MANAGEMENT'S DISCUSSION AND ANALYSIS

Prepared as of February 8, 2024

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three and twelve months ended December 31, 2023 ("Q4'23" and "2023", respectively). It should be read in conjunction with the audited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the year ended December 31, 2023, and the notes thereto which have been prepared in accordance with IFRS Accounting Standards ("IFRS"). This MD&A contains certain non-generally accepted accounting principles ("GAAP") measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of February 8, 2024.

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

Forward-Looking Information

This MD&A contains forward-looking information about the Company's business outlook, objectives, plans, strategic priorities and other information that is not historical fact. A statement contains forward-looking information when the Company uses what it knows and expects today, to make a statement about the future. Forward-looking information is included under the headings "Overview of Fourth Quarter, 2023", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Accounting Policy Changes" and "Risks and Uncertainties". Statements containing forward-looking information may include words such as: will, could, should, believe, expect, anticipate, intend, forecast, projection, target, outlook, opportunity, risk or strategy.

Readers are cautioned that actual results may vary from the forward-looking information in this report, and undue reliance should not be placed on such forward-looking information. Risk factors that could cause actual results to differ materially from the forward-looking information in this report are described under the heading "Risks and Uncertainties". Material factors and assumptions used to develop the forward-looking information in this report include the timing and value of proceeds received from the disposition of Coast B.C. forest tenures; availability and cost of logs; competition; currency exchange sensitivity; environment; government regulation; health and safety; Indigenous reconciliation; information technology and cyber security; labour availability; logistics availability and cost; natural and man-made disasters and climate change; price volatility; residual fibre revenue; softwood lumber trade; tax exposures and the assumptions described under the heading "Critical Accounting Estimates" herein.

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

Overview of Fourth Quarter, 2023

Interfor recorded a Net loss in Q4'23 of $169.0 million, or $3.29 per share, compared to a Net loss of $42.4 million, or $0.82 per share in Q3'23 and a Net loss of $72.2 million, or $1.40 per share in Q4'22.

Adjusted EBITDA was a loss of $51.4 million on sales of $785.9 million in Q4'23 versus Adjusted EBITDA of $31.9 million on sales of $828.1 million in Q3'23 and an Adjusted EBITDA loss of $68.7 million on sales of $810.3 million in Q4'22.

Notable items in the quarter:

- Lumber prices continued to reflect an imbalance of lumber supply and demand, with demand continuing to be impacted by the elevated interest rate environment and ongoing economic uncertainty. Lumber prices weakened during Q4'23 as reflected in Interfor's average selling price of $601 per mfbm, down $60 per mfbm versus Q3'23.
- Lumber production totalled 1.1 billion board feet, representing a 105 million board feet increase over Q3'23, which was impacted by temporary wildfire-based downtime in B.C. Lumber shipments were 1.0 billion board feet, or 38 million board feet higher than Q3'23.
- Capital spending was $39.6 million, including $17.2 million of discretionary investment focused on multi-year projects in the U.S. South region. Planned capital expenditures for 2024 have been reduced to approximately $90.0 million from the preliminary estimate of $140.0 million in response to ongoing lumber market weakness and a review of expected project returns considering ongoing cost inflation.
- On October 3, 2023, the Company entered into an agreement to settle certain contractual obligations in order to facilitate monetization of its Coastal B.C. operations. The settlement resulted in an $85.0 million provision being recognized in Q4'23, the payment of which Interfor expects to be fully funded through proceeds from the disposition of Coast B.C. forest tenures over the next 12-24 months. In November 2023, the Company sold Coastal B.C. forest tenures totalling approximately 181,000 cubic metres of allowable annual cut ("AAC") and related liabilities for net proceeds of $23.5 million and a gain of $23.6 million. Interfor held approximately 1,392,000 cubic metres of AAC for disposition at December 31, 2023, subject to approvals from the Ministry of Forests.
- During Q4'23, the Company recorded an impairment charge of $55.8 million on plant, equipment and other assets related to its operations in the U.S. Northwest. The impairment was deemed appropriate based on a combination of elevated log costs and ongoing weak lumber markets.
- On November 8, 2023, the Company announced a renewal of its NCIB commencing on November 13, 2023 and ending on November 12, 2024, for the purchase of up to 5,100,812 common shares, which represents 10% of the Company's public float. The Company did not purchase any of its common shares during the quarter.
- Interfor expensed $18.0 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on shipments of softwood lumber from its Canadian operations to the U.S. at a combined rate of 8.05%. Interfor has cumulative duties of US$549.6 million, or approximately $10.32 per share on an after-tax basis, held in trust by U.S. Customs and Border Protection as at December 31, 2023. Except for US$161.8 million recorded as a receivable in respect of overpayments arising from duty rate adjustments and the fair value of rights to duties acquired, Interfor has recorded the duty deposits as an expense.

Subsequent events:

- On January 26, 2024, the Company priced US$33.3 million in long-term debt financing with Prudential Private Capital. The financing is expected to close in late March 2024 with the proceeds used to settle US$33.3 million of principal under the Company's existing Series C Senior Secured Notes due on March 26, 2024. The Senior Secured Notes will carry an annual fixed interest rate of 6.37% and have a final maturity in 2030. All other terms remain consistent with Interfor's existing Senior Secured Notes. Following completion of the financing, Interfor's Senior Secured Notes will have a weighted average interest rate of 5.46% with laddered maturities spanning 2025-2033.
- On February 1, 2024, the U.S. Department of Commerce ("DoC") issued its preliminary combined all other rate of 13.86% for 2022. The rate is the result of the DoC's fifth administrative review and is subject to change until its final rate determinations which are expected in mid-2024. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of December 31, 2023 to reflect the preliminary all other duty rate announced.

Outlook

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

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

Interfor's strategy of maintaining a diversified portfolio of operations in multiple regions allows the Company to both reduce risk and maximize returns on capital over the business cycle. In the event of a sustained lumber market downturn, Interfor maintains flexibility to significantly reduce capital expenditures and working capital levels, and to proactively adjust its lumber production to match demand.

