INTERFOR

Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2019

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations as at and for the three and six months ended June 30, 2019 ("Q2'19" and "YTD'19", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three and six months ended June 30, 2019, 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 8, 2019.

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 2018 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, 2019", "Strategic Capital Plan Update", "Acquisition of B.C. Interior Cutting Rights from Canfor", "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 2018 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; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2018 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, 2019

Interfor recorded a net loss in Q2'19 of $11.2 million, or $0.17 per share, compared to a net loss of $15.3 million, or $0.23 per share in Q1'19 and net earnings of $63.7 million, or $0.91 per share in Q2'18. Adjusted net loss in Q2'19 was $16.2 million compared to an Adjusted net loss of $12.7 million in Q1'19 and Adjusted net earnings of $68.9 million in Q2'18.

Adjusted EBITDA was $12.6 million on sales of $481.3 million in Q2'19 versus $16.3 million on sales of $451.2 million in Q1'19.

Notable items in the quarter included:

- Lower Lumber Prices
  - The key benchmark prices decreased quarter-over-sequential-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' falling by US$23, US$36 and US$19 per mfbm, respectively. Interfor's average lumber selling price dropped $10 from Q1'19 to $603 per mfbm.
- Higher Shipments and Reduced Inventories
  - Total lumber production was 647 million board feet, consistent with the prior quarter. Production in the U.S. South increased slightly to 320 million board feet from 316 million board feet in the preceding quarter as capital project-related downtime at the Monticello sawmill was more than offset by higher operating rates at most mills in the region. The B.C. and U.S. Northwest regions accounted for 187 million board feet and 140 million board feet, respectively, compared to 195 million board feet and 135 million board feet in Q1'19. Production was influenced by the curtailments taken in the B.C. Interior in response to weak lumber prices and continuing high log costs.
  - Total lumber shipments were 674 million board feet, including agency and wholesale volumes, or 53 million board feet higher than Q1'19.
  - Lumber inventories at June 30, 2019 were 211 million board feet, down from 229 million board feet at March 31, 2019.
  - Interfor's operating costs were negatively impacted by an increase in its net realizable value provision for log and lumber inventories of $10.3 million in Q2'19.
- Continued Strong Financial Position
  - Net debt ended the quarter at $198.2 million, or 17.9% of invested capital, resulting in available liquidity of $392.5 million.
  - The Company generated $9.9 million of cash flow from operations before changes in working capital, or $0.15 per share.
  - Capital investments of $64.6 million in Q2'19 included $51.4 million primarily on U.S. South focused high-return discretionary projects, with the remainder related to maintenance capital and woodlands projects.
  - On June 28, 2019, the Company received compensation of $7.7 million from the Government of B.C. as settlement for the 2017 cancellation of two timber licences on the B.C. Coast, which is excluded from Adjusted EBITDA.
- Softwood Lumber Duties
  - Interfor expensed $10.8 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.
  - Cumulative duties of US$76.5 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$3.3 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Strategic Capital Plan Update

- Interfor continues to make progress on its previously announced Phase I and II strategic capital projects in the U.S. South.
- The Phase I projects at the Meldrim, Georgia and Monticello, Arkansas sawmills were completed before quarter-end and are now in the ramp-up phase. Total project costs are expected to be US$70.1 million versus the original budget of US$62.5 million. The spending overage was due to vendor delays, additional steel costs and labour issues with contractors. As of June 30, 2019, US$67.7 million has been capitalized.
- The Phase II projects at the Thomaston and Eatonton sawmills in Georgia and the Georgetown sawmill in South Carolina are on track for completion in various stages over the period of 2019 to 2022. As of June 30, 2019, US$32.0 million has been capitalized and the projects remain on budget.

Acquisition of B.C. Interior Cutting Rights from Canfor

On June 3, 2019, Interfor entered into a purchase agreement with Canadian Forest Products Ltd. to acquire 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 (the "Forestry Assets"), and assume certain liabilities relating to the Forestry Assets. The cash purchase price of $60 million will be financed from Interfor's available cash balance and/or borrowings under its existing bank credit facility.

The transaction is subject to various consents, including that by the Government of B.C. and is targeted to close in the third quarter, 2019.

By acquiring the Forestry Assets, Interfor will solidify its long-term log supply at its Adams Lake sawmill, supporting the continuation of a two-shift operating configuration at the mill in the face of declining allowable annual cuts in the region. The Forestry Assets are located adjacent to Adams Lake's woodlands operations, with log production flowing logically to the sawmill from a transportation and logistics standpoint.

Upon closing the transaction, Interfor will pursue a follow-on, high return investment opportunity by adding a new dry kiln to support additional value-added processing at the Adams Lake mill.

Interfor Appoints New Director

At its meeting today, the Interfor Board appointed Christopher Griffin of Chicago, Illinois as a director of the Company. Mr. Griffin, who is 57, is the President & CEO of USG Corporation, a global manufacturer of gypsum wallboard and other building products. Mr. Griffin's appointment increases the number of directors from ten to eleven and was made in line with the Company's Board succession plan.

Outlook

The near term demand outlook is expected to be impacted by uncertainties related to economic growth in North America as well as a traditional fall/winter seasonal slowdown that can be weather dependant. Industry curtailments and permanent closures in the B.C. Interior and U.S. Northwest should help balance supply with demand in the second half of 2019.

Interfor expects demand for lumber to continue to grow over the mid-term, particularly in the North American repair and renovation, residential and industrial segments, as well as in offshore markets.

Interfor's strategy of maintaining a diversified portfolio of lumber operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. Interfor will continue its disciplined approach to production, cost control, inventory management and capital spending. At the same time, Interfor will remain alert to growth opportunities to position the Company for long term success.

Financial and Operating Highlights[1]

	Unit	For the 3 months ended Jun. 30 2019	Jun. 30 2018	Mar. 31 2019	For the 6 months ended Jun. 30 2019	Jun. 30 2018
			(restated)[2]			(restated)[2]
Financial Highlights[3]						
Total sales	$MM	481.3	619.9	451.2	932.5	1,147.5
Lumber	$MM	406.9	527.0	380.5	787.4	972.9
Logs, residual products and other	$MM	74.4	92.9	70.7	145.1	174.6
Operating earnings (loss)	$MM	(18.2)	86.4	(16.8)	(35.0)	133.0
Net earnings (loss)	$MM	(11.2)	63.7	(15.3)	(26.5)	96.4
Net earnings (loss) per share, basic	$/share	(0.17)	0.91	(0.23)	(0.39)	1.38
Adjusted net earnings (loss)[4]	$MM	(16.2)	68.9	(12.7)	(28.9)	105.4
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.24)	0.98	(0.19)	(0.43)	1.50
Operating cash flow per share (before working capital changes)[4]	$/share	0.15	1.80	0.25	0.40	2.92
Adjusted EBITDA[4]	$MM	12.6	126.7	16.3	28.9	210.2
Adjusted EBITDA margin[4]	%	2.6%	20.4%	3.6%	3.1%	18.3%
Total assets	$MM	1,459.8	1,573.3	1,491.5	1,459.8	1,573.3
Total debt	$MM	261.7	263.4	267.3	261.7	263.4
Net debt[4]	$MM	198.2	34.4	172.7	198.2	34.4
Net debt to invested capital[4]	%	17.9%	3.4%	15.6%	17.9%	3.4%
Annualized return on invested capital[4]	%	4.6%	49.9%	6.1%	5.4%	42.6%
Operating Highlights						
Lumber production	million fbm	647	688	646	1,293	1,354
Total lumber sales	million fbm	674	700	621	1,295	1,348
Lumber sales - Interfor produced	million fbm	664	689	610	1,274	1,324
Lumber sales - wholesale and commission	million fbm	10	11	11	21	24
Lumber - average selling price[5]	$/thousand fbm	603	753	613	608	722
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3377	1.2911	1.3295	1.3336	1.2781
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3087	1.3168	1.3363	1.3087	1.3168

Notes:

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

Summary of Second Quarter 2019 Financial Performance

Sales

Interfor recorded $481.3 million of total sales, down 22.4% from $619.9 million in the second quarter of 2018, driven by the sale of 674 million board feet of lumber at an average price of $603 per mfbm. Lumber sales volume decreased 26 million board feet, or 3.7%, while average selling price decreased $150 per mfbm, or 19.9%, as compared to the same quarter of 2018.

