of sawmill operations in Summerville, South Carolina from WestRock Company, $62.6 million for plant and equipment and $7.2 million for development of roads and bridges, partially offset by $6.0 million in proceeds on disposal of property, plant and equipment.

Discretionary mill improvements of $42.9 million in YTD'21 were mainly focused on a new kiln at the Adams Lake, BC sawmill and the ongoing multi-year rebuild of the Eatonton, Georgia sawmill.

Maintenance capital investments excluding roads totaled $19.7 million in YTD'21.

In YTD'20, investing activities were $107.7 million, 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 and maintenance mill improvements totalled $40.1 million and $5.9 million, respectively, in YTD'20, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of $219.7 million in YTD'21 resulted from the $130.6 million special cash dividend payment, $69.7 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 $8.4 million and $6.6 million, respectively.

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.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 2021:

Thousands of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit and maximum borrowing available	$350,000	$365,106	$715,106
Less:			
Drawings	-	365,106	365,106
Outstanding letters of credit included in line utilization	22,236	-	22,236
Unused portion of facility	$327,764	$ -	327,764
Add:			
Cash and cash equivalents			855,788
Available liquidity at June 30, 2021			$1,183,552

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, 2021, the Company had commitments for capital expenditures totaling $78.5 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, 2021.

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, 2021, such instruments aggregated $62.3 million (December 31, 2020 - $62.8 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 Q2'21 or Q2'20.

Outstanding Shares

As of August 5, 2021, Interfor had 63,288,593 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of August 5, 2021, there were 530,818 stock options outstanding with exercise prices ranging from $9.78 to $25.52 per common share.

On November 5, 2020, the Company announced a NCIB whereby it can purchase for cancellation up to 5,981,751 common shares. During the first half of 2021, Interfor purchased 2,463,190 common shares at a cost of $69.7 million and cancelled 2,180,710 of these common shares, with the remaining 282,480 common shares cancelled in July 2021. No common shares were purchased in 2020 under the Company's prior NCIB that expired on March 6, 2020.

Controls and Procedures

During the six months ended June 30, 2021, the Company included the design of disclosure controls and procedures ("DC&P") and internal controls over financial reporting ("ICFR") for its Summerville operations within its ICFR framework. Based on procedures performed, there were no matters arising that materially affected, or would be reasonably likely to materially affect, the design and/or operating effectiveness of such controls for the Company, when taken as a whole.

Other than the aforementioned, there were no changes in the Company's DC&P and ICFR during the three and six months ended June 30, 2021 that materially affected, or would be reasonably likely to materially affect, such controls.