Financial and Operating Highlights[1]

	Unit	For the three months ended Dec. 31 2023	Dec. 31 2022	Sep. 30 2023	For the year ended Dec. 31 2023	2022	2021
Financial Highlights[2]							
Total sales	$MM	785.9	810.3	828.1	3,315.7	4,584.0	3,289.1
Lumber	$MM	628.5	656.3	667.1	2,661.3	3,897.4	2,926.3
Logs, residual products and other	$MM	157.4	154.0	161.0	654.4	686.6	362.8
Operating earnings (loss)	$MM	(174.2)	(114.8)	(21.1)	(252.4)	859.6	1,077.9
Net earnings (loss)	$MM	(169.0)	(72.2)	(42.4)	(266.8)	598.2	819.0
Net earnings (loss) per share, basic	$/share	(3.29)	(1.40)	(0.82)	(5.19)	10.89	12.88
Operating cash flow per share (before working capital changes)[3]	$/share	(0.38)	(1.75)	1.78	2.54	9.45	16.79
Adjusted EBITDA[3]	$MM	(51.4)	(68.7)	31.9	48.4	1,059.4	1,246.8
Adjusted EBITDA margin[3]	%	(6.5%)	(8.5%)	3.9%	1.5%	23.1%	37.9%
Total assets	$MM	3,400.3	3,619.8	3,577.8	3,400.3	3,619.8	2,603.5
Total debt	$MM	897.7	797.9	877.1	897.7	797.9	375.7
Net debt[3]	$MM	842.7	720.3	777.7	842.7	720.3	(162.9)
Net debt to invested capital[3]	%	32.8%	26.2%	28.7%	32.8%	26.2%	(11.1%)
Annualized return on capital employed[3]	%	(28.0%)	(13.8%)	(4.5%)	(9.7%)	29.6%	55.7%
Operating Highlights							
Lumber production	million fbm	1,102	874	997	4,152	3,792	2,891
U.S. South	million fbm	485	404	470	1,897	1,792	1,545
U.S. Northwest	million fbm	157	135	162	626	631	600
Eastern Canada	million fbm	275	212	247	1,020	718	-
B.C.	million fbm	185	123	118	609	651	746
Lumber sales	million fbm	1,046	939	1,008	4,174	3,928	2,852
Lumber - average selling price[4]	$/thousand fbm	601	699	661	638	992	1,026
Key Statistics							
Benchmark lumber prices[5]							
SYP Composite	US$ per mfbm	373	461	429	423	704	764
KD H-F Stud 2x4 9'	US$ per mfbm	423	461	474	444	818	1,016
Eastern SPF Composite	US$ per mfbm	461	498	510	480	836	947
Western SPF Composite	US$ per mfbm	374	420	412	389	742	847
USD/CAD exchange rate[6]							
Average	1 USD in CAD	1.3624	1.3578	1.3414	1.3497	1.3013	1.2535
Closing	1 USD in CAD	1.3226	1.3544	1.3520	1.3226	1.3544	1.2678

Notes:

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

Summary of Fourth Quarter 2023 Financial Performance

Sales

Interfor recorded $785.9 million of total sales, down 3.0% from $810.3 million in the fourth quarter of 2022, driven by the sale of 1.0 billion board feet of lumber at an average price of $601 per mfbm. Average selling price decreased $98 per mfbm, or 14.0%, and lumber sales volume increased 107 million board feet, or 11.4%, as compared to the same quarter of 2022.

The decrease in the average selling price of lumber reflects lower prices across all key benchmarks in Q4’23 as compared to Q4’22.

Sales generated from logs, residual products and other increased by $3.4 million or 2.2% in Q4’23 compared to Q4’22 due mainly to an increase in volume of chips produced and sold.

Operations

Production costs decreased by $40.6 million, or 4.8%, compared to Q4’22, explained primarily by a net $46.2 million decrease in the net realizable value provision for log and lumber inventories recorded in Q4’23 vs Q4’22, inventory purchase accounting adjustments related to the acquisition in Eastern Canada in Q4’22 and lower stumpage rates in B.C. and Eastern Canada. The decrease is partially offset by a 14.0% increase in lumber sales volume, inflationary impacts on costs and a weaker Canadian Dollar on average.

Lumber production of 1.1 billion board feet in Q4’23 was 228 million board feet higher than Q4’22. The increase in production was primarily driven by the acquisition of two sawmills in Q4’22 and the impact of market-related curtailments during Q4’22.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totalled $18.0 million for Q4’23, up $2.9 million from Q4’22. The increase is due to higher shipments to the U.S. from Canadian sawmills primarily related to the acquired operations in Eastern Canada in Q4’22, partially offset by lower lumber sales prices and lower cash deposit rates.

Depreciation of plant and equipment was $48.9 million in Q4’23, up $9.3 million from Q4’22, due primarily to the operations acquired in Eastern Canada in Q4’22 and the start-up of completed capital projects primarily in the U.S. South. Depletion and amortization of timber, roads and other was $11.4 million, which was comparable to Q4’22.

Corporate and Other

Selling and administration expenses were $13.8 million, down $4.0 million from Q4’22 primarily related to lower accruals for short-term incentive compensation.

Long-term incentive compensation expense was $4.6 million in Q4’23, compared to a recovery of $4.2 million in Q4’22, primarily as a result of the impact of a 21.2% increase in the price of Interfor common shares used to value share-based awards during Q4’23 compared to a 14.2% decrease during Q4’22.

Asset write-downs and restructuring costs in Q4’23 were $57.9 million primarily related to an impairment of assets at an operation in the U.S. Northwest, which resulted from a combination of elevated log costs and ongoing weak lumber markets. The asset write-downs and restructuring costs in Q4’22 were a recovery of $1.0 million due to severance adjustments.