The decrease in the average selling price of lumber reflects significantly lower prices across all benchmark products in Q2'19 as compared to Q2'18. The Western SPF Composite decreased by US$210 to US$323 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite decreased US$224 to US$338 per mfbm and US$153 to US$373 per mfbm, respectively. The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the weakening of the Canadian Dollar against the U.S. Dollar by 3.6% on average in Q2'19 as compared to Q2'18.

Sales generated from logs, residual products and other decreased by $18.5 million or 19.9% for Q2'19 compared to Q2'18 primarily as a result of a 23.5% decline in log production from B.C. operations, resulting in fewer surplus logs available for sale.

Operations

Production costs decreased by $16.6 million, or 3.6%, compared to Q2’18, explained primarily by a decline of 3.7% in lumber sales volume partially offset by market driven log cost increases and higher stumpage rates in B.C., higher conversion costs and a weaker Canadian Dollar, on average, in Q2’19 versus Q2’18.

Lumber production of 647 million board feet in Q2’19 was 41 million board feet lower than Q2’18. Production from Interfor’s B.C. operations declined by 27 million board feet from Q2’18 to 187 million board feet, affected by temporary market related reductions in operating schedules of the B.C. Interior sawmills. In Q2’18, the B.C. Interior operations were negatively impacted by seven days of downtime at the Grand Forks mill due to severe flooding in the region.

Production from the Company’s U.S. Northwest operations totaled 140 million board feet, down 8 million board feet compared to Q2’18. Production from the Company’s U.S. South sawmills totaled 320 million board feet, down 6 million board feet compared to Q2’18 with the impact of a reduced operating schedule at the Monticello sawmill during the rebuild in Q2’19 somewhat offset by increases at several other mills.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totaled $10.8 million, down $4.0 million from Q2’18. The decrease is attributable to lower shipments to the U.S. from Canadian sawmills and lower prices in Q2’19 as compared to Q2’18.

Depreciation of plant and equipment was $19.4 million, down $1.4 million compared to Q2’18, as a result of downtime related to capital projects at several of the U.S. South mills and market-related curtailments in the B.C. Interior somewhat offset by the effect of a weaker Canadian dollar. Depletion and amortization of timber, roads and other was $12.2 million, up $1.3 million from Q2’18, as amortization of higher cost B.C. Coastal logging roads was partially offset as an intangible asset recognized on acquisition of certain sawmills in U.S. South in 2014 was fully amortized in Q1’19.

Corporate and Other

Selling and administration expenses were $9.8 million, down $3.9 million from Q2’18. The second quarter of 2018 included an accrual for short term incentive compensation and certain non-recurring costs not reflected in the Q2’19 comparative.

The $0.9 million long term incentive compensation recovery mostly reflects the impact of an 11.1% decrease during the quarter in the price of Interfor Common shares used to value share-based awards, partially offset with incentive awards maturing. The long term incentive compensation expense of $4.0 million in Q2’18 resulted primarily from a 7.5% increase in the market price of Interfor Common Shares during that quarter and the impact of incentive awards maturing.

Capital asset write-downs and restructuring costs in Q2’19 were negligible. The asset write-down in Q2’18 related to non-cash impairments of certain equipment to be replaced as part of capital projects in the U.S South.

Finance costs were $3.3 million in Q2’19, consistent with Q2’18.

Other foreign exchange losses of $0.3 million in Q2’19 and gains of $1.9 million in Q2’18 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and cash held by Canadian operations. The Canadian Dollar versus the U.S. Dollar closed down 2.1% over Q2’19 (2.1% increase in Q2’18) and Interfor held lower U.S. Dollar cash balances on average in Q2’19 as compared to Q2’18.

Other income of $6.5 million in Q2’19 relates primarily to a gain recognized as a result of compensation received on the extinguishment of two timber licences on the B.C. Coast. Other expense of $0.1 million in Q2’18 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of $4.2 million in Q2’19, comprised of $0.2 million in current income tax expense offset by a $4.4 million deferred tax recovery. The Company recorded an income tax expense of $21.2 million in Q2’18, comprised of a $1.6 million current tax expense and a $19.6 million deferred tax expense.

Net Earnings (Loss)

The Company recorded a Net loss of $11.2 million, or $0.17 per share, compared to Net earnings of $63.7 million, or $0.91 per share in the comparable period of 2018. Adjusted net loss was $16.2 million, or $0.24 per share, compared with Adjusted net earnings of $68.9 million, or $0.98 per share in Q2’18.

Summary of Year-to-Date 2019 Financial Performance

Sales

Interfor recorded $0.9 billion of total sales, down 18.7% from $1.1 billion in the first half of 2018, driven by the sale of 1.3 billion board feet of lumber at an average price of $608 per mfbm. Lumber sales volume decreased 53 million board feet, or 3.9%, while average selling prices decreased $114 per mfbm, or 15.8%, as compared to the first six months of 2018.

The decrease in the average selling price of lumber reflects lower prices across all benchmark products in YTD’19 as compared to YTD’18. The Western SPF Composite and SYP Composite benchmarks decreased US$162 to US$341 per mfbm and US$105 to US$385 per mfbm, respectively. The KD HF Stud 2x4 9’ benchmark decreased US$168 to US$348 per mfbm for YTD’19 as compared to YTD’18. The negative impact of decreased U.S. Dollar lumber prices was somewhat offset by the 4.3% weakening of the Canadian Dollar against the U.S. Dollar in YTD’19 as compared to YTD’18.

Sales generated from logs, residual products and other decreased by $29.5 million or 16.9% in the first half, 2019, as compared to the same period of 2018, primarily as a result of a 28.8% decline in log production from B.C. operations, resulting in fewer surplus logs available for sale.

Operations

Production costs decreased by $20.8 million or 2.4% over the first half of 2018, explained primarily by a decline of 3.9% in lumber sales volume, partially offset by market driven log cost increases and higher stumpage rates in B.C., higher conversion costs and a weaker Canadian Dollar, on average, in YTD’19 versus YTD’18.

Lumber production of 1.3 billion board feet in YTD’19 was 61 million board feet lower than YTD’18. B.C. production totaled 383 million board feet in YTD’19, a decrease of 50 million board feet from YTD’18, as a result of temporary market related curtailments in the B.C Interior.

Production from the Company’s U.S. Northwest operations totaled 275 million board feet in YTD’19, a decrease of 19 million board feet from YTD’18. Production from the Company’s nine U.S. South sawmills totaled 635 million board feet in YTD’19, up 8 million board feet compared to YTD’18 with the impact of a reduced operating schedule at the Monticello sawmill during its rebuild in YTD’19 offset by increases at several other mills.

Interfor expensed $22.0 million of U.S. CV and AD duty deposits in YTD’19, 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 $5.8 million over the first half of 2018, attributable to lower shipments and prices.

Depreciation of plant and equipment was $39.1 million, down 4.2% from the first half of 2018. This decrease is attributable to downtime related to capital projects at several of the U.S. South mills and market-related curtailments in the B.C. Interior somewhat offset by the effect of a weaker Canadian dollar.

Depletion and amortization of timber, roads and other was $21.9 million, down $0.7 million from YTD’18 as an intangible asset recognized on acquisition of certain sawmills in the U.S. South in 2014 became fully amortized in Q1’19.

Corporate and Other

Selling and administration expenses were $20.4 million, down $7.2 million from the first half of 2018, which included an accrual for short term incentive compensation and certain non-recurring costs not reflected in the YTD’19 comparative.