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, 2021. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2020, 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, 2021, and have not been applied in preparing the Company's unaudited condensed consolidated interim financial statements. None of these are expected to have a significant effect on future financial statements.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes), and Annualized return on 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 3 months ended Jun. 30 2021	 Jun. 30 2020	 Mar. 31 2021	For the 6 months ended Jun. 30 2021	 Jun. 30 2020
Adjusted Net Earnings					
Net earnings	$419,241	$3,235	$264,487	$683,728	$9,544
Add:					
Asset write-downs and restructuring costs	2,213	115	142	2,355	486
Other foreign exchange loss	4,645	4,963	2,346	6,991	5,812
Long term incentive compensation expense (recovery)	11,145	5,629	7,670	18,815	(3,317)
Other expense (income)	1,045	(586)	(1,996)	(951)	(471)
Post closure wind-down costs	251	-	224	475	-
Income tax effect of above adjustments	(4,991)	(2,712)	(2,229)	(7,220)	(669)
Adjusted net earnings	$433,549	$10,644	$270,644	$704,193	$11,385
Weighted average number of shares - basic ('000)	*64,984*	*67,260*	*65,927*	*65,453*	*67,260*
Adjusted net earnings per share	$6.67	$0.16	$4.11	$10.76	$0.17
Adjusted EBITDA					
Net earnings	$419,241	$3,235	$264,487	$683,728	$9,544
Add:					
Depreciation of plant and equipment	22,717	15,601	21,474	44,191	35,662
Depletion and amortization of timber, roads and other	6,669	8,108	6,968	13,637	18,638
Finance costs	4,437	5,185	4,524	8,961	9,281
Income tax expense	138,922	563	86,256	225,178	3,768
EBITDA	591,986	32,692	383,709	975,695	76,893
Add:					
Long term incentive compensation expense (recovery)	11,145	5,629	7,670	18,815	(3,317)
Other foreign exchange loss	4,645	4,963	2,346	6,991	5,812
Other expense (income)	1,045	(586)	(1,996)	(951)	(471)
Asset write-downs and restructuring costs	2,213	115	142	2,355	486
Post closure wind-down costs	251	-	224	475	-
Adjusted EBITDA	$611,285	$42,813	$392,095	$1,003,380	$79,403
Sales	$1,099,670	$396,778	$849,307	$1,948,977	$876,424
Adjusted EBITDA margin	55.6%	10.8%	46.2%	51.5%	9.1%
Net debt to invested capital					
Net debt					
Total debt	$365,106	$408,840	$377,250	$365,106	$408,840
Cash and cash equivalents	(855,788)	(169,726)	(613,216)	(855,788)	(169,726)
Total net debt	$(490,682)	$239,114	$(235,966)	$(490,682)	$239,114
Invested capital					
Net debt	$(490,682)	$239,114	$(235,966)	$(490,682)	$239,114
Shareholders' equity	1,554,205	869,443	1,322,222	1,554,205	869,443
Total invested capital	$1,063,523	$1,108,557	$1,086,256	$1,063,523	$1,108,557
Net debt to invested capital[1]	(46.1%)	21.6%	(21.7%)	(46.1%)	21.6%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$484,723	$103,003	$285,080	$769,803	$122,322
Cash (generated from) used in operating working capital	(249)	(65,433)	92,604	92,355	(46,324)
Operating cash flow (before working capital changes)	$484,474	$37,570	$377,684	$862,158	$75,998
Weighted average number of shares - basic ('000)	*64,984*	*67,260*	*65,927*	*65,453*	*67,260*
Operating cash flow per share (before working capital changes)	$7.46	$0.56	$5.73	$13.17	$1.13
Annualized return on capital employed					
Net earnings	$419,241	$3,235	$264,487	$683,728	$9,544
Add:					
Finance costs	4,437	5,185	4,524	8,961	9,281
Income tax expense	138,922	563	86,256	225,178	3,768
Earnings before income taxes and finance costs	$562,600	$8,983	$355,267	$917,867	$22,593
Capital Employed					
Total assets	$2,409,388	$1,538,824	$2,159,692	$2,409,388	$1,538,824
Current liabilities	(285,081)	(155,036)	(263,526)	(285,081)	(155,036)
Less:					
Current portion of long term debt	6,713	7,381	6,811	6,713	7,381
Current portion of lease liabilities	11,758	11,210	12,169	11,758	11,210
Capital employed, end of period	$2,142,778	$1,402,379	$1,915,146	$2,142,778	$1,402,379
Capital employed, beginning of period	1,915,146	1,431,579	1,672,103	1,672,103	1,214,375
Average capital employed	$2,028,962	$1,416,979	$1,793,624	$1,907,441	$1,308,377
Earnings before income taxes and finance costs divided by average capital employed	27.7%	0.6%	19.8%	48.1%	1.7%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on capital employed	110.8%	2.4%	79.2%	96.2%	3.4%

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: a public health crisis; price volatility; competition; availability and cost of log supply; natural or man-made disasters; currency exchange sensitivity; government regulation; allowable annual cut; indigenous peoples; barriers to lumber trade between Canada and the U.S.; stumpage fees; 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, 2020, filed under the Company's profile on www.sedar.com.