Finance costs increased to $10.6 million in Q4'23 from $4.7 million in Q4'22 primarily due to interest expense on higher borrowings to fund the acquisition of the Eastern Canada operations in 2022, partially offset by higher interest income accrued on the long-term duties receivable.

Other foreign exchange gain of $15.0 million in Q4'23 and $11.3 million in Q4'22 result primarily from the quarter-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The foreign exchange gain of $15.3 million recorded in the quarter on intercompany funding remains unrealized, and there was an offsetting loss recorded in Other comprehensive income (loss) for a net nil impact on Equity.

Other expense of $65.6 million in Q4'23 primarily related to the Coastal B.C. settlement provision recorded in Q4'23, partially offset by the gain on the sale of Coastal B.C. forest tenures. Other expense of $4.7 million in Q4'22 primarily related to losses on the disposal of surplus property, plant and equipment and the change in the fair value of the minority interest in GreenFirst Forest Products Inc. ("GreenFirst").

Income Taxes

The Company recorded an income tax recovery of $66.4 million in Q4'23 at an effective tax rate of 28%, comprised of a $39.5 million current income tax recovery and a $26.9 million deferred tax recovery. The Company recorded an income tax recovery of $40.7 million in Q4'22 at an effective tax rate of 36%, comprised of a $58.3 million current income tax recovery and a $17.6 million deferred tax expense. The effective rate exceeded the statutory tax rate in Q4'22 due to book to filing adjustments and the tax effect of the weakening of the U.S. Dollar on U.S. Dollar denominated short-term intercompany funding.

Net Earnings

The Company recorded a Net loss of $169.0 million, or $3.29 per share, compared to a Net loss of $72.2 million, or $1.40 per share in Q4'22. Operating margins and Net earnings (loss) were impacted by lower lumber prices, higher operating costs and one-time provisions partially offset by higher sales volumes.

Summary of 2023 Financial Performance

Sales

Interfor recorded $3.3 billion of total sales, down 27.7% from $4.6 billion in 2022, driven by the sale of 4.2 billion board feet of lumber at an average price of $638 per mfbm. Average selling price decreased $354 per mfbm, or 35.7%, and lumber sales volume increased 246 million board feet, or 6.3%, as compared to 2022.

The decrease in the average selling price of lumber reflects lower prices across all key benchmarks in 2023 as compared to 2022. This was partially offset by realized lumber prices increasing in Canadian Dollar terms by the 3.7% weakening of the Canadian Dollar against the U.S. Dollar in 2023 as compared to 2022.

Sales generated from logs, residual products and other decreased by $32.2 million or 4.7% as compared to 2022 due mainly to a decrease in the selling price of I-Joist wood products from the Eastern Canada operations, partially offset by an increase in volume of chips produced and sold.

Operations

Production costs decreased by $223.2 million or 6.6% as compared to 2022, explained primarily by a net $126.4 million decrease in the net realizable value provision for log and lumber inventories, inventory purchase accounting adjustments recorded in 2022 related to the Eastern Canada operations and lower stumpage rates in B.C. and Eastern Canada. The decrease is partially offset by a 6.3% increase in lumber sales volume, inflationary impacts on costs and a weaker Canadian Dollar on average.

Lumber production of 4.2 billion board feet in 2023 was 360 million board feet higher than 2022. The increased production is primarily due to the operations acquired in Eastern Canada in 2022 and ramp-ups of completed capital projects at several sawmills in the U.S. South, partially offset by the temporary closure of a B.C. sawmill due to wildfires in 2023.

Interfor expensed the full amount of CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S., which totalled $46.6 million for 2023, down $38.3 million from 2022. The decrease is due to lower lumber sales prices and lower cash deposit rates as compared to 2022. The decrease is partially offset by a $6.3 million recovery related to the finalization of the CV and AD rates by the DoC for AR4 in 2023 compared to a $26.1 million recovery related to the finalization of AR3 in 2022. In addition, there were higher shipments to the U.S. from Canadian sawmills as compared to 2022.

Depreciation of plant and equipment was $187.4 million, up 21.0% from 2022, due primarily to the operations acquired in Eastern Canada in 2022 and the start-up of completed capital projects primarily in the U.S. South. Depletion and amortization of timber, roads and other was $41.1 million, up $1.4 million from 2022 primarily due to the operations acquired in Eastern Canada in 2022, partially offset by decreased conventional logging at the B.C. operations.

Corporate and Other

Selling and administration expenses were $65.8 million, down $1.4 million from 2022, primarily related to lower accruals for short-term incentive compensation, partially offset by expanded general corporate activities.

Long-term incentive compensation expense was $8.7 million in 2023, compared to a recovery of $8.4 million in 2022, primarily as a result of the impact of a 16.7% increase in the price of Interfor common shares used to value share-based awards during 2023 compared to a 46.0% decrease during 2022.

Asset write-downs and restructuring costs in 2023 totalled $59.6 million, primarily related to an impairment of assets at an operation in the U.S. Northwest, which resulted from a combination of elevated log costs and ongoing weak lumber markets. The asset write-downs and restructuring costs in 2022 of $4.0 million primarily related to severance and non-cash impairments on certain plant and equipment that were replaced in conjunction with the Company's strategic capital projects.

Finance costs increased to $45.0 million from $15.6 million in 2022 primarily due to interest expense on higher borrowings to fund the acquisition of the Eastern Canada operations in 2022, partially offset by higher interest income accrued on the long-term duties receivable.

Other foreign exchange gain of $14.7 million in 2023 and loss of $43.1 million in 2022 result primarily from the period-end revaluation of U.S. Dollar denominated short-term intercompany funding and U.S. Dollar cash held by Canadian operations. The foreign exchange gain of $16.2 million recorded in 2023 on intercompany funding remains unrealized, and there was an offsetting loss recorded in Other comprehensive income (loss) for a net nil impact on Equity.