The $1.1 million long term incentive compensation expense reflects the impact of incentive awards maturing. The $8.9 million long term incentive compensation expense in YTD’18 reflects the impact of a 19.6% increase in the market price of Interfor Common Shares during that period used to value share-based awards and incentive awards maturing.

Finance costs increased to $7.5 million from $6.7 million in the first half of 2018 as unamortized deferred financing fees associated with extinguished credit facilities were written off.

Capital asset write-downs and restructuring costs in YTD’19 consist primarily of non-cash impairments on equipment in the U.S. South that will be replaced in conjunction with the Company’s strategic capital projects. The YTD’18 restructuring charges relate to costs associated with non-cash impairments of an intangible asset and certain equipment in the U.S. South.

Negligible Other foreign exchange gains in YTD’19 and $2.0 million in YTD’18 result primarily from the period-end revaluations of U.S. Dollar denominated short-term intercompany funding, cash and marketable securities held by Canadian operations. Interfor held higher U.S. Dollar cash and marketable securities balances on average in YTD’18 as compared to YTD’19.

Other income of $6.3 million in YTD’19 relates primarily to a gain recognized as a result of compensation received on the extinguishment of two timber licences on the B.C. Coast. Other expense of $0.3 million in YTD’18 resulted from the disposal of surplus equipment.

Income Taxes

The Company recorded an income tax recovery of $9.7 million in YTD’19, comprised of a $0.4 million current tax expense offset by a $10.1 million deferred tax recovery. The YTD’18 income tax expense of $31.6 million is comprised of a $2.3 million current tax expense and a $29.3 million deferred tax expense.

Net Earnings (Loss)

The Company recorded a net loss of $26.5 million, or $0.39 per share, compared to net earnings of $96.4 million, or $1.38 per share, in the same period of 2018. Adjusted net loss was $28.9 million, or $0.43 per share, compared to Adjusted net earnings of $105.4 million, or $1.50 per share in YTD’18.

Summary of Quarterly Results[1]

		2019		2018 (restated)[2]				2017 (restated)[2]	
	Unit	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial Performance[3]									
Total sales	$MM	481.3	451.2	468.5	570.5	619.9	527.6	532.8	489.2
Lumber	$MM	406.9	380.5	387.7	480.3	527.0	445.9	446.0	410.2
Logs, residual products and other	$MM	74.4	70.7	80.8	90.2	92.9	81.7	86.8	79.0
Operating earnings (loss)	$MM	(18.2)	(16.8)	(16.9)	41.8	86.4	46.6	48.3	28.8
Net earnings (loss)	$MM	(11.2)	(15.3)	(13.5)	28.2	63.7	32.7	36.0	16.9
Net earnings (loss) per share, basic	$/share	(0.17)	(0.23)	(0.20)	0.40	0.91	0.47	0.52	0.24
Adjusted net earnings (loss)[4]	$MM	(16.2)	(12.7)	(20.2)	28.3	68.9	36.5	44.8	20.1
Adjusted net earnings (loss) per share, basic[4]	$/share	(0.24)	(0.19)	(0.29)	0.40	0.98	0.52	0.64	0.29
Operating cash flow per share (before working capital changes)[4]	$/share	0.15	0.25	0.14	1.04	1.80	1.12	1.22	0.85
Adjusted EBITDA[4]	$MM	12.6	16.3	8.9	72.5	126.7	83.5	91.8	62.9
Adjusted EBITDA margin[4]	%	2.6%	3.6%	1.9%	12.7%	20.4%	15.8%	17.2%	12.9%
Annualized return on invested capital[4]	%	4.6%	6.1%	3.6%	29.1%	49.9%	33.5%	37.5%	24.9%
Shares outstanding - end of period	million	67.3	67.3	67.8	69.4	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	67.3	67.3	68.9	69.9	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	647	646	607	674	688	666	655	645
Total lumber sales	million fbm	674	621	647	685	700	648	686	671
Lumber sales - Interfor produced	million fbm	664	610	639	675	689	635	666	650
Lumber sales - wholesale and commission	million fbm	10	11	8	10	11	13	20	21
Lumber - average selling price[5]	$/thousand fbm	603	613	599	701	753	688	650	611
Average USD/CAD exchange rate[6]	1 USD in CAD	1.3377	1.3295	1.3204	1.3070	1.2911	1.2647	1.2713	1.2528
Closing USD/CAD exchange rate[6]	1 USD in CAD	1.3087	1.3363	1.3642	1.2945	1.3168	1.2894	1.2545	1.2480

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 and the USD/CAD foreign currency exchange rate.

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. Northwest in Q4'17, Q1'18 and 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 and Q2'19. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

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, 2019 was $198.2 million, or 17.9% of invested capital, representing an increase of $163.8 million from the level at June 30, 2018 and an increase of $134.4 million from December 31, 2018. These increases primarily reflect funding of capital projects, share repurchases and short term incentive compensation payments.

Net debt was negatively impacted by a weaker Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars; this was partially hedged by the Company's U.S. Dollar cash balances.

	For the 3 months ended Jun. 30,		For the 6 months ended Jun. 30,	
Thousands of Dollars	2019	2018	2019	2018
Net debt				
Net debt, period opening	$172,746	$127,064	$63,825	$119,300
Net drawing (repayment) on credit facilities	-	-	750	(1)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(5,520)	5,480	(11,850)	12,461
Decrease (increase) in cash and cash equivalents	30,028	(95,011)	98,918	(92,502)
Decrease in marketable securities	-	-	41,766	-
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening (weakening) CAD	955	(3,118)	4,800	(4,843)
Net debt, period ending, CAD	$198,209	$34,415	$198,209	$34,415

On March 28, 2019, the Company completed a modernization of its credit facilities. The new facility replaced the U.S. Operating Line, Canadian Operating Line, and Revolving Term Line with one consolidated facility. The new facility increased credit availability to $350 million and matures in March 2024.

As at June 30, 2019, the Company had net working capital of $253.4 million and available liquidity of $392.5 million, including cash and borrowing capacity on its term line facility.

These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have enough liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $26.9 million of cash flow from operations before changes in working capital in YTD'19, representing a $177.5 million decrease compared to YTD'18. There was a net cash outflow from operations after changes in working capital of $26.0 million in YTD'19, with $53.0 million of cash invested in operating working capital. Payment of short-term incentive compensation in YTD'19 contributed to the $16.7 million outflow related to payables, while timing of collections contributed to the $20.4 million total receivables outflow. In YTD'18, $204.4 million of cash was generated from operations with $46.6 million of cash invested in operating working capital.

Cash Flow from Investing Activities

Investing activities were $53.5 million with capital spending of $94.9 million for plant and equipment, timber licences 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 in YTD'19.

Discretionary mill improvements of $83.5 million in YTD'19 include a number of projects in the U.S. South, the most significant of which relate to the modernizations of the Monticello, Meldrim, Eatonton, and Thomaston sawmills and installation of a kiln at the sawmill in Perry, Georgia.

Maintenance capital investments excluding roads totaled $11.4 million in YTD'19, of which the majority was spent on U.S. South operations.

In YTD'18, investing activities were $54.8 million, net of $0.2 million in proceeds on the disposal of property, plant and equipment. Spending included $27.2 million for property, plant and equipment, timber and other intangible assets, and $14.2 million for development of roads. Discretionary and maintenance mill improvements totaled $17.1 million and $10.1 million, respectively, in YTD'18, of which the majority was spent on U.S. South operations.

Cash Flow from Financing Activities

The net cash outflow of $19.4 million in YTD'19 resulted from $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.

Cash used for financing activities totaled $10.5 million in YTD'18, including interest payments of $5.8 million and lease liability payments of $4.8 million, slightly offset by proceeds received on the issuance of shares under the Company's stock option plan.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 2019:

Thousands of Canadian Dollars	**Revolving Term Line**	**Senior Secured Notes**	**Total**
Available line of credit	$350,000	$261,740	$611,740
Maximum borrowing available	$350,000	$261,740	$611,740
Less:			
Drawings	-	261,740	261,740
Outstanding letters of credit included in line utilization	21,053	-	21,053
Unused portion of facility	$328,947	$ -	328,947
Add:			
Cash and cash equivalents			63,531
Available liquidity at June 30, 2019			$392,478

As of June 30, 2019, the Company had commitments for capital expenditures totaling $119.1 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, 2019.

