Interfor Corporation

Vancouver, B.C. August 2, 2018

Interfor Reports Q2'18 Results

Record EBITDA[1] of $124 million on Sales of $620 million
Operating Cash Flow[1] of $1.76 per share
49% Annualized Return on Invested Capital
US$240 million of New Strategic Capital Projects in the South

INTERFOR CORPORATION ("Interfor" or the "Company") (TSX: IFP) recorded net earnings in Q2'18 of $63.8 million, or $0.91 per share, compared to $33.0 million, or $0.47 per share in Q1'18 and $24.5 million, or $0.35 per share in Q2'17. Adjusted net earnings in Q2'18 were $68.9 million or $0.98 per share, compared to $36.8 million, or $0.52 per share in Q1'18 and $28.7 million, or $0.41 per share in Q2'17.

Adjusted EBITDA was a record $123.8 million on sales of $619.9 million in Q2'18 versus $81.1 million on sales of $527.6 million in Q1'18.

Notable items in the quarter included:

- Higher Lumber Prices
  - The key benchmark prices improved quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' increasing by US$73, US$61 and US$94 per mfbm, respectively. Interfor's average lumber selling price increased $65 from Q1'18 to $753 per mfbm.
- Increased Production and Shipments
  - Total lumber production was a record 688 million board feet or 22 million board feet more than the prior quarter. Production in the U.S. South region increased to 325 million board feet from 302 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 215 million board feet and 148 million board feet, respectively, compared to 218 million board feet and 146 million board feet in Q1'18, respectively. 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.
  - Total lumber shipments were 700 million board feet, of which 689 million board feet were Interfor produced volumes, with the balance of 11 million board feet being agency and wholesale volumes. Total lumber shipments were 52 million board feet higher than Q1'18, as Q1'18 shipments were negatively impacted by industry-wide logistics issues, and particularly by weather-impacted rail constraints in B.C. The Company's lumber inventory volume at June 30, 2018 was comparable to March 31, 2018.

[1] Refer to Adjusted EBITDA and Operating cash flow per share in the Non-GAAP Measures section

- Strong Cash Flows and Liquidity
  - Interfor generated $123.2 million of cash from operations before changes in working capital, or $1.76 per share. Total cash generated from operations was $133.7 million.
  - Net debt ended the quarter at $34.4 million, or 3.4% of invested capital, resulting in available liquidity of $542.3 million.
  - Capital spending was $23.3 million on a mix of high-return discretionary, maintenance and woodlands projects.
- Softwood Lumber Duties
  - Interfor expensed $14.8 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%.

Strategic Capital Plan

- Interfor continues to make progress on its multi-year strategic capital plan that involves a number of discretionary projects designed to capture the opportunities within its current operating platform and to pursue opportunities for further growth. The strategic capital plan was advanced over the past quarter, including site preparation and mill readiness initiatives for the previously announced US$65 million of projects at the Meldrim, GA and Monticello, AR sawmills. The projects remain on track for completion in Q1’19. These projects are designed to increase production capacity by approximately 150 million board feet per year, as well as generate other benefits related to costs and product mix.
- In addition, the Company has received Board approval to proceed with three new strategic capital projects totaling US$240 million at its Thomaston, GA, Eatonton, GA and Georgetown, SC sawmills. These projects include major modernizations and rebuilds, and are designed to increase production capacity by approximately 275 million board feet per year, as well as substantially reduce cash conversion costs, improve lumber recovery and enhance grade outturns and product mix. The projects are expected to generate a pre-tax cash payback of less than five years, using conservative lumber price assumptions. The projects are expected to be completed in various phases during 2019 to 2021.
- The Company is also undertaking a number of machine center upgrades at certain mills in B.C., the U.S. Northwest and the U.S. South. These projects are planned for completion over the next 12 to 18 months.
- The timeline for assessing and deciding upon greenfield sawmill opportunities in the Central Region of the U.S. South has been extended beyond mid-2018, as the Company focused on completing plans for its strategic capital projects. With those projects now underway, the Company is in a position to further develop greenfield opportunities over the coming months. A decision is dependent upon satisfactory conclusion of due diligence and assessment against Interfor’s investment criteria.