Other expense of $75.2 million in 2023 primarily related to the Coastal B.C. settlement provision and the change in the fair value of the minority interest in GreenFirst, partially offset by the gain on the sale of Coastal B.C. forest licenses and insurance proceeds for a business interruption claim related to fire damage at a sawmill in Eastern Canada. Other income of $14.0 million in 2022 primarily related to the gain on the sale of a forest license, the gain on the sale of the Acorn speciality sawmill and insurance proceeds for a business interruption claim related to fire damage at a sawmill, partially offset by the change in the fair value of the minority interest in GreenFirst.

<u>Income Taxes</u>

The Company recorded an income tax recovery of $91.1 million in 2023 at an effective tax rate of 25%, comprised of a $63.5 million current income tax recovery and a $27.6 million deferred tax recovery. The Company recorded income tax expense of $216.7 million in 2022 at an effective tax rate of 27%, comprised of $184.6 million in current income tax expense and $32.1 million in deferred tax expense.

<u>Net Earnings</u>

The Company recorded a Net loss of $266.8 million, or $5.19 per share, compared to Net earnings of $598.2 million, or $10.89 per share in 2022. Operating margins and Net earnings (loss) were impacted by lower lumber prices, higher operating costs and one-time provisions partially offset by higher sales volumes and an unrealized foreign exchange gain on intercompany funding.

Summary of Quarterly Results[1]

		2023				2022			
	Unit	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Financial Performance[2]									
Total sales	$MM	785.9	828.1	871.8	829.9	810.3	1,035.6	1,389.1	1,349.0
Lumber	$MM	628.5	667.1	723.2	642.5	656.3	837.8	1,190.8	1,212.5
Logs, residual products and other	$MM	157.4	161.0	148.6	187.4	154.0	197.8	198.3	136.5
Operating earnings (loss)	$MM	(174.2)	(21.1)	(20.8)	(36.2)	(114.8)	75.8	385.9	512.7
Net earnings (loss)	$MM	(169.0)	(42.4)	(14.1)	(41.3)	(72.2)	3.5	269.9	397.0
Net earnings (loss) per share, basic	$/share	(3.29)	(0.82)	(0.27)	(0.80)	(1.40)	0.06	4.92	6.69
Operating cash flow per share (before working capital changes)[3,7]	$/share	(0.38)	1.78	0.68	0.47	(1.75)	(0.02)	4.43	6.18
Adjusted EBITDA[3]	$MM	(51.4)	31.9	41.9	26.1	(68.7)	129.5	428.6	570.1
Adjusted EBITDA margin[3]	%	(6.5%)	3.9%	4.8%	3.1%	(8.5%)	12.5%	30.9%	42.3%
Annualized return on capital employed[3]	%	(28.0%)	(4.5%)	(1.1%)	(5.0%)	(13.8%)	5.6%	52.9%	86.6%
Shares outstanding - end of period	million	51.4	51.4	51.4	51.4	51.4	51.4	54.8	55.8
Shares outstanding - weighted average	million	51.4	51.4	51.4	51.4	51.4	54.1	54.9	59.4
Operating Performance									
Lumber production	million fbm	1,102	997	1,023	1,031	874	986	1,016	917
U.S. South	million fbm	485	470	468	473	404	470	467	452
U.S. Northwest	million fbm	157	162	165	142	135	159	163	173
Eastern Canada	million fbm	275	247	249	250	212	198	212	96
B.C.	million fbm	185	118	141	166	123	159	174	196
Lumber sales	million fbm	1,046	1,008	1,116	1,004	939	1,064	1,082	843
Lumber - average selling price[4]	$/thousand fbm	601	661	649	639	699	800	1,104	1,410
Key Statistics									
Benchmark lumber prices[5]									
SYP Composite	US$ per mfbm	373	429	446	442	461	555	682	1,119
KD H-F Stud 2x4 9'	US$ per mfbm	423	474	452	428	461	627	891	1,293
Eastern SPF Composite	US$ per mfbm	461	510	474	474	498	657	938	1,251
Western SPF Composite	US$ per mfbm	374	412	372	399	420	550	837	1,159
USD/CAD exchange rate[6]									
Average	1 USD in CAD	1.3624	1.3414	1.3428	1.3525	1.3578	1.3056	1.2768	1.2662
Closing	1 USD in CAD	1.3226	1.3520	1.3240	1.3533	1.3544	1.3707	1.2886	1.2496

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

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

Lumber production and sales increased in Q1'22 with the acquisition of operations in Eastern Canada and the restart of the sawmill in DeQuincy, LA and in Q4'22 with the acquisition of sawmills in Belledune, NB and Bathurst, NB. These production and sales increases were partially offset by the sale of the Acorn specialty sawmill, temporary market-related curtailments announced in October 2022 and January 2023 and temporary curtailment of a B.C. sawmill due to wildfires in Q3'23. Asset impairments related to the U.S. Northwest operations and the Coastal B.C. settlement provision affected earnings in Q4'23.

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

Liquidity

Balance Sheet

Interfor's Net debt at December 31, 2023 was $842.7 million, or 32.8% of invested capital, representing an increase of $122.4 million from the level of Net debt at December 31, 2022.

As at December 31, 2023 the Company had net working capital of $337.7 million and available liquidity of $339.7 million, based on the available borrowing capacity under its $600.0 million Revolving Term Line ("Term Line").

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

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

	For the three months ended			For the year ended	
Millions of Dollars	Dec. 31, 2023	Dec. 31, 2022	Sept. 30, 2023	Dec. 31, 2023	Dec. 31, 2022
Net debt					
Net debt (cash), period opening	$777.7	$249.7	$815.7	$720.3	$(162.9)
Net issuance (repayment) of Senior Secured Notes	-	270.2	-	(7.1)	263.2
Term Line net drawings (repayments)	39.9	133.5	(61.2)	128.2	129.6
Decrease in cash and cash equivalents	43.9	73.8	5.6	20.3	480.3
Foreign currency translation impact on U.S. Dollar denominated cash and cash equivalents and debt	(18.8)	(6.9)	17.6	(19.0)	10.1
Net debt, period ending	$842.7	$720.3	$777.7	$842.7	$720.3

On January 26, 2024, the Company priced US$33.3 million in long-term debt financing with Prudential Private Capital. The financing is expected to close in late March 2024 with the proceeds used to settle US$33.3 million of principal under the Company's existing Series C Senior Secured Notes due on March 26, 2024. The Senior Secured Notes will carry an annual fixed interest rate of 6.37% and have a final maturity in 2030. All other terms remain consistent with Interfor's existing Senior Secured Notes. Following completion of the financing, Interfor's Senior Secured Notes will have a weighted average interest rate of 5.46% with laddered maturities spanning 2025-2033.