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, 2019, such instruments aggregated $66.5 million (December 31, 2018 - $64.7 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 purchases high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return relative to risk on surplus cash. Primary considerations in selecting investments for the temporary employment of surplus funds are safety of principal and liquidity, with yield a secondary consideration.

In addition, from time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts except lumber futures are the Company's bankers who are highly-rated and, hence, the risk of credit loss on the instruments is mitigated.

Lumber futures are traded through a well-established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time, the risk of credit loss on these instruments is considered low.

The Company did not trade any foreign exchange contracts or lumber futures in the three and six months ended June 30, 2019.

Outstanding Shares

As of August 8, 2019, Interfor had 67,252,973 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 7,451 Shares during the first half of 2019 as a result of share option exercises.

On March 4, 2019, Interfor renewed its NCIB through March 6, 2020, whereby it can purchase for cancellation up to 6,652,006 Common Shares. During the first half of 2019, Interfor purchased 515,100 Shares at a cost of $7.8 million. All Shares repurchased were cancelled.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended June 30, 2019, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended June 30, 2019. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2018, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Effective January 1, 2019, the Company adopted IFRS 16, *Leases,* using the full retrospective approach with restatement of each prior reporting period presented.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Interfor recognized right of use assets ("ROU assets"), representing its right to use the underlying assets, and lease liabilities, representing its obligation to make lease payments.

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all risks and rewards of ownership. Under IFRS 16, Interfor now assesses whether a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

ROU assets are accounted for under IAS 16, *Property, Plant and Equipm*ent, and are initially measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term.

Lease liabilities are initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, Interfor's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Interfor is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

Adoption of the standard resulted in the following changes to Interfor's consolidated financial statements:

		Adjustment as at December 31, 2018
Statement of Financial Position		
Prepayments	Decrease	$ (474)
Right of use asset	Increase	37,778
Property, plant and equipment	Decrease	(1,493)
Deferred income tax asset	Increase	1
Total assets	Increase	$ 35,812
Trade accounts payable and provisions	Decrease	$ (565)
Current portion, lease liabilities	Increase	10,158
Long term lease liabilities	Increase	33,954
Provisions and other liabilities	Decrease	(992)
Deferred income tax	Decrease	(1,444)
Equity	Decrease	(5,299)
Total liabilities and shareholders' equity	Increase	$ 35,812

		Adjustment for the year ended December 31, 2018
Statement of Earnings		
Production costs	Decrease	$ 10,235
Selling and administration	Decrease	980
Depreciation of plant and equipment	Decrease	208
Depletion and amortization of timber, roads and other	Increase	(10,100)
Finance costs	Increase	(2,042)
Deferred income tax expense	Decrease	99
Net earnings	Decrease	$ (620)
Net earnings per share	Decrease	$ (0.01)
Statement of Cash Flows		
Cash provided by:		
Operating activities	Increase	12,000
Financing activities	Decrease	(12,000)

Application of the new standard did not have a negative impact on any bank covenant calculations.

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, Net debt to invested capital and Operating cash flow per share (before working capital changes) 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 2019**	**Jun. 30 2018**	**Mar.31 2019**	**Jun. 30 2019**	**Jun. 30 2018**
		(restated)[1]			(restated)[1]
Adjusted Net Earnings (Loss)					
Net earnings (loss)	$(11,159)	$63,732	$(15,302)	$(26,461)	$96,397
Add:					
Capital asset write-downs and restructuring costs	87	4,669	1,665	1,752	4,905
Other foreign exchange loss (gain)	321	(1,880)	(340)	(19)	(1,991)
Long term incentive compensation expense (recovery)	(851)	3,996	1,983	1,132	8,854
Other (income) expense	(6,487)	80	164	(6,323)	258
Post closure wind-down costs and losses	-	-	-	-	4
Income tax effect of above adjustments	1,866	(1,701)	(875)	991	(3,075)
Adjusted net earnings (loss)	$(16,223)	$68,896	$(12,705)	$(28,928)	$105,352
Weighted average number of shares - basic ('000)	*67,252*	*70,038*	*67,348*	*67,300*	*70,036*
Adjusted net earnings (loss) per share	$(0.24)	$0.98	$(0.19)	$(0.43)	$1.50
Adjusted EBITDA					
Net earnings (loss)	$(11,159)	$63,732	$(15,302)	$(26,461)	$96,397
Add:					
Depreciation of plant and equipment	19,410	20,781	19,722	39,132	40,802
Depletion and amortization of timber, roads and other	12,201	10,854	9,737	21,938	22,618
Capital asset write-downs and restructuring costs	87	4,669	1,665	1,752	4,905
Finance costs	3,324	3,303	4,176	7,500	6,714
Other foreign exchange loss (gain)	321	(1,880)	(340)	(19)	(1,991)
Income tax expense (recovery)	(4,196)	21,150	(5,508)	(9,704)	31,617
EBITDA	19,988	122,609	14,150	34,138	201,062
Add:					
Long term incentive compensation expense (recovery)	(851)	3,996	1,983	1,132	8,854
Other (income) expense	(6,487)	80	164	(6,323)	258
Post closure wind-down costs and losses	-	-	-	-	4
Adjusted EBITDA	$12,650	$126,685	$16,297	$28,947	$210,178
Sales	$481,345	$619,893	451,163	$932,508	$1,147,537
Adjusted EBITDA margin	2.6%	20.4%	3.6%	3.1%	18.3%
Net debt to invested capital					
Net debt					
Total debt	$261,740	$263,360	$267,260	$261,740	$263,360
Cash and cash equivalents	(63,531)	(228,945)	(94,514)	(63,531)	(228,945)
Total net debt	$198,209	$34,415	$172,746	$198,209	$34,415
Invested capital					
Net debt	$198,209	$34,415	$172,746	$198,209	$34,415
Shareholders' equity	911,409	972,281	933,509	911,409	972,281
Total invested capital	$1,109,618	$1,006,696	$1,106,255	$1,109,618	$1,006,696
Net debt to invested capital[2]	17.9%	3.4%	15.6%	17.9%	3.4%
Operating cash flow per share (before working capital changes)					
Cash (used in) provided by operating activities	$32,302	$136,724	$(58,350)	$(26,048)	$157,797
Cash used in (generated from) operating working capital	(22,443)	(10,414)	75,435	52,992	46,636
Operating cash flow (before working capital changes)	$9,859	$126,310	$17,085	$26,944	$204,433
Weighted average number of shares - basic ('000)	*67,252*	*70,038*	*67,348*	*67,300*	*70,036*
Operating cash flow per share (before working capital changes)	$0.15	$1.80	$0.25	$0.40	$2.92
Annualized return on invested capital					
Adjusted EBITDA	$12,650	$126,685	$16,297	$28,947	$210,178
Invested capital, beginning of period	$1,106,255	$1,023,279	$1,032,591	$1,032,591	$968,852
Invested capital, end of period	1,109,618	1,006,696	1,106,255	1,109,618	1,006,696
Average invested capital	$1,107,937	$1,014,988	$1,069,423	$1,071,105	$987,774
Adjusted EBITDA divided by average invested capital	1.1%	12.5%	1.5%	2.7%	21.3%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on invested capital	4.6%	49.9%	6.1%	5.4%	42.6%

Notes:

1 Financial information has been restated for implementation of IFRS 16, *Leases*.

2 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, 2018, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the six months ended June 30, 2019.