Debt Financing

In conjunction with the planned increase in capital spending over the coming several years, Interfor modified its debt financing arrangements in order to further enhance its financial flexibility. In particular, the Company entered into an agreement to extend US$84 million of its 2021 to 2023 term debt maturities to 2027 to 2029. This transaction is expected to close in mid-August, upon which Interfor’s weighted average interest rate on its term debt will be 4.47%. In addition, Interfor recently extended the maturity of its US$50 million U.S. Operating Line by two years to June 15, 2021.

Financial and Operating Highlights (1)

	Unit	For the 3 months ended Jun. 30 2018	Jun. 30 2017	Mar. 31 2018	For the 6 months ended Jun. 30 2018	Jun. 30 2017
Financial Highlights(2)						
Total sales	$MM	619.9	511.4	527.6	1,147.5	968.2
Lumber	$MM	527.0	433.7	445.9	972.9	823.3
Logs, residual products and other	$MM	92.9	77.7	81.7	174.6	144.9
Operating earnings	$MM	85.9	42.7	46.5	132.4	73.1
Net earnings	$MM	63.8	24.5	33.0	96.8	44.2
Net earnings per share, basic	$/share	0.91	0.35	0.47	1.38	0.63
Adjusted net earnings(3)	$MM	68.9	28.7	36.8	105.7	51.5
Adjusted net earnings per share, basic(3)	$/share	0.98	0.41	0.52	1.51	0.73
Operating cash flow per share (before working capital changes)(3)	$/share	1.76	1.05	1.08	2.84	1.90
Adjusted EBITDA(3)	$MM	123.8	77.4	81.1	204.8	137.7
Adjusted EBITDA margin(3)	%	20.0%	15.1%	15.4%	17.8%	14.2%
Total assets	$MM	1,536.0	1,296.0	1,410.0	1,536.0	1,296.0
Total debt	$MM	263.4	259.5	257.9	263.4	259.5
Net debt to invested capital(3)	%	3.4%	21.1%	12.4%	3.4%	21.1%
Annualized return on invested capital(3)	%	48.5%	28.9%	32.4%	41.3%	26.1%
Operating Highlights						
Lumber production	million fbm	688	655	666	1,354	1,295
Total lumber sales	million fbm	700	675	648	1,348	1,320
Lumber sales - Interfor produced	million fbm	689	654	635	1,324	1,278
Lumber sales - wholesale and commission	million fbm	11	21	13	24	42
Lumber - average selling price(4)	$/thousand fbm	753	642	688	722	624
Average USD/CAD exchange rate(5)	1 USD in CAD	1.2911	1.3449	1.2647	1.2781	1.3343
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.3168	1.2977	1.2894	1.3168	1.2977

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 release is prepared in accordance with IFRS and is unaudited.
(3) Refer to the Non-GAAP Measures section of this release for definitions and reconciliations of these measures to figures reported in the Company's consolidated financial statements.
(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

Liquidity

Balance Sheet

Interfor maintained a strong financial position throughout Q2'18. Net debt at June 30, 2018 was $34.4 million, or 3.4% of invested capital, representing a decrease of $183.8 million from June 30, 2017, and a decrease of $84.9 million from December 31, 2017. The majority of the decrease in net debt in Q2'18 is attributed to strong cash flows generated from operations. Net debt was negatively impacted by a weakened 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.

Thousands of Dollars	For the 3 months ended Jun. 30, 2018	2017	For the 6 months ended Jun. 30, 2018	2017
Net debt				
Net debt, period opening, CAD	$127,064	$306,676	$119,300	$289,551
Net repayment on credit facilities, CAD	-	(59,468)	(1)	(40,218)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	5,480	(6,359)	12,461	(9,063)
Increase in cash and cash equivalents, CAD	(98,129)	(22,597)	(97,345)	(22,018)
Net debt, period ending, CAD	$34,415	$218,252	$34,415	$218,252
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$200,000	$235,979	$200,000	$230,000
Net repayment on credit facilities, USD	-	(35,979)	-	(30,000)
U.S. Dollar debt, period ending, USD	200,000	200,000	200,000	200,000
Spot rate, period end			1.3168	1.2977
U.S. Dollar debt expressed in CAD			263,360	259,540
Total debt, CAD			263,360	259,540
Cash and cash equivalents, CAD			(228,945)	(41,288)
Net debt, period ending, CAD			$34,415	$218,252

As at June 30, 2018, the Company had net working capital of $417.1 million and available liquidity of $542.3 million, including unrestricted cash and borrowing capacity on operating and term line facilities.