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line was increased by $100.0 million to a total of $600.0 million.

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

Cash Flow from Operating Activities

The Company generated $130.7 million of cash flow from operations before changes in working capital in 2023, for a decrease of $388.2 million over 2022. There was a net cash inflow from operations after changes in working capital of $119.8 million in 2023, with $10.9 million of cash invested in operating working capital.

Increased lumber shipments contributed to the $7.5 million outflow related to trade receivables, while a focused effort to reduce log and lumber inventories contributed to the $55.1 million inflow from inventories. Timing of payments contributed to the $57.9 million outflow from trade accounts payable and provisions.

In 2022, $732.4 million of cash was generated from operations, with $213.5 million of cash released from operating working capital.

Cash Flow from Investing Activities

Investing activities totalled $189.8 million in 2023, with $186.1 million for property, plant and equipment and $13.3 million for development of roads and bridges, partially offset by $5.8 million in proceeds on disposal of property, plant and equipment and other and $3.3 million for deposits and other assets.

Discretionary mill improvements of $122.7 million in 2023 were mainly focused on the multi-year rebuild of the Thomaston, GA sawmill and upgrades at several other operations in the U.S. South.

Maintenance capital investments excluding roads totalled $63.4 million in 2023.

In 2022, investing activities were $1.2 billion, with $911.4 million for the acquisition of the Eastern Canada operations, $288.6 million for property, plant and equipment, $55.6 million for the investment in GreenFirst, $16.9 million for development of roads and bridges, $3.2 million for deposits and other assets, partially offset by $32.0 million in proceeds on disposal of property, plant and equipment and other.

Discretionary and maintenance mill improvements totalled $189.6 million and $99.0 million, respectively, in 2022, of which the majority was invested in the multi-year rebuilds of the Eatonton, GA and Thomaston, GA sawmills, a new planer at the Castlegar, B.C. sawmill and upgrades to the Perry, GA sawmill.

Cash Flow from Financing Activities

The net cash inflow of $49.7 million in 2023 resulted from $128.2 million in Term Line net drawings, partially offset by interest payments of $52.9 million, lease liability payments of $18.4 million and $7.1 million in repayments of Senior Secured Notes.

The net cash inflow of $31.0 million in 2022 resulted from the issuance of US$200 million Senior Secured Notes and $129.6 million in Term Line net drawings, partially offset by $327.8 million used to purchase shares under the Company's NCIB and substantial issuer bid ("SIB"), $7.0 million in repayments of Senior Secured Notes, interest payments of $17.1 million and lease liability payments of $16.5 million.

Summary of Contractual Obligations

The estimated cash payments due in respect of contractual and legal obligations as at December 31, 2023, including debt and interest payments and major capital commitments are summarized as follows:

		Payments due by Period			
Millions of Canadian Dollars	Total	Up to 1 Year	2 to 3 Years	4 to 5 Years	After 5 Years
Trade accounts payable and provisions	$ 208.7	$ 208.7	$ -	$ -	$ -
Income taxes payable	0.2	0.2	-	-	-
Reforestation liability	47.5	15.8	14.6	6.0	11.1
Lease liabilities	47.3	21.5	20.5	4.2	1.1
Long-term debt	1,121.3	77.4	405.0	171.0	467.9
Provisions and other liabilities	51.5	16.8	7.2	1.2	26.3
Operating and capital commitments	315.2	223.4	87.3	4.5	-
Total obligations	$ 1,791.7	$ 563.8	$ 534.6	$ 186.9	$ 506.4

Capital Resources

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

Millions of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	$600.0	$639.8	$1,239.8
Less:			
Drawings	257.9	639.8	897.7
Outstanding letters of credit included in line utilization	57.4	-	57.4
Unused portion of facility	$284.7	$ -	284.7
Add:			
Cash and cash equivalents			55.0
Available liquidity at December 31, 2023			$339.7

Interfor's Term Line matures in December 2026 and its Senior Secured Notes have maturities in the years 2024-2033.

As of December 31, 2023, the Company had commitments for capital expenditures totaling $64.6 million for both maintenance and discretionary capital projects.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel and directors, the Company had no transactions between related parties in the year ended December 31, 2023.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and AD and CV duty deposits. At December 31, 2023, such instruments aggregated $123.1 million (December 31, 2022 - $130.6 million).

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

Financial Instruments and Other Instruments

From time to time, the Company may purchase high grade liquid marketable securities with varying maturities no greater than twelve months to yield a higher return on surplus cash. The Company did not purchase or hold any marketable securities in 2023 or 2022.

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

The Company did not enter into any foreign exchange forward or option contracts, interest rate derivatives contracts or lumber futures contracts in 2023 or 2022.

Borrowings

As at December 31, 2023, Interfor had US$195.0 million outstanding on its Term Line and US$483.7 million of fixed rate debt of Senior Secured Notes outstanding.

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

The Company's Senior Secured Notes have a weighted average fixed interest rate of 5.3%.

Based on the Company's average borrowings under the Term Line, the sensitivity of a 100 basis point increase in interest rates would result in an approximate decrease of $1.8 million in Net earnings (loss).

Foreign Currency

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

As at December 31, 2023, the Company had designated the US$195.0 million drawn on its Term Line and the US$483.7 million drawn under its Senior Secured Notes as a hedge against the net investment in its U.S. operations.