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, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
		(note 3(a))		(note 3(a))
Sales (note 12)	$ 481,345	$ 619,893	$ 932,508	$ 1,147,537
Costs and expenses:				
Production	448,043	464,675	861,226	882,072
Selling and administration	9,808	13,706	20,373	27,535
Long term incentive compensation expense (recovery)	(851)	3,996	1,132	8,854
U.S. countervailing and anti-dumping duty deposits (note 14(a))	10,844	14,827	21,962	27,756
Depreciation of plant and equipment (note 8)	19,410	20,781	39,132	40,802
Depletion and amortization of timber, roads and other (note 8)	12,201	10,854	21,938	22,618
	499,455	528,839	965,763	1,009,637
Operating earnings (loss) before restructuring costs	(18,110)	91,054	(33,255)	137,900
Capital asset write-downs and restructuring costs (note 9)	87	4,669	1,752	4,905
Operating earnings (loss)	(18,197)	86,385	(35,007)	132,995
Finance costs (note 10)	(3,324)	(3,303)	(7,500)	(6,714)
Other foreign exchange gain (loss)	(321)	1,880	19	1,991
Other income (expense) (note 14(b))	6,487	(80)	6,323	(258)
	2,842	(1,503)	(1,158)	(4,981)
Earnings (loss) before income taxes	(15,355)	84,882	(36,165)	128,014
Income tax expense (recovery)				
Current	233	1,567	393	2,337
Deferred	(4,429)	19,583	(10,097)	29,280
	(4,196)	21,150	(9,704)	31,617
Net earnings (loss)	$ (11,159)	$ 63,732	$ (26,461)	$ 96,397
Net earnings (loss) per share (note 11)				
Basic	$ (0.17)	$ 0.91	$ (0.39)	$ 1.38
Diluted	(0.17)	0.91	(0.39)	1.37

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and six months ended June 30, 2019 and 2018 (unaudited)

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
		(note 3(a))		(note 3(a))
Net earnings (loss)	$ (11,159)	$ 63,732	$ (26,461)	$ 96,397
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss), net of tax	(439)	1,004	133	1,889
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	(10,728)	11,121	(23,601)	23,954
Total other comprehensive income (loss), net of tax	(11,167)	12,125	(23,468)	25,843
Comprehensive income (loss)	$ (22,326)	$ 75,857	$ (49,929)	$ 122,240

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	3 Months June 30, 2019	3 Months June 30, 2018 (note 3(a))	6 Months June 30, 2019	6 Months June 30, 2018 (note 3(a))
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	$ (11,159)	$ 63,732	$ (26,461)	$ 96,397
Items not involving cash:				
Depreciation of plant and equipment (note 8)	19,410	20,781	39,132	40,802
Depletion and amortization of timber, roads and other (note 8)	12,201	10,854	21,938	22,618
Income tax expense (recovery)	(4,196)	21,150	(9,704)	31,617
Finance costs (note 10)	3,324	3,303	7,500	6,714
Other assets	304	(122)	321	(417)
Reforestation liability	(3,250)	(862)	(743)	1,427
Provisions and other liabilities	(801)	2,496	(1,004)	(320)
Stock options	209	209	317	346
Write-down of plant, equipment and intangibles (note 9)	88	4,645	1,811	4,864
Unrealized foreign exchange loss	216	44	160	127
Other expense (income) (note 14(b))	(6,487)	80	(6,323)	258
	9,859	126,310	26,944	204,433
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(5,873)	(13,222)	(20,448)	(23,970)
Inventories	17,605	2,111	(9,565)	(31,926)
Prepayments	(2,873)	1,597	(5,742)	(2,658)
Trade accounts payable and provisions	13,862	21,079	(16,662)	13,240
Income taxes paid	(278)	(1,151)	(575)	(1,322)
	32,302	136,724	(26,048)	157,797
Investing activities:				
Additions to property, plant and equipment	(58,904)	(15,126)	(94,830)	(27,165)
Additions to logging roads and bridges	(5,661)	(8,086)	(13,505)	(14,168)
Additions to timber licences and other intangible assets	(20)	(63)	(72)	(50)
Proceeds on disposal of property, plant and equipment and other	8,032	76	8,140	185
Net proceeds from (additions to) marketable securities, deposits and other assets	(11)	(13,077)	46,760	(13,579)
	(56,564)	(36,276)	(53,507)	(54,777)
Financing activities:				
Issuance of share capital, net of expenses	17	-	80	143
Share repurchases	-	-	(7,825)	-
Interest payments	(2,837)	(2,799)	(5,417)	(5,832)
Lease liability payments	(2,779)	(2,636)	(5,765)	(4,825)
Debt refinancing costs	(172)	(2)	(1,191)	(3)
Change in operating line components of long term debt (note 6)	5	-	5	(1)
Additions to long term debt (note 6)	-	-	197,925	-
Repayments of long term debt (note 6)	-	-	(197,175)	-
	(5,766)	(5,437)	(19,363)	(10,518)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(955)	3,118	(3,703)	4,843
Increase (decrease) in cash	(30,983)	98,129	(102,621)	97,345
Cash and cash equivalents, beginning of period	94,514	130,816	166,152	131,600
Cash and cash equivalents, end of period	$ 63,531	$ 228,945	$ 63,531	$ 228,945

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2019, December 31, 2018 and January 1, 2018 (unaudited)

(thousands of Canadian Dollars)	Jun. 30, 2019	Dec. 31, 2018	Jan. 1, 2018
		(note 3(a))	(note 3(a))
Assets			
Current assets:			
Cash and cash equivalents	$ 63,531	$ 166,152	$ 131,600
Marketable securities	-	42,863	-
Trade accounts receivable and other	108,066	90,384	112,470
Income tax receivable	3,013	3,008	1,289
Inventories (note 5)	213,435	209,178	165,156
Prepayments	21,673	16,833	12,186
	409,718	528,418	422,701
Employee future benefits	820	303	502
Deposits and other assets	10,685	16,842	6,404
Right of use assets	36,760	37,778	38,600
Property, plant and equipment	752,194	723,773	669,165
Roads and bridges	30,154	29,829	24,092
Timber licences	61,851	64,153	66,589
Other intangible assets	4,047	5,288	14,170
Goodwill	152,870	158,799	147,081
Deferred income taxes	704	133	253
	$ 1,459,803	$ 1,565,316	$ 1,389,557
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade accounts payable and provisions	$ 130,983	$ 154,869	$ 152,355
Reforestation liability	14,580	13,947	12,873
Lease liabilities	10,501	10,158	8,019
Income taxes payable	292	356	224
	156,356	179,330	173,471
Reforestation liability	27,755	28,235	27,535
Lease liabilities	32,268	33,954	36,165
Long term debt (notes 6 and 13)	261,740	272,840	250,900
Employee future benefits	8,988	8,687	8,249
Provisions and other liabilities	15,698	16,421	25,808
Deferred income taxes	45,589	57,083	17,877
Equity:			
Share capital (note 7)	533,563	537,534	555,388
Contributed surplus	4,133	3,851	8,582
Translation reserve	60,792	84,393	40,733
Retained earnings	312,921	342,988	244,849
	911,409	968,766	849,552
	$ 1,459,803	$ 1,565,316	$ 1,389,557

Commitments and contingencies (note 14)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"Thomas V. Milroy"
Director

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2019 and 2018 (unaudited)

(thousands of Canadian Dollars)	Share Capital	Contributed Surplus	Translation Reserve	Retained Earnings	Total
Balance at January 1, 2018 (note 3(a))	$ 555,388	$ 8,582	$ 40,733	$ 244,849	$ 849,552
Net earnings:	-	-	-	111,058	111,058
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	-	-	43,660	-	43,660
Defined benefit plan actuarial gain, net of tax	-	-	-	508	508
Contributions and distributions:					
Share issuance, net of expenses (note 7)	(18,068)	(5,434)	-	(13,427)	(36,929)
Share repurchases (note 7)	214	(71)	-	-	143
Stock options	-	774	-	-	774
Balance at December 31, 2018 (note 3(a))	$ 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 7)	115	(35)	-	-	80
Share repurchases (note 7)	(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
Balance at January 1, 2018 (note 3(a))	$ 555,388	$ 8,582	$ 40,733	$ 244,849	$ 849,552
Net earnings:	-	-	-	96,397	96,397
Other comprehensive income:					
Foreign currency translation differences for foreign operations, net of tax (note 3(a))	-	-	23,954	-	23,954
Defined benefit plan actuarial gain, net of tax	-	-	-	1,889	1,889
Contributions and distributions:					
Share issuance, net of expenses (note 7)	214	(71)	-	-	143
Stock options	-	346	-	-	346
Balance at June 30, 2018 (note 3(a))	$ 555,602	$ 8,857	$ 64,687	$ 343,135	$ 972,281

See accompanying notes to consolidated financial statements

1. Nature of operations:

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

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

These unaudited condensed consolidated interim financial statements as at and for the three and six months ended June 30, 2019 and 2018 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, 2018.