On June 15, 2018, the Company extended the maturity of its U.S. Operating line from May 1, 2019 to June 15, 2021, with no other significant changes. On July 10, 2018, Interfor entered into an agreement to extend US$84 million of its 2021 to 2023 Senior Secured Note maturities to 2027 to 2029. Upon completion of this transaction, which is expected in mid-August, Interfor's weighted average interest rate on its term debt will be 4.47%.

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

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 2018:

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$65,000	$200,000	$263,360	$65,840	$594,200
Maximum borrowing available	$65,000	$200,000	$263,360	$65,840	$594,200
Less:					
Drawings	-	-	263,360	-	263,360
Outstanding letters of credit included in line utilization	13,899	-	-	3,239	17,138
Unused portion of facility	$51,101	$200,000	$ -	$62,601	313,702
Add: Unrestricted cash and cash equivalents					228,635
Available liquidity at June 30, 2018					$542,337

As of June 30, 2018, the Company had commitments for capital expenditures totaling $44.9 million.

Non-GAAP Measures

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

The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim consolidated financial statements 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 2018	Jun. 30 2017	Mar.31 2018	Jun. 30 2018	Jun. 30 2017
Adjusted Net Earnings					
Net earnings	$63,775	$24,512	$32,976	$96,751	$44,179
Add:					
Restructuring costs and capital asset write-downs	4,669	1,457	236	4,905	1,802
Other foreign exchange loss (gain)	(1,880)	913	(111)	(1,991)	1,094
Long term incentive compensation expense	3,996	3,270	4,858	8,854	6,863
Other expense	80	456	178	258	645
Post closure wind-down costs and losses	-	5	4	4	13
Income tax effect of above adjustments	(1,701)	(1,883)	(1,374)	(3,075)	(3,132)
Adjusted net earnings	$68,939	$28,730	$36,767	$105,706	$51,464
Weighted average number of shares - basic ('000)	*70,038*	*70,030*	*70,033*	*70,036*	*70,030*
Adjusted net earnings per share	$0.98	$0.41	$0.52	$1.51	$0.73
Adjusted EBITDA					
Net earnings	$63,775	$24,512	$32,976	$96,751	$44,179
Add:					
Depreciation of plant and equipment	20,851	19,967	20,068	40,919	39,570
Depletion and amortization of timber, roads and other	8,350	10,024	9,417	17,767	16,321
Restructuring costs and capital asset write-downs	4,669	1,457	236	4,905	1,802
Finance costs	2,786	3,535	2,905	5,691	7,597
Other foreign exchange loss (gain)	(1,880)	913	(111)	(1,991)	1,094
Income tax expense	21,132	13,289	10,533	31,665	19,609
EBITDA	119,683	73,697	76,024	195,707	130,172
Add:					
Long term incentive compensation expense	3,996	3,270	4,858	8,854	6,863
Other expense	80	456	178	258	645
Post closure wind-down costs and losses	-	5	4	4	13
Adjusted EBITDA	$123,759	$77,428	$81,064	$204,823	$137,693
Sales	$619,893	$511,376	$527,644	$1,147,537	$968,156
Adjusted EBITDA margin	20.0%	15.1%	15.4%	17.8%	14.2%
Net debt to invested capital					
Net debt					
Total debt	$263,360	$259,540	$257,880	$263,360	$259,540
Cash and cash equivalents	(228,945)	(41,288)	(130,816)	(228,945)	(41,288)
Total net debt	$34,415	$218,252	$127,064	$34,415	$218,252
Invested capital					
Net debt	$34,415	$218,252	$127,064	$34,415	$218,252
Shareholders' equity	977,294	816,136	901,176	977,294	816,136
Total invested capital	$1,011,709	$1,034,388	$1,028,240	$1,011,709	$1,034,388
Net debt to invested capital(1)	3.4%	21.1%	12.4%	3.4%	21.1%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$133,729	$105,816	$18,511	$152,240	$110,498
Cash used in (generated from) operating working capital	(10,579)	(32,531)	56,973	46,394	22,502
Operating cash flow (before working capital changes)	$123,150	$73,285	$75,484	$198,634	$133,000
Weighted average number of shares - basic ('000)	*70,038*	*70,030*	*70,033*	*70,036*	*70,030*
Operating cash flow per share (before working capital changes)	$1.76	$1.05	$1.08	$2.84	$1.90
Annualized return on invested capital					
Adjusted EBITDA	$123,759	$77,428	$81,064	$204,823	$137,693
Invested capital, beginning of period	$1,028,240	$1,111,424	$973,488	$973,488	$1,076,218
Invested capital, end of period	1,011,709	1,034,388	1,028,240	1,011,709	1,034,388
Average invested capital	$1,019,975	$1,072,906	$1,000,864	$992,599	$1,055,303
Adjusted EBITDA divided by average invested capital	12.1%	7.2%	8.1%	20.6%	13.0%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on invested capital	48.5%	28.9%	32.4%	41.3%	26.1%