The Company recorded a $30.4 million after-tax unrealized foreign exchange loss on translation of its U.S. operations with a U.S. Dollar functional currency, net of revaluations of debt designated as hedges against the net investment in U.S. operations, to Other comprehensive income (loss) in 2023 (2022 - $117.5 million gain).

Outstanding Shares

As of February 8, 2024, Interfor had 51,445,803 common shares issued and outstanding. These common shares are listed on the Toronto Stock Exchange under the symbol IFP.

As of February 8, 2024, there were 533,974 stock options outstanding with exercise prices ranging from $9.78 to $37.68 per common share.

On November 8, 2023, the Company announced a renewal of its NCIB commencing on November 13, 2023 and ending on November 12, 2024, for the purchase of up to 5,100,812 common shares. No common shares under this NCIB were purchased in 2023.

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

During 2022, Interfor purchased 6,041,701 common shares at a cost of $227.2 million and all repurchased common shares were cancelled. This completed the purchase of all 6,041,701 common shares allowable under the previous NCIB that expired November 10, 2022.

On September 12, 2022, the Company purchased 3,355,704 common shares under its SIB for total consideration of $100.0 million at a price of $29.80 per share. This completed the purchase of all common shares under the SIB and all purchased common shares were cancelled.

Controls and Procedures

The Company's management, under the supervision of the Chief Executive Officer ("CEO") and the Chief Financial Officer ("CFO"), has evaluated the design and effectiveness of the Company's disclosure controls and procedures. Based on this evaluation, the CEO and CFO have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2023.

The Company's management, under the supervision of the CEO and CFO, has evaluated the design and effectiveness of the Company's internal controls over financial reporting ("ICFR") based on the criteria established within the 2013 COSO framework. Based on this evaluation, the CEO and CFO have concluded that the Company's ICFR were effective as of December 31, 2023.

The CEO and CFO acknowledge responsibility for the design of ICFR and confirm that there were no changes in these controls that occurred during the year ended December 31, 2023, which materially affected, or are reasonably likely to materially affect, the Company's ICFR.

In October 2023, the Company successfully converted the systems of the Eastern Canada Operations to its' core operating systems. In connection with this conversion, the Company replaced various internal controls over financial reporting that were previously considered effective with similar internal controls that are also considered to be effective. In management's judgment, these changes do not have a material effect on internal controls over financial reporting.

Critical Accounting Estimates

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

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

The determination of fair value is estimated based on information available at the date of acquisition and requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the acquired property, plant and equipment and lumber inventory generally require the most judgment.

For acquired property, plant and equipment these include replacement cost new estimates and physical depreciation assumptions and for acquired lumber inventory it includes acquisition date market price assumptions. Changes in any of these assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets and liabilities in the acquisition equation.

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

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

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

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

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

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

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

Interfor assesses the recoverability of Right of use assets, Property, plant and equipment, Roads and bridges, Timber licences and Other intangible assets whenever events or circumstances indicate that the carrying value may not be recoverable.

The Company measures goodwill in business acquisitions at the acquisition date as the fair value of the consideration transferred less the fair value of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. Goodwill is tested for impairment annually, and whenever events or changes in circumstances indicate that impairment may exist. Goodwill is allocated to the Company's cash generating units ("CGU") or group of CGU's that are expected to benefit from it. The Company's goodwill relates to its U.S. South, U.S. Northwest and Eastern Canada regions.

The Company assessed the recoverability of goodwill as at December 31, 2023 and 2022 and concluded that there was no impairment.

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

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

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

Accounting Policy Changes

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

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: EBITDA, Adjusted EBITDA, Adjusted EBITDA margin, Net debt to invested capital, Operating cash flow per share (before working capital changes), and Annualized return on capital employed which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