These financial statements were approved by Interfor's Board of Directors on August 8, 2019.

(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) Derivative financial instruments are measured at fair value at each reporting date;

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

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

(iv) 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

(v) 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.

3. Significant accounting policies:

Except for the change noted below, these financial statements have been prepared on a consistent basis with the significant accounting policies and methods of computation applied in the Company's audited December 31, 2018 annual consolidated financial statements, which are available on www.sedar.com.

(a) Change in accounting policy:

Effective January 1, 2019, the Company adopted IFRS 16, Leases, which replaced IAS 17, Leases. The Company adopted the standard using the full retrospective approach with restatement of each prior reporting period presented.

IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, Interfor recognized right of use assets ("ROU assets"), representing its right to use the underlying assets, and lease liabilities, representing its obligation to make lease payments.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all risks and rewards of ownership. Under IFRS 16, Interfor now assesses whether a contract is or contains a lease if the contract conveys a right to control the use of an identified asset for a period in exchange for consideration.

ROU assets are accounted for under IAS 16, Property, Plant and Equipment, and are initially measured at cost, which includes the initial measurement of the lease obligation and other costs, less lease incentives. The ROU asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. In addition, the ROU assets may periodically be reduced by impairment losses and adjusted for certain remeasurements of the lease liabilities.

Lease liabilities are initially measured at the present value of future lease payments discounted using the interest rate implicit in the lease or, if that cannot be readily determined, Interfor's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest rate method. Remeasurements occur when there is a change in future lease payments, residual value guarantees or Interfor's assessment of whether it will exercise a purchase, extension or termination option.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether Interfor is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and ROU assets recognised.

Interfor used certain practical expedients and applied exemptions for short term and low value leases, which are expensed over the lease term.

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

3. Significant accounting policies (continued):

(a) Changes in significant accounting policies (continued):

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements:

	As previously Reported	Adjustment	As adjusted	As previously Reported	Adjustment	As adjusted
Consolidated Statement of Earnings:	**For the 3 months ended June 30, 2018:**			**For the 6 months ended June 30, 2018:**		
Sales	$ 619,893	$ -	$ 619,893	$ 1,147,537	$ -	$ 1,147,537
Costs and expenses						
Production	467,355	(2,680)	464,675	886,937	(4,865)	882,072
Selling and administration	13,952	(246)	13,706	28,025	(490)	27,535
Long term incentive compensation	3,996	-	3,996	8,854	-	8,854
U.S. countervailing and anti-dumping duty deposits	14,827	-	14,827	27,756	-	27,756
Depreciation of plant and equipment	20,851	(70)	20,781	40,919	(117)	40,802
Depletion and amortization of timber, roads and other	8,350	2,504	10,854	17,767	4,851	22,618
	529,331	(492)	528,839	1,010,258	(621)	1,009,637
Operating earnings before write downs and restructuring	90,562	492	91,054	137,279	621	137,900
Capital assets write-downs and restructuring costs	4,669	-	4,669	4,905	-	4,905
Operating earnings	85,893	492	86,385	132,374	621	132,995
Finance costs	(2,786)	(517)	(3,303)	(5,691)	(1,023)	(6,714)
Other foreign exchange gain	1,880	-	1,880	1,991	-	1,991
Other expense	(80)	-	(80)	(258)	-	(258)
	(986)	(517)	(1,503)	(3,958)	(1,023)	(4,981)
Earnings before income taxes	84,907	(25)	84,882	128,416	(402)	128,014
Income tax expense						
Current	1,567	-	1,567	2,337	-	2,337
Deferred	19,565	18	19,583	29,328	(48)	29,280
	21,132	18	21,150	31,665	(48)	31,617
Net earnings	$ 63,775	$ (43)	$ 63,732	$ 96,751	$ (354)	$ 96,397
Net earnings per share						
Basic	$ 0.91	$ (0.00)	$ 0.91	$ 1.38	$ (0.00)	$ 1.38
Diluted	0.91	(0.00)	0.91	1.38	(0.01)	1.37
Consolidated Statement of Comprehensive Income:	**For the 3 months ended June 30, 2018:**			**For the 6 months ended June 30, 2018:**		
Net earnings	$ 63,775	$ (43)	$ 63,732	$ 96,751	$ (354)	$ 96,397
Other comprehensive income:						
Items that will not be recycled to Net earnings:						
Defined benefit plan actuarial gain, net of tax	1,004	-	1,004	1,889	-	1,889
Items that are or may be recycled to Net earnings:						
Foreign currency translation differences for foreign operations, net of tax	11,130	(9)	11,121	23,977	(23)	23,954
Total other comprehensive income, net of tax	12,134	(9)	12,125	25,866	(23)	25,843
Comprehensive income	$ 75,909	$ (52)	$ 75,857	$ 122,617	$ (377)	$ 122,240

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

3. Significant accounting policies (continued):

(a) Changes in significant accounting policies (continued):

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements (continued):

	As previously Reported	Adjustment	As adjusted	As previously Reported	Adjustment	As adjusted
Consolidated Statement of Cash Flows:	**For the 3 months ended June 30, 2018:**			**For the 6 months ended June 30, 2018:**		
Cash provided by (used in):						
Operating activities:						
Net earnings	$ 63,775	$ (43)	$ 63,732	$ 96,751	$ (354)	$ 96,397
Depreciation of plant and equipment	20,851	(70)	20,781	40,919	(117)	40,802
Depletion and amortization of timber, roads and other	8,350	2,504	10,854	17,767	4,851	22,618
Income tax expense	21,132	18	21,150	31,665	(48)	31,617
Finance costs	2,786	517	3,303	5,691	1,023	6,714
Provisions and other liabilities	2,386	110	2,496	(456)	136	(320)
Unrealized foreign exchange loss (gain)	(80)	124	44	(181)	308	127
Cash generated by operations before working capital changes	123,150	3,160	126,310	198,634	5,799	204,433
Trade accounts receivable and other	(13,074)	(148)	(13,222)	(23,970)	-	(23,970)
Prepayments	1,541	56	1,597	(2,784)	126	(2,658)
Trade accounts payable and provisions	21,152	(73)	21,079	13,608	(368)	13,240
Cash generated by operating activities	133,729	2,995	136,724	152,240	5,557	157,797
Investing activities:						
Net additions to marketable securities, deposits and other assets	(13,079)	2	(13,077)	(13,565)	(14)	(13,579)
Cash used in investing activities	(36,278)	2	(36,276)	(54,763)	(14)	(54,777)
Financing activities:						
Interest payments	(2,438)	(361)	(2,799)	(5,114)	(718)	(5,832)
Payment of lease liabilities	-	(2,636)	(2,636)	-	(4,825)	(4,825)
Cash used in financing activities	(2,440)	(2,997)	(5,437)	(4,975)	(5,543)	(10,518)

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

3. Significant accounting policies (continued):

(a) Changes in significant accounting policies (continued):

Adoption of the standard resulted in the following changes to Interfor's historical consolidated financial statements (continued):