Notes:
(1) Net debt to invested capital as of the period end.

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CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

For the three and six months ended June 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars except earnings per share)	Three Months Jun. 30, 2018	Three Months Jun. 30, 2017	Six Months Jun. 30, 2018	Six Months Jun. 30, 2017
Sales	$619,893	$511,376	$1,147,537	$968,156
Costs and expenses:				
Production	467,355	414,205	886,937	798,282
Selling and administration	13,952	12,435	28,025	24,881
Long term incentive compensation expense	3,996	3,270	8,854	6,863
U.S. countervailing and anti-dumping duty deposits	14,827	7,313	27,756	7,313
Depreciation of plant and equipment	20,851	19,967	40,919	39,570
Depletion and amortization of timber, roads and other	8,350	10,024	17,767	16,321
	529,331	467,214	1,010,258	893,230
Operating earnings before restructuring costs	90,562	44,162	137,279	74,926
Restructuring costs	4,669	1,457	4,905	1,802
Operating earnings	85,893	42,705	132,374	73,124
Finance costs	(2,786)	(3,535)	(5,691)	(7,597)
Other foreign exchange gain (loss)	1,880	(913)	1,991	(1,094)
Other expense	(80)	(456)	(258)	(645)
	(986)	(4,904)	(3,958)	(9,336)
Earnings before income taxes	84,907	37,801	128,416	63,788
Income tax expense:				
Current	1,567	380	2,337	686
Deferred	19,565	12,909	29,328	18,923
	21,132	13,289	31,665	19,609
Net earnings	$63,775	$24,512	$96,751	$44,179
Net earnings per share, basic and diluted	$0.91	$0.35	$1.38	$0.63

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Three Months Jun. 30, 2018	Three Months Jun. 30, 2017	Six Months Jun. 30, 2018	Six Months Jun. 30, 2017
Net earnings	$63,775	$24,512	$96,751	$44,179
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial gain (loss), net of tax	1,004	(1,222)	1,889	(398)
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	11,130	(12,057)	23,977	(14,562)
Loss in fair value of interest rate swaps	-	-	-	(11)
Total items that are or may be recycled to Net earnings	11,130	(12,057)	23,977	(14,573)
Total other comprehensive income (loss), net of tax	12,134	(13,279)	25,866	(14,971)
Comprehensive income	$75,909	$11,233	$122,617	$29,208