Additional Information

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

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the three and six months ended June 30, 2021 and 2020 (unaudited)

(thousands of Canadian Dollars except earnings per share)	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Sales (note 14)	$ 1,099,670	$ 396,778	$ 1,948,977	$ 876,424
Costs and expenses:				
Production	457,329	337,134	889,496	760,362
Selling and administration	12,136	9,444	25,015	18,672
Long term incentive compensation expense (recovery)	11,145	5,629	18,815	(3,317)
U.S. countervailing and anti-dumping duty deposits (note 16)	19,171	7,387	31,561	17,987
Depreciation of plant and equipment (note 10)	22,717	15,601	44,191	35,662
Depletion and amortization of timber, roads and other (note 10)	6,669	8,108	13,637	18,638
	529,167	383,303	1,022,715	848,004
Operating earnings before asset write-downs and restructuring costs	570,503	13,475	926,262	28,420
Asset write-downs and restructuring costs (note 11)	2,213	115	2,355	486
Operating earnings	568,290	13,360	923,907	27,934
Finance costs (note 12)	(4,437)	(5,185)	(8,961)	(9,281)
Other foreign exchange loss	(4,645)	(4,963)	(6,991)	(5,812)
Other (expense) income	(1,045)	586	951	471
	(10,127)	(9,562)	(15,001)	(14,622)
Earnings before income taxes	558,163	3,798	908,906	13,312
Income tax expense (recovery)				
Current	135,140	(193)	218,313	136
Deferred	3,782	756	6,865	3,632
	138,922	563	225,178	3,768
Net earnings	$ 419,241	$ 3,235	$ 683,728	$ 9,544
Net earnings per share				
Basic (note 13)	$ 6.45	$ 0.05	$ 10.45	$ 0.14
Diluted (note 13)	$ 6.43	$ 0.05	$ 10.42	$ 0.14

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

For the three and six months ended June 30, 2021 and 2020 (unaudited)

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Net earnings	$ 419,241	$ 3,235	$ 683,728	$ 9,544
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial gain (loss), net of tax	1,110	(543)	5,582	(1,256)
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	(8,876)	(16,400)	(17,763)	29,683
Total other comprehensive (loss) income, net of tax	(7,766)	(16,943)	(12,181)	28,427
Comprehensive income (loss)	$ 411,475	$ (13,708)	$ 671,547	$ 37,971

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six months ended June 30, 2021 and 2020 (unaudited)

(thousands of Canadian Dollars)	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 419,241	$ 3,235	$ 683,728	$ 9,544
Items not involving cash:				
Depreciation of plant and equipment (note 10)	22,717	15,601	44,191	35,662
Depletion and amortization of timber, roads and other (note 10)	6,669	8,108	13,637	18,638
Deferred income tax expense	3,782	756	6,865	3,632
Current income tax expense (recovery)	135,140	(193)	218,313	136
Finance costs (note 12)	4,437	5,185	8,961	9,281
Other assets	655	(450)	224	486
Reforestation liability	(1,187)	(4,616)	(691)	(1,850)
Provisions and other liabilities	6,392	4,993	6,887	(5,300)
Stock options	167	234	363	490
Write-down (recovery) of plant and equipment (note 11)	2,035	(53)	2,035	(53)
Unrealized foreign exchange loss	5,406	5,350	8,417	5,791
Other expense (income)	1,045	(586)	(951)	(471)
Income taxes (paid) refunded	(122,025)	6	(129,821)	12
	484,474	37,570	862,158	75,998
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(4,741)	(6,164)	(72,600)	(29,577)
Inventories	(8,873)	65,968	(33,225)	67,323
Prepayments	(1,428)	4,020	(4,776)	1,907
Trade accounts payable and provisions	15,291	1,609	18,246	6,671
	484,723	103,003	769,803	122,322
Investing activities:				
Additions to property, plant and equipment	(36,263)	(21,116)	(62,594)	(45,988)
Additions to roads and bridges	(4,312)	(2,439)	(7,197)	(5,143)
Acquisitions (note 6)	-	-	(73,630)	(56,606)
Proceeds on disposal of property, plant and equipment and other	283	705	5,976	867
Net proceeds from (additions to) deposits and other assets	725	(681)	882	(879)
	(39,567)	(23,531)	(136,563)	(107,749)
Financing activities:				
Issuance of share capital, net of expenses (note 9)	401	-	2,346	-
Share repurchases (note 9)	(49,435)	-	(69,738)	-
Dividend paid (note 9)	(130,625)	-	(130,625)	-
Interest payments	(4,161)	(4,751)	(8,419)	(8,509)
Lease liability payments	(3,263)	(3,074)	(6,564)	(6,008)
Debt refinancing costs	-	(7)	-	(143)
Term line net repayments	-	-	-	(59)
Additions to long term debt (note 8)	-	-	-	140,770
Repayments of long term debt (note 8)	(6,671)	-	(6,671)	-
	(193,754)	(7,832)	(219,671)	126,051
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(8,830)	(5,488)	(15,173)	(5,798)
Increase in cash	242,572	66,152	398,396	134,826
Cash and cash equivalents, beginning of period	613,216	103,574	457,392	34,900
Cash and cash equivalents, end of period	$ 855,788	$ 169,726	$ 855,788	$ 169,726