	As previously Reported	Adjustment	As adjusted	As previously Reported	Adjustment	As adjusted
Consolidated Statement of Financial Position:		**As at January 1, 2018:**			**As at December 31, 2018:**	
Prepayments and other	$ 12,562	$ (376)	$ 12,186	$ 17,307	$ (474)	$ 16,833
Total current assets	423,077	(376)	422,701	528,892	(474)	528,418
Right of use assets	-	38,600	38,600	-	37,778	37,778
Property, plant and equipment	670,830	(1,665)	669,165	725,266	(1,493)	723,773
Deferred income tax asset	251	2	253	132	1	133
Total assets	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316
Trade accounts payable and provisions	$ 152,854	$ (499)	$ 152,355	$ 155,434	$ (565)	$ 154,869
Lease liabilities	-	8,019	8,019	-	10,158	10,158
Total current liabilities	165,951	7,520	173,471	169,737	9,593	179,330
Long term lease liabilities	-	36,165	36,165	-	33,954	33,954
Provisions and other liabilities	26,976	(1,168)	25,808	17,413	(992)	16,421
Deferred income tax payable	19,197	(1,320)	17,877	58,527	(1,444)	57,083
Translation reserve	40,720	13	40,733	84,423	(30)	84,393
Retained earnings	249,498	(4,649)	244,849	348,257	(5,269)	342,988
Total equity	854,188	(4,636)	849,552	974,065	(5,299)	968,766
Total liabilities and shareholders' equity	$ 1,352,996	$ 36,561	$ 1,389,557	$ 1,529,504	$ 35,812	$ 1,565,316

	As previously Reported	Adjustment	As adjusted	As previously Reported	Adjustment	As adjusted
Consolidated Statements of Changes in Equity:		**As at June 30, 2018:**			**As at December 31, 2018:**	
Balance at January 1, 2018						
Translation reserve	$ 40,720	$ 13	$ 40,733	$ 40,720	$ 13	$ 40,733
Retained earnings	249,498	(4,649)	244,849	249,498	(4,649)	244,849
Total equity	854,188	(4,636)	849,552	854,188	(4,636)	849,552
Net earnings	96,751	(354)	96,397	111,678	(620)	111,058
Foreign currency translation differences for foreign operations, net of tax	23,977	(23)	23,954	43,703	(43)	43,660
Balance at end of period						
Translation reserve	64,697	(10)	64,687	84,423	(30)	84,393
Retained earnings	348,138	(5,003)	343,135	348,257	(5,269)	342,988
Total equity	977,294	(5,013)	972,281	974,065	(5,299)	968,766

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

3. Significant accounting policies (continued):

(a) Changes in significant accounting policies (continued):

The Company leases property, facilities, mobile equipment and foreshore and other rights, which represent ROU assets. Information about leases for which the Company is a lessee is presented below.

Right of use assets:

Cost	Property	Facilities	Mobile Equipment	Foreshore and Other Rights	Total
Balance at December 31, 2017	$ 21,414	$ 13,805	$ 18,825	$ 5,097	$ 59,141
Additions	134	241	7,531	557	8,463
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	7	337	1,174	-	1,518
Balance at December 31, 2018	$ 21,555	$ 14,351	$ 25,699	$ 5,613	$ 67,218

Accumulated Depreciation	Property	Facilities	Mobile Equipment	Foreshore and Other Rights	Total
Balance at December 31, 2017	$ 6,701	$ 4,312	$ 7,128	$ 2,400	$ 20,541
Depreciation	1,162	1,588	6,857	493	10,100
Disposals	-	(32)	(1,831)	(41)	(1,904)
Revaluations	1	111	591	-	703
Balance at December 31, 2018	$ 7,864	$ 5,979	$ 12,745	$ 2,852	$ 29,440
Net book value at December 31, 2018	$ 13,691	$ 8,372	$ 12,954	$ 2,761	$ 37,778

Lease liabilities:

Maturity analysis - contractual undiscounted cash flows:	Dec. 31, 2018
Due within one year	$ 11,916
One to five years	22,451
More than five years	18,002
Total undiscounted lease liabilities	$ 52,369
Current	$ 10,158
Non-current	33,954
Lease liabilities in Statement of Financial Position	$ 44,112

Amounts recognised in Statement of Earnings before income tax:

	Year ended Dec. 31, 2018
Depreciation on ROU assets	$ 10,100
Interest on lease liabilities	2,042
Expenses relating to short-term leases	4,639
Expenses relating to leases of low-value assets	254
	$ 17,035

Amounts recognised in the Statement of Cash Flows:

	Year ended Dec. 31, 2018
Cash payments for short-term and low-value leases	$ 4,893
Lease liability payments	9,936
Interest payments	2,042
Total cash outflow for leases	$ 16,871

(b) New standard and interpretations not yet adopted:

Several new standards and amendments to standards and interpretations are not yet effective for the quarter ended June 30, 2019 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. Inventories:

	June 30, 2019	Dec. 31, 2018
Lumber	$ 101,163	$ 95,563
Logs	91,812	98,018
Other	20,460	15,597
	$ 213,435	$ 209,178

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, 2019 was $25,785,000 (December 31, 2018 - $19,631,000).

6. Borrowings:

June 30, 2019	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 350,000	$ 261,740	$ 611,740
Maximum borrowing available	350,000	261,740	611,740
Drawings	-	261,740	261,740
Outstanding letters of credit included in line utilization	21,053	-	21,053
Unused portion of line	$ 328,947	$ -	$ 328,947

December 31, 2018	U.S. Operating Line	Operating Line	Revolving Term Line	Senior Secured Notes	Total
Available line of credit	$ 68,210	$ 65,000	$ 200,000	$ 272,840	$ 606,050
Maximum borrowing available	50,590	65,000	200,000	272,840	588,430
Drawings	-	-	-	272,840	272,840
Outstanding letters of credit included in line utilization	2,810	14,858	-	-	17,668
Unused portion of line	$ 47,780	$ 50,142	$ 200,000	$ -	$ 297,922

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

Twelve months ending	
June 30, 2020	$ -
June 30, 2021	7,089
June 30, 2022	7,089
June 30, 2023	7,089
June 30, 2024	43,623
Thereafter	196,850
	$ 261,740

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

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
Drawings at opening	$ 267,260	$ 257,880	$ 272,840	$ 250,900
Operating line net drawings (repayments)	5	-	5	(1)
Additions to long term debt	-	-	197,925	-
Repayments of long term debt	-	-	(197,175)	-
Effects of changes in foreign exchange rates	(5,525)	5,480	(11,855)	12,461
Drawings at June 30	$ 261,740	$ 263,360	$ 261,740	$ 263,360

(a) Revolving Term Line and Operating Line:

On March 28, 2019, the Company consolidated its existing Revolving Term Line, Operating Line and U.S. Operating Line into one credit facility. The new Revolving Term Line (the "Line") increased total credit availability to $350 million and reduced the security requirements, financial covenants and certain other restrictions. The maturity was extended from September 15, 2021 to March 28, 2024.

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

The Line is secured by a general security agreement and mortgage security on certain of the Company's Canadian assets.

The Line is subject to certain financial covenants including a maximum ratio of total debt to total capitalization.

As at June 30, 2019, including outstanding letters of credit, the Line was drawn by $18,169,000 (December 31, 2018 - $14,771,000) and US$2,204,000 (December 31, 2018 - US$64,000) revalued at the quarter-end exchange rate to $2,884,000 (December 31, 2018 - $87,000) for total borrowings of $21,053,000 (December 31, 2018 - $14,858,000).

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

6. Borrowings (continued):

(a) Revolving Term Line and Operating Line (continued):

As at June 30, 2019, $328,947,000 of the Line was unused (December 31, 2018 - $250,142,000). As certain U.S. Dollar drawings under the Line were designated as a hedge against the Company's investment in its U.S. operations, the Company recognized a foreign exchange gain of $750,000 in the first six months, 2019 in Foreign currency translation differences in Other comprehensive income (first six months, 2018 – $nil), unchanged from the first three months, 2019 (Quarter 2, 2018 - $nil).