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Three Months Jun. 30, 2018	Three Months Jun. 30, 2017	Six Months Jun. 30, 2018	Six Months Jun. 30, 2017
Cash provided by (used in):				
Operating activities:				
Net earnings	$63,775	$24,512	$96,751	$44,179
Items not involving cash:				
Depreciation of plant and equipment	20,851	19,967	40,919	39,570
Depletion and amortization of timber, roads and other	8,350	10,024	17,767	16,321
Income tax expense	21,132	13,289	31,665	19,609
Finance costs	2,786	3,535	5,691	7,597
Other assets	(122)	231	(417)	182
Reforestation liability	(862)	(234)	1,427	2,309
Provisions and other liabilities	2,386	1,232	(456)	2,047
Stock options	209	155	346	261
Write-down of plant, equipment and intangibles	4,645	-	4,864	-
Unrealized foreign exchange gain	(80)	(1)	(181)	(9)
Other expense	80	575	258	934
	123,150	73,285	198,634	133,000
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(13,074)	3,312	(23,970)	(12,256)
Inventories	2,111	(432)	(31,926)	(15,672)
Prepayments	1,541	2,365	(2,784)	(419)
Trade accounts payable and provisions	21,152	27,415	13,608	6,265
Income taxes paid	(1,151)	(129)	(1,322)	(420)
	133,729	105,816	152,240	110,498
Investing activities:				
Additions to property, plant and equipment	(15,126)	(10,409)	(27,165)	(23,152)
Additions to roads and bridges	(8,086)	(9,429)	(14,168)	(16,531)
Additions to timber licences and other intangible assets	(63)	(531)	(50)	(1,365)
Proceeds on disposal of property, plant and equipment	76	423	185	398
Investments and other assets	(13,079)	(35)	(13,565)	(152)
	(36,278)	(19,981)	(54,763)	(40,802)
Financing activities:				
Issuance of share capital, net of expenses	-	-	143	-
Interest payments	(2,438)	(3,211)	(5,114)	(6,753)
Debt refinancing costs	(2)	(42)	(3)	(170)
Change in operating line components of long-term debt	-	(40,918)	(1)	(65)
Additions to long term debt	-	-	-	76,107
Repayments of long term debt	-	(18,550)	-	(116,260)
	(2,440)	(62,721)	(4,975)	47,141
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	3,118	(517)	4,843	(537)
Increase in cash	98,129	22,597	97,345	22,018
Cash and cash equivalents, beginning of period	130,816	18,691	131,600	19,270
Cash and cash equivalents, end of period	$228,945	$41,288	$228,945	$41,288

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CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and December 31, 2017 (unaudited)

(thousands of Canadian Dollars)

	Jun. 30, 2018	Dec. 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$228,945	$131,600
Trade accounts receivable and other	138,804	112,470
Income taxes receivable	511	1,289
Inventories	200,509	165,156
Prepayments	15,848	12,562
Investments and other assets	13,168	-
	597,785	423,077
Employee future benefits	2,662	502
Investments and other assets	7,053	6,404
Property, plant and equipment	672,692	670,830
Roads and bridges	25,275	24,092
Timber licences	65,402	66,589
Other intangible assets	10,677	14,170
Goodwill	153,736	147,081
Deferred income taxes	713	251
	$1,535,995	$1,352,996
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$167,625	$152,854
Reforestation liability	12,718	12,873
Income taxes payable	332	224
	180,675	165,951
Reforestation liability	29,259	27,535
Long term debt	263,360	250,900
Employee future benefits	8,116	8,249
Provisions and other liabilities	26,595	26,976
Deferred income taxes	50,696	19,197
Equity:		
Share capital	555,602	555,388
Contributed surplus	8,857	8,582
Translation reserve	64,697	40,720
Retained earnings	348,138	249,498
	977,294	854,188
	$1,535,995	$1,352,996

Approved on behalf of the Board:

"*L. Sauder*"
Director

"*Thomas V. Milroy*"
Director

FORWARD-LOOKING STATEMENTS

This release contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words “believes”, “will”, “should”, “expects”, “annualized” and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor’s actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among other things: price volatility, competition, availability and cost of log supply, natural or man-made disasters, currency exchange sensitivity, regulatory changes, allowable annual cut reductions, Aboriginal title and rights claims, potential countervailing and anti-dumping duties, stumpage fee variables and changes, environmental impact and performance, labour disruptions, cyber-security measures, and other factors referenced herein and in Interfor’s Annual Report available on www.sedar.com and www.interfor.com. The forward-looking information and statements contained in this release are based on Interfor’s current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

ABOUT INTERFOR

Interfor is a growth-oriented lumber company with operations in Canada and the United States. The Company has annual production capacity of approximately 3.1 billion board feet and offers one of the most diverse lines of lumber products to customers around the world. For more information about Interfor, visit our website at www.interfor.com.

The Company’s unaudited consolidated financial statements and Management’s Discussion and Analysis for Q2’18 are available at www.sedar.com and www.interfor.com.

There will be a conference call on Friday, August 3, 2018 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company’s release of its second quarter 2018 financial results.

The dial-in number is ***1-866-559-8291***. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until September 4, 2018. The number to call is ***1-855-859-2056, Passcode 3395576.***

For further information:
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