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2021 and December 31, 2020 (unaudited)

(thousands of Canadian Dollars)	Jun. 30, 2021	Dec. 31, 2020
Assets		
Current assets:		
Cash and cash equivalents	$ 855,788	$ 457,392
Trade accounts receivable and other	184,971	117,371
Income tax receivable	76	169
Inventories (notes 6 and 7)	197,006	160,188
Prepayments	21,869	17,970
Assets held for sale (note 5)	16,849	-
	1,276,559	753,090
Employee future benefits	6,136	106
Deposits and other assets	46,855	48,957
Right of use assets	35,016	35,471
Property, plant and equipment (note 6)	763,243	729,163
Roads and bridges (note 6)	24,705	22,379
Timber licences (note 6)	113,075	114,953
Goodwill and other intangible assets (note 6)	142,895	138,838
Deferred income taxes	904	230
	$ 2,409,388	$ 1,843,187
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 162,293	$ 150,509
Current portion of long term debt (notes 8 and 15)	6,713	6,897
Reforestation liability	15,076	16,181
Lease liabilities	11,758	11,745
Income taxes payable	89,241	4,394
	285,081	189,726
Reforestation liability	29,214	29,735
Lease liabilities	27,795	28,541
Long term debt (notes 8 and 15)	358,393	375,063
Employee future benefits	9,595	11,137
Provisions and other liabilities	34,068	26,637
Deferred income taxes	111,037	102,036
Equity:		
Share capital (note 9)	507,092	523,605
Contributed surplus	4,483	5,157
Translation reserve	32,083	49,846
Retained earnings	1,010,547	501,704
	1,554,205	1,080,312
	$ 2,409,388	$ 1,843,187

U.S. countervailing and anti-dumping duty deposits (note 16)
Subsequent events (note 5 and 17)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board of Directors:

"L. Sauder"
Director

"T. V. Milroy"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the six months ended June 30, 2021 and 2020 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at December 31, 2020	$ 523,605	$ 5,157	$ 49,846	$ 501,704	$ 1,080,312
Net earnings:	-	-	-	683,728	683,728
Other comprehensive income (loss):					
Foreign currency translation differences for foreign operations, net of tax	-	-	(17,763)	-	(17,763)
Defined benefit plan actuarial gain, net of tax	-	-	-	5,582	5,582
Contributions and distributions:					
Share issuance, net of expenses (note 9)	3,383	(1,037)	-	-	2,346
Share repurchases (note 9)	(19,896)	-	-	(49,842)	(69,738)
Stock options (note 9)	-	363	-	-	363
Dividend (note 9)	-	-	-	(130,625)	(130,625)
Balance at June 30, 2021	$ 507,092	$ 4,483	$ 32,083	$ 1,010,547	$ 1,554,205
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

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, 2021 and 2020 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, 2020.

These financial statements were approved by Interfor's Board of Directors on August 5, 2021.

(b) Basis of measurement:

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

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

(ii) Equity-settled share-based compensation 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 changes during the quarter ended June 30, 2021. Interfor's critical accounting estimates are described in its financial statements for the year ended December 31, 2020, 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, 2020 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, 2021, and have not been applied in preparing these financial statements. None of these are expected to have a significant effect on future financial statements.