(b) Senior Secured Notes:

As at June 30, 2019, the Company's Senior Secured Notes consisted of the following:

	June. 30, 2019	Dec. 31, 2018
Series A (US$4,450,000)	$ 5,824	$ 6,071
Series B (US$11,800,000)	15,443	16,098
Series C (US$100,000,000)	130,870	136,420
Series D (US$45,550,000)	59,611	52,112
Series E (US$38,200,000)	49,992	62,139
	$ 261,740	$ 272,840

The Senior Secured Notes have a weighted average fixed interest rate of 4.47% and maturities from June 26, 2021 to August 14, 2029.

On March 28, 2019, the Company amended the financing agreement to reduce the security requirements, financial covenants and certain other restrictions. The Senior Secured Notes are subject to certain financial covenants including a maximum ratio of total debt to total capitalization.

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 $11,100,000 in the first six months, 2019 (first six months, 2018 - $12,460,000 loss) and $5,520,000 in the second quarter, 2019 (Quarter 2, 2018 - $5,480,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(c) U.S. Operating Line:

On March 28, 2019, the Company extinguished its U.S. Operating Line.

As at December 31, 2018, the U.S. Operating Line was drawn by US$2,060,000, including outstanding letters of credit, revalued at the year-end exchange rate to $2,810,000 and $47,780,000 (US$35,024,000) of the line was unused.

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2017	70,030,455	$ 555,388
Exercise of stock options	7,707	214
Repurchase of common shares	(2,277,540)	(18,068)
Balance, December 31, 2018	67,760,622	$ 537,534
Exercise of stock options	7,451	115
Repurchase of common shares	(515,100)	(4,086)
Balance, June 30, 2019	67,252,973	$ 533,563

On March 4, 2019, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 6,652,006 common shares, representing approximately 10% of its common shares issued and outstanding as at March 4, 2019. This NCIB began on March 7, 2019 and expires on March 6, 2020. During the first six months of 2019, Interfor purchased and cancelled 515,100 common shares (first six months, 2018 – no share repurchases) at an average price of $15.19 for a cost of $7,825,000.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
Production	$ 30,911	$ 29,551	$ 58,533	$ 59,286
Selling and administration	700	2,084	2,537	4,134
	$ 31,611	$ 31,635	$ 61,070	$ 63,420

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

9. Capital asset write-downs and restructuring costs:

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
Write-down of plant, equipment and intangibles	$ 88	$ 4,645	$ 1,811	$ 4,864
Severance and legal (recovery)	-	24	(53)	41
Site closure costs (recovery)	(1)	-	(6)	-
	$ 87	$ 4,669	$ 1,752	$ 4,905

10. Finance costs:

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
Interest expense on:				
Borrowings	$ 3,162	$ 3,046	$ 6,074	$ 5,984
Lease liabilities	511	517	1,031	1,023
Defined benefit obligations	681	588	1,405	1,151
Interest revenue from:				
Marketable securities and other	(753)	(732)	(1,304)	(1,192)
Defined benefit assets	(490)	(452)	(982)	(906)
Unwind of discount on provisions	143	181	304	344
Amortization of deferred finance costs	70	155	972	310
	$ 3,324	$ 3,303	$ 7,500	$ 6,714

11. 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 June 30, 2019			3 Months June 30, 2018		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at March 31		67,251,487			70,038,162	
Effect of shares issued in quarter		670			-	
Basic earnings (loss) per share	$ (11,159)	67,252,157	$ (0.17)	$ 63,732	70,038,162	$ 0.91
Effect of dilutive securities:						
Stock options		22,198			103,735	
Diluted earnings (loss) per share	$ (11,159)	67,274,355*	$ (0.17)	$ 63,732	70,141,897	$ 0.91

	6 Months June 30, 2019			6 Months June 30, 2018		
	Net loss	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		67,760,622			70,030,455	
Effect of shares issued in first six months		4,921			5,202	
Effect of shares repurchased in first six months		(465,522)			-	
Basic earnings (loss) per share	$ (26,461)	67,300,021	$ (0.39)	$ 96,397	70,035,657	$ 1.38
Effect of dilutive securities:						
Stock options		26,916			98,234	
Diluted earnings (loss) per share	$ (26,461)	67,326,937*	$ (0.39)	$ 96,397	70,133,891	$ 1.37

* 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.

12. 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.

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

12. Segmented information (continued):

Sales by market are as follows:

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
United States	$ 344,604	$ 454,578	$ 667,476	$ 832,397
Canada	66,669	78,201	128,419	149,347
Japan	29,676	31,972	56,026	61,931
China/Taiwan	15,881	29,779	27,460	53,871
Other export	24,515	25,363	53,127	49,991
	$ 481,345	$ 619,893	$ 932,508	$ 1,147,537

Sales by product line are as follows:

	3 Months June 30, 2019	3 Months June 30, 2018	6 Months June 30, 2019	6 Months June 30, 2018
Lumber	$ 406,846	$ 527,012	$ 787,371	$ 972,903
Logs	30,732	48,689	55,013	88,488
Wood chips and other by-products	41,921	42,950	84,115	83,126
Freight and other	1,846	1,242	6,009	3,020
	$ 481,345	$ 619,893	$ 932,508	$ 1,147,537

13. Financial instruments:

At June 30, 2019, the fair value of the Company's Long term debt exceeded its carrying value by $21,932,000 (December 31, 2018 - $1,639,000) 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.

Derivative financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while derivative financial instruments in a liability position are classified as Trade accounts payable and provisions. Financial instrument assets and liabilities are not netted, for purposes of presentation on the Statements of Financial Position.

The Company may use a variety of derivative financial instruments to reduce its exposure to risks associated with fluctuations in foreign exchange rates, interest rates and lumber prices. These include foreign currency forward, collar and option contracts, interest rate swaps, and lumber futures.

As at June 30, 2019, the Company had no outstanding obligations under derivative financial instruments.

14. Commitments and contingencies:

(a) 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, 2019 (December 31, 2018 – US$3,187,000) and is revalued at the quarter-end exchange rate to $4,170,000 (December 31, 2018 - $4,347,000).

Cumulative duties of US$76,468,000 paid by Interfor since the inception of the current trade dispute remain held in trust by the U.S pending the First Administrative Review and conclusion of all appeals of U.S decisions. All duty deposits except US$3,265,000 (December 31, 2018 – US$3,265,000) noted above have been expensed.

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

All duties paid remain held in trust by the U.S. pending the First Administrative Review and conclusion of all appeals of U.S. decisions.

(b) Timber licences:

Three timber licences held by Interfor for harvesting within the B.C. Coast region (the “Licences”) were cancelled by the Government of B.C., following the passing into law of the Great Bear Rainforest (Forest Management) Act (the “Act”) and regulations, which took effect January 1, 2017.

14. Commitments and contingencies (continued):

(b) Timber licences (continued):

On June 28, 2019, the Company received compensation of $7,737,000, inclusive of interest of $237,000, from the Government in settlement of two of the Licences and recognized a gain in Other income in the Statement of earnings.

Compensation for the less significant third licence remains under negotiation.

(c) Acquisition of B.C. Interior Cutting Rights from Canfor:

On June 3, 2019, Interfor entered into a purchase agreement with Canadian Forest Products Ltd. to acquire 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. The cash purchase price of $60 million will be financed from Interfor's available cash balance and/or borrowings under its existing bank credit facility.

The transaction is subject to various consents, including that by the Government of B.C. The transaction is targeted to close in the third quarter, 2019.

INTERFOR

Interfor Corporation
P.O. Box 49114, Four Bentall Centre
3500 – 1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1H7
Telephone: (604) 689-6800 Fax: (604) 688-0313

Contact: Martin L. Juravsky, Senior Vice President and Chief Financial Officer

Web Site: www.interfor.com