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

Millions of Canadian Dollars except number of shares and per share amounts	For the three months ended Dec. 31 2023	Dec. 31 2022	Sept. 30 2023	For the year ended Dec. 31 2023	2022	2021
Adjusted EBITDA						
Net earnings (loss)	$(169.0)	$(72.2)	$(42.4)	$(266.8)	$598.2	$819.0
Add:						
Depreciation of plant and equipment	48.9	39.6	46.7	187.4	154.9	97.1
Depletion and amortization of timber, roads and other	11.4	11.7	7.6	41.1	39.7	29.4
Finance costs	10.6	4.7	10.2	45.0	15.6	17.8
Income tax expense (recovery)	(66.4)	(40.7)	(5.1)	(91.1)	216.7	270.1
EBITDA	(164.5)	(56.9)	17.0	(84.4)	1,025.1	1,233.4
Add:						
Long-term incentive compensation expense (recovery)	4.6	(4.2)	(1.3)	8.7	(8.4)	31.7
Other foreign exchange loss (gain)	(15.0)	(11.3)	14.0	(14.7)	43.1	2.3
Other expense (income) excluding business interruption insurance	65.6	4.7	2.2	79.2	(4.4)	(31.3)
Asset write-downs and restructuring costs (recoveries)	57.9	(1.0)	-	59.6	4.0	10.2
Post closure wind-down costs	-	-	-	-	-	0.5
Adjusted EBITDA	$(51.4)	$(68.7)	$31.9	$48.4	$1,059.4	$1,246.8
Sales	$785.9	$810.3	$828.1	$3,315.7	$4,584.0	$3,289.1
Adjusted EBITDA margin	(6.5%)	(8.5%)	3.9%	1.5%	23.1%	37.9%
Net debt to invested capital						
Net debt						
Total debt	$897.7	$797.9	$877.1	$897.7	$797.9	$375.7
Cash and cash equivalents	(55.0)	(77.6)	(99.4)	(55.0)	(77.6)	(538.6)
Total net debt	$842.7	$720.3	$777.7	$842.7	$720.3	$(162.9)
Invested capital						
Net debt	$842.7	$720.3	$777.7	$842.7	$720.3	$(162.9)
Shareholders' equity	1,730.4	2,027.1	1,927.9	1,730.4	2,027.1	1,636.0
Total invested capital	$2,573.1	$2,747.4	$2,705.6	$2,573.1	$2,747.4	$1,473.1
Net debt to invested capital (1)	32.8%	26.2%	28.7%	32.8%	26.2%	(11.1%)
Operating cash flow per share (before working capital changes)						
Cash provided by operating activities	$(25.9)	$10.3	$107.2	$119.8	$732.4	$1,052.4
Cash used in (generated from) operating working capital	6.1	(100.2)	(15.7)	10.9	(213.5)	15.1
Operating cash flow (before working capital changes)	$(19.8)	$(89.9)	$91.5	$130.7	$518.9	$1,067.5
Weighted average number of shares - basic (millions)	51.4	51.4	51.4	51.4	54.9	63.6
Operating cash flow per share (before working capital changes)	$(0.38)	$(1.75)	$1.78	$2.54	$9.45	$16.79
Annualized return on capital employed						
Net earnings (loss)	$(169.0)	$(72.2)	$(42.4)	$(266.8)	$598.2	$819.0
Add:						
Finance costs	10.6	4.7	10.2	45.0	15.6	17.8
Income tax expense (recovery)	(66.4)	(40.7)	(5.1)	(91.1)	216.7	270.1
Earnings (loss) before income taxes and finance costs	$(224.8)	$(108.2)	$(37.3)	$(312.9)	$830.5	$1,106.9
Capital employed						
Total assets	$3,400.3	$3,619.8	$3,577.8	$3,400.3	$3,619.8	$2,603.5
Current liabilities	(336.2)	(325.9)	(345.4)	(336.2)	(325.9)	(321.6)
Less:						
Bank indebtedness	-	-	-	-	-	2.2
Current portion of long-term debt	44.1	7.3	45.1	44.1	7.3	6.9
Current portion of lease liabilities	17.2	14.8	16.0	17.2	14.8	12.2
Capital employed, end of period	$3,125.4	$3,316.0	$3,293.5	$3,125.4	$3,316.0	$2,303.2
Capital employed, beginning of period	3,293.5	2,938.8	3,344.9	3,316.0	2,303.2	1,672.1
Average capital employed	$3,209.5	$3,127.4	$3,319.2	$3,220.7	$2,809.6	$1,987.6
Earnings (loss) before income taxes and finance costs divided by average capital employed	(7.0%)	(3.5%)	(1.1%)	(9.7%)	29.6%	55.7%
Annualization factor	4.0	4.0	4.0	1.0	1.0	1.0
Annualized return on capital employed	(28.0%)	(13.8%)	(4.5%)	(9.7%)	29.6%	55.7%

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 the factors described below.

Availability and Cost of Logs

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

The Company currently holds cutting rights in the provinces of B.C., Ontario, Quebec, and New Brunswick that represent an AAC of approximately 7.72 million cubic metres in the form of long-term replaceable tenures. Operating at normal capacity, these cutting rights provide approximately 80% of the expected consumption at the Company's Canadian sawmills. The remaining requirements are met either through purchase agreements or on the open market. The Provincial governments set sustainable harvest levels (i.e., AAC) for each management unit. Many factors affect the AAC, such as timber inventory, operable land base, growth rates, regulations, forest health, species at risk, land use, and environmental and social considerations. The Company's ability to access logs could also be impacted by Indigenous peoples unsettled land and title claims (see "Indigenous Reconciliation" below for information).

The Mountain Pine Beetle ("MPB") infestation has resulted in the mortality of a significant portion of the mature pine trees in the B.C. Interior. The Company's operations are in southern interior of B.C. where there is a lower percentage of pine trees, therefore Interfor operations are less affected by the MPB infestation. The longer-term timber supply effects of the MPB are not expected to have a significant impact on the Company's operating areas.

Species at Risk are managed by the Government of Canada and the Provincial Governments. When a species is identified as endangered, threatened or of special concern, a plan for recovery actions is developed. This may include protection and recovery measures that may result in a reduction of AAC in certain areas.

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

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

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

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

Fluctuations in the price, quality or availability of logs can have a material effect on the Company's business, financial position, results of operations and cash flow. In addition, natural and man-made disasters and climate change can restrict timely access to logs as well as increase cost for available logs.

Competition

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

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

The Company's operations are highly capital intensive and as a result continuous significant capital investment to key manufacturing facilities and equipment will be required to remain competitive within the industry.

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

Currency Exchange Sensitivity

The Company's Canadian operations sell approximately 64% of their lumber into export markets, with the majority of these sales denominated in U.S. Dollars.

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

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

Environment

Interfor's operations are subject to federal, provincial, state, municipal and local authority environmental regulations, including regulations relating to air emissions and pollutants, wastewater (effluent) discharges, solid and hazardous waste, landfill operations, forestry practices, site remediation and the protection of threatened or endangered species and critical habitat.

The Company has incurred, and will continue to incur, costs to minimize environmental impact, prevent pollution and for continuous improvement of its environmental performance. The Company may discover currently unknown environmental problems or conditions relating to its past or present operations, or it may be faced with an unforeseen environmental liability in the future.

This may require site or other remediation costs to maintain compliance or correct violations of environmental laws and regulations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on the Company's financial condition and results of operations.

The Company maintains an Environmental Management System that provides a structure for identifying, addressing and correcting environmental issues. Further discussion of the Company's internal environmental policies and procedures and environmental issues is included in the Company's Annual Information Form, incorporated by reference herein.

Government Regulation

The Company's operations are subject to a vast range of general and industry-specific forestry and forest practices, environmental, health and safety, building and product standards and other laws and regulations imposed by federal, provincial, state and local authorities that apply to most aspects of its business activities. Where applicable, the Company is required to obtain approvals, permits and licences for its operations as a condition to operate.