4. Seasonality of operating results:

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

5. Assets held for sale:

As at June 30, 2021, the Company has classified $16,849,000 of the Hammond sawmill property, plant and equipment as assets held for sale. In accordance with IFRS, the property, plant and equipment assets are no longer amortized.

On July 21, 2021, the Company completed the sale of property, plant and equipment at its former Hammond sawmill located in Maple Ridge, British Columbia for total net cash proceeds of $40,000,000.

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

6. Acquisitions:

a) Summerville sawmill acquisition:

On March 12, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of sawmill operations in Summerville, South Carolina from WestRock Company, pursuant to an Asset Purchase Agreement for total consideration of US$58,618,000 ($73,630,000). The cash purchase price was funded from cash on hand.

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

Cash purchase price	$	73,630
Net assets acquired:		
Inventory	$	10,174
Property, plant and equipment		55,414
Goodwill		8,137
Liabilities assumed		(95)
	$	73,630

b) 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

7. Inventories:

		Jun. 30, 2021		Dec. 31, 2020
Lumber	$	104,907	$	80,927
Logs		62,262		54,810
Other		29,837		24,451
	$	197,006	$	160,188

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down to record inventory at the lower of cost and net realizable value at June 30, 2021 was $3,031,000 (December 31, 2020 - $4,319,000).

8. Borrowings:

June 30, 2021		Revolving Term Line		Senior Secured Notes		Total
Available line of credit	$	350,000	$	365,106	$	715,106
Drawings		-		365,106		365,106
Outstanding letters of credit		22,236		-		22,236
Unused portion of Revolving Term Line	$	327,764	$	-	$	327,764

December 31, 2020		Revolving Term Line		Senior Secured Notes		Total
Available line of credit	$	350,000	$	381,960	$	731,960
Drawings		-		381,960		381,960
Outstanding letters of credit		19,887		-		19,887
Unused portion of Revolving Term Line	$	330,113	$	-	$	330,113

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

8. Borrowings (continued):

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

Twelve months ending	
June 30, 2022	$ 6,713
June 30, 2023	6,714
June 30, 2024	41,313
June 30, 2025	41,313
June 30, 2026	41,314
Thereafter	227,739
	$ 365,106

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

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Drawings at opening	$ 377,250	$ 425,610	$ 381,960	$ 259,760
Term Line net repayments	-	-	-	(59)
Additions to long term debt	-	-	-	140,770
Repayments of long term debt	(6,671)	-	(6,671)	-
Effects of changes in foreign exchange rates	(5,473)	(16,770)	(10,183)	8,369
Drawings at June 30	$ 365,106	$ 408,840	$ 365,106	$ 408,840

(a) Revolving Term 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, 2021, the Term Line was drawn by letters of credit of $17,330,000 (December 31, 2020 - $14,811,000) and US$3,959,000 (December 31, 2020 - US$3,987,000), revalued at the quarter-end exchange rate to $4,906,000 (December 31, 2020 - $5,076,000), for total outstanding letters of credit of $22,236,000 (December 31, 2020 - $19,887,000).

(b) Senior Secured Notes:

As at June 30, 2021, the Company's Senior Secured Notes consisted of the following:

	Jun. 30, 2021	Dec. 31, 2020
Series A (US$4,450,000) bearing interest at 4.33%	$ 3,677	$ 5,666
Series B (US$11,800,000) bearing interest at 4.02%	9,750	15,024
Series C (US$100,000,000) bearing interest at 4.17%	123,940	127,320
Series D (US$45,550,000) bearing interest at 4.95%	56,454	57,994
Series E (US$38,200,000) bearing interest at 4.82%	47,345	48,636
Series F (US$50,000,000) bearing interest at 3.34%	61,970	63,660
Series G (US$50,000,000) bearing interest at 3.25%	61,970	63,660
	$ 365,106	$ 381,960

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, 2022 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 gains of $10,183,000 in the first six months, 2021 (first six months, 2020 - $8,310,000 loss) and $5,473,000 in the second quarter, 2021 (Quarter 2, 2020 - $16,770,000) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

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

9. Share capital:

The transactions in share capital are described below:

	Number	Amount	Contributed Surplus
Balance, December 31, 2019	67,259,959	$ 533,685	$ 4,471
Exercise of stock options	31,614	598	(180)
Repurchase of common shares	(1,327,420)	(10,678)	-
Stock options	-	-	866
Balance, December 31, 2020	65,964,153	$ 523,605	$ 5,157
Exercise of stock options	138,710	3,383	(1,037)
Repurchase of common shares	(2,463,190)	(19,896)	-
Stock options	-	-	363
Balance, June 30, 2021	63,639,673	$ 507,092	$ 4,483

On November 5, 2020, the Company announced a normal course issuer bid ("NCIB") commencing on November 11, 2020 and ending on November 10, 2021, for the purchase of up to 5,981,751 common shares.

During the first six months of 2021, Interfor purchased 2,463,190 common shares at an average price of $28.31 per share for a cost of $69,738,000 with $19,896,000 charged against Share capital, based on the average per share amount for common shares in that account as at the transaction date, and the balance of $49,842,000 to Retained earnings. 2,180,710 of these common shares were cancelled as at June 30, 2021, with the remaining 282,480 cancelled in July 2021.

No common shares were purchased in 2020 under the Company's prior NCIB that expired on March 6, 2020.

On May 12, 2021, Interfor's Board of Directors declared a one-time special cash dividend of $2.00 per share, which was paid on June 28, 2021 to shareholders of record on May 28, 2021. The special dividend resulted in an aggregate distribution of $130,625,000. The dividend was funded from cash on hand.

10. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function is as follows:

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Production	$ 28,929	$ 23,060	$ 56,897	$ 53,028
Selling and administration	457	649	931	1,272
	$ 29,386	$ 23,709	$ 57,828	$ 54,300

11. Asset write-downs and restructuring costs:

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Write-down (reversal of write-down) of plant and equipment	$ 2,035	$ (53)	$ 2,035	$ (53)
Severance and other closure costs	178	168	320	539
	$ 2,213	$ 115	$ 2,355	$ 486

12. Finance costs:

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Interest expense on:				
Borrowings	$ 4,130	$ 4,627	$ 8,288	$ 8,304
Lease liabilities	378	467	789	967
Pension obligations	590	603	1,156	1,204
Interest revenue from:				
Duty deposits and other	(521)	(330)	(912)	(646)
Pension assets	(353)	(330)	(708)	(908)
Unwind of discount on provisions	135	68	191	202
Amortization of deferred finance costs	78	80	157	158
	$ 4,437	$ 5,185	$ 8,961	$ 9,281

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

13. Net earnings per share:

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

	Three Months Jun. 30, 2021			Three Months Jun. 30, 2020		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at March 31		65,306,539			67,259,959	
Effect of shares issued		7,029			-	
Effect of shares repurchased		(329,191)			-	
Basic earnings per share	$ 419,241	64,984,377	$ 6.45	$ 3,235	67,259,959	$ 0.05
Effect of dilutive securities:						
Stock options		203,520			-	
Diluted earnings per share	$ 419,241	65,187,897	$ 6.43	$ 3,235	67,259,959	$ 0.05

	Six Months Jun. 30, 2021			Six Months Jun. 30, 2020		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		65,964,153			67,259,959	
Effect of shares issued		84,913			-	
Effect of shares repurchased		(595,760)			-	
Basic earnings per share	$ 683,728	65,453,306	$ 10.45	$ 9,544	67,259,959	$ 0.14
Effect of dilutive securities:						
Stock options		183,582			-	
Diluted earnings per share	$ 683,728	65,636,888	$ 10.42	$ 9,544	67,259,959	$ 0.14

14. Segmented information:

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

Sales by market are as follows:

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
United States	$ 957,073	$ 284,350	$ 1,676,490	$ 624,214
Canada	103,485	67,309	201,924	161,990
Japan	16,112	21,028	26,937	42,244
China/Taiwan	9,259	15,148	18,253	27,024
Other export	13,741	8,943	25,373	20,952
	$ 1,099,670	$ 396,778	$ 1,948,977	$ 876,424