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

Health and Safety

The Company is committed to the health and safety of its employees. The Company has a formal Health and Safety Policy and documented procedures in place for safe work, hazard identification and risk assessment as well as regular health and safety training programs and initiatives. Even with these measures in place, due to the nature of the Company's operations and failure to follow policies and procedures employees can be subject to risks, such as wood dust, heavy machinery and chemicals.

The future emergence and spread of pathogens could have an adverse impact on global economic conditions, similar to the impact of the global COVID-19 pandemic. In turn, such a public health crisis could have adverse consequences on Interfor's operations, financial results and liquidity. Areas of potential impact include the health and safety of employees and contractors, product demand and pricing, availability of logs and operating supplies, availability of logistics and increased cyber-security risk. It is difficult to accurately predict the severity of any such impact on the Company.

Indigenous Reconciliation

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

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

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

The UNDRIP Act affirms UNDRIP as a universal international human rights instrument with application in Canadian law and provides a framework for the government of Canada to implement the UNDRIP.

This framework will guide the changes required for implementation of federal laws to be consistent with the UNDRIP and the establishment of an action plan to achieve UNDRIP's objectives.

In B.C., the government passed legislation to start the process to reconcile provincial laws with the UNDRIP. In October 2023, the B.C. government announced that harvesting has now been temporarily deferred on 2.4 million hectares of old growth in the province. Final decisions on the status of deferral areas will be driven by Indigenous communities and regional landscape planning processes. Interfor continues to work with First Nations and the Province through participation in the planning processes.

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

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

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

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

<u>Information Technology and Cyber Security</u>

The Company's operations and administration are dependent on both internal and third-party information technology ("IT") systems. An interruption, failure or unsuccessful implementation and integration of the Company's IT systems could result in a material adverse impact on the Company's operations, financial results and liquidity.

The Company's IT systems are vulnerable and could fail due to a variety of reasons, such as cyber-based attacks, natural disasters, fire, power outages or vandalism. The impact of a cyber-security breach or the unavailability of a key Company IT system could be significant, including but not limited to operational delays, financial loss, reputational damage or unauthorized access to, or loss of confidential or sensitive information.

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

<u>Labour Availability</u>

Labour disruptions resulting from walkouts or strikes, employee turnover, shortage of skilled labour, and inability to retain or hire employees could result in lost production and sales, which could have a material adverse impact on the Company's business.

Approximately 28% of the Company's employees are members of various unions with collective agreements expiring in the years 2024 to 2027. There were three collective agreements that expired in 2023 and the Company is currently in negotiations to renew these agreements. The Company believes that its current labour relations are stable and as a result does not anticipate any significant disruptions to its operations in the foreseeable future.

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

Most of our operations are located away from major urban centers, resulting in strong competition from our industry and others for skilled labour. Shortages of skilled workers and failure to attract or retain qualified employees can result in lost production or increased costs.

Logistics Availability and Cost

The Company depends on third parties for transportation of its products and raw materials to and from its production facilities and to domestic and export markets. These third-party transportation providers include railways, truckers, bulk and container shippers and tug and barge operators. The Company's ability to obtain transportation services from providers is subject to risks such as availability of equipment and operators, disruptions due to weather, natural disasters and labour disputes.

If any of the Company's third-party transportation providers failed to deliver the raw materials or products in a timely manner, the Company may be unable to sell those products at full value, or unable to manufacture products in response to customer demand, which could have an adverse effect on the Company's financial condition and results of operations.

Transportation costs are also subject to risks such as increased rates due to competition, increased fuel costs, increased labour costs and increased capital expenditures related to repair, maintenance and upgrading of transportation infrastructure. Increases in transportation costs would increase the Company's operating costs and may adversely impact financial condition.

Natural and Man-Made Disasters and Climate Change

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

There are also risks associated with changes in laws, regulations and industry standards associated with climate change. The Company monitors regulatory changes including any climate-related regulations, to assess their impacts on operations. The Company has made significant progress on greenhouse gas ("GHG") reporting including development of a Scope 3 emissions inventory by GHG Protocol Category, establishment of a base year reference and creation of a GHG reduction target. However, there is risk the Company does not meet the GHG reduction target and this may lead to increased capital expenditures and costs of operations, payment of carbon taxes or other events that could adversely impact the Company's operations and financial condition.

Price Volatility

The Company's operating results are dependent upon the selling prices for lumber, I-Joists, logs and residual wood products.

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

The Company's sensitivity to the selling prices for these products may result in a high degree of sales and earnings volatility and prolonged weakness in the markets for the Company's products could harm the Company's financial condition.

Residual Fibre Revenue

The Company's sawmills produce wood chips and other residuals as by-products of lumber production. Wood chips are primarily sold under short and long-term contracts to pulp and paper producers or fibre board manufacturers. Generally, wood chips and residuals are sold at current market prices and are subject to supply and demand in the regions the Company's sawmills are located. Interfor's profitability could be adversely impacted by increased sawmill capacities in its operating regions or reductions in demand for residual fibre.

Softwood Lumber Trade

The Company's financial results are dependent upon continued access to the U.S. market. Interfor's shipments to the U.S. from Canadian operations represent approximately 25% of Company-wide lumber production. Tariffs and other trade barriers that restrict or prevent access to the U.S. market represent a continuing risk to the Company's Canadian based operations.

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

Cumulative duties of US$549.6 million have been paid by Interfor since inception of the current trade dispute and are held in trust by the U.S. pending all administrative reviews and conclusion of all appeals of U.S. decisions. Interfor has recorded the majority of these duty deposits as an expense, except for US$161.8 million which are recorded as a long-term receivable due to a reduction in rates as a result of the first, second, third and fourth administrative reviews, other process corrections and duties acquired as a result of acquisitions. Interfor is seeking to recover these deposits following successful appeals or through settlement.

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

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

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

Tax Exposures

Interfor takes various positions in the filing of the Company's tax returns, and there can be no assurance that tax authorities will not challenge such filing positions. The Company is also subject to uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. We provide for known estimated material tax exposures in all jurisdictions, however settlements could differ materially from our estimated liabilities.

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.sedarplus.ca.