Sales by product line are as follows:

	Three Months Jun. 30, 2021	Three Months Jun. 30, 2020	Six Months Jun. 30, 2021	Six Months Jun. 30, 2020
Lumber	$ 1,012,946	$ 322,142	$ 1,775,308	$ 701,431
Logs	34,628	42,840	67,766	98,296
Wood chips and other by products	42,416	27,896	82,642	70,615
Freight and other	9,680	3,900	23,261	6,082
	$ 1,099,670	$ 396,778	$ 1,948,977	$ 876,424

15. Financial instruments:

At June 30, 2021, the fair value of the Company's Long term debt exceeded its carrying value by $32,439,000 (December 31, 2020 - $27,915,000) 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, 2021, the Company had no outstanding obligations under derivative financial instruments.

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

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

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

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

The CV duties cash deposit rate was initially imposed at 19.88% and subsequently amended to 14.19%. The AD duties cash deposit rate was initially imposed at 6.87% and subsequently amended to 6.04%. During the fourth quarter 2020, the DoC published the final CV and AD duties rates based on the results of its first administrative review of shipments for the years ended December 31, 2017 and 2018.

On May 21, 2021, the DoC issued its preliminary revised CV and AD duty rates based on completion of its second administrative review for the year ended December 31, 2019. The DoC may further amend these preliminary revised duty rates at any time, with final rate determinations expected to be published in the fourth quarter 2021. At such time, the final rates determined will be applied to new lumber shipments.

The following table summarizes the cash deposit rates that were in effect and the preliminary and final revised rates for those periods:

Year ended December 31 First administrative review	Cash deposit rates in effect	Final revised rates
2017		
AD	6.04%	1.57%
CV	14.19%	7.26%
Total	20.23%	8.83%
2018		
AD	6.04%	1.57%
CV	14.19%	7.42%
Total	20.23%	8.99%
Second administrative review	Cash deposit rates in effect	Preliminary revised rates
2019		
AD	6.04%	12.05%
CV	14.19%	6.27%
Total	20.23%	18.32%

The final AD and CV duties rates for the first administrative review were published November 30, 2020 and December 1, 2020 respectively, and starting on these dates the final 2018 AD and CV duty rates of 1.57% and 7.42% respectively, were applied as the cash deposit rates to new lumber shipments.

The finalization of the rates in the fourth quarter of 2020 indicated an overpayment of duty deposits in 2017 and 2018 of US$32,931,000 of which US$3,187,000 was recorded in a prior year and US$29,744,000 in 2020.

As at June 30, 2021, Interfor has a long term receivable of US$32,931,000 (December 31, 2020 - US$32,931,000) in Deposits and other assets on the Statements of Financial Position, revalued at the quarter-end exchange rate to $40,814,000 (December 31, 2020 - $41,927,000). Interfor has recorded interest on the long term receivable of US$2,395,000 (December 31, 2020 - US$2,224,000) in Deposits and other assets on the Statements of Financial Position, revalued at the quarter-end exchange rate to $2,968,000 (December 31, 2020 - $2,832,000).

Interfor paid duties of US$18,424,000 in 2017, US$42,016,000 in 2018, US$33,765,000 in 2019, US$39,761,000 in 2020 and US$24,247,000 in the first six months of 2021, all of which remain held in trust by U.S. Customs and Border Protection. With the exception of US$32,931,000 (December 31, 2020 – US$32,931,000) recorded as a long term receivable, Interfor has recorded the duty deposits as an expense.

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, USMCA or WTO panels to which the DoC and ITC determinations may be appealed.

17. Subsequent event:

On July 9, 2021, a wholly-owned subsidiary of Interfor concluded the acquisition of four sawmill operations located in Bay Springs, MS, Fayette, AL, DeQuincy, LA and Philomath, OR from Georgia-Pacific Wood Products LLC and GP Wood Products LLC. The Company paid total consideration of US$371,976,000 ($466,458,000), which was funded from cash on hand.

INTERFOR

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