



Interfor Corporation

Vancouver, B.C.

May 4, 2017

Interfor Reports Q1'17 Results
Record EBITDA¹ of \$60.3 million on Sales of \$456.8 million
Higher Lumber Prices
Significant Gains From Operational Improvement Initiatives

INTERFOR CORPORATION ("Interfor" or "the Company") (TSX: IFP) recorded net earnings in Q1'17 of \$19.7 million, or \$0.28 per share, compared to \$26.6 million, or \$0.38 per share in Q4'16 and \$0.8 million, or \$0.01 per share in Q1'16. Adjusted net earnings¹ (which takes into account the effects of share-based compensation expense and non-recurring items) in Q1'17 were \$22.7 million or \$0.32 per share, compared to \$17.7 million, or \$0.25 per share in Q4'16 and \$2.7 million, or \$0.04 per share in Q1'16.

Adjusted EBITDA was \$60.3 million on sales of \$456.8 million in Q1'17 versus \$51.3 million on sales of \$442.3 million in Q4'16.

Notable items in the quarter included:

- Higher Lumber Prices
 - Key benchmark lumber prices increased during Q1'17 as a result of strong demand in both North American and international markets. The Southern Pine Composite increased US\$23 to US\$416 per mfbm, while the Western SPF Composite and KD H-F Stud 2x4 9' benchmarks were up US\$34 to US\$339 per mfbm and US\$42 to US\$360 per mfbm, respectively.
 - Interfor's average lumber selling price increased from \$588 per mfbm in Q4'16 to \$604 per mfbm in Q1'17. A substantial portion of the announced price increases that occurred in Q1'17 were realized in the later part of the quarter. Therefore, Interfor's average lumber selling price for the month of March, 2017 was \$27 per mfbm higher than the average lumber selling price for Q1'17.
- Strong Cash Flow
 - Interfor generated \$59.7 million in cash from operations in Q1'17, or \$0.85 per share, before considering working capital changes.
 - Working capital increased by \$55.0 million during the quarter as a result of several seasonal and non-recurring items, including: (i) the US\$10 million contingent payment that was made to the former owner of the Tacoma sawmill; (ii) a \$7.5 million increase in B.C. Interior log inventories ahead of spring breakup; (iii) an \$11.0 million increase in lumber inventories due to an increase in production and various logistics issues; (iv) a \$15.6 million increase in accounts receivables driven by increased lumber shipments and lumber prices towards the end of the quarter; and (v) \$12.4 million in payments related to annual employee incentive plans.
 - Capital spending was \$20.7 million in Q1'17 as compared to \$19.8 million in Q4'16.
 - Net debt ended the quarter at \$306.7 million, or 27.6% of invested capital.

¹ Refer to Adjusted EBITDA and Adjusted net earnings in Non-GAAP Measures section

- Production Gains Across Most Regions
 - In order to meet strong customer demand, Interfor increased lumber production in most of its regions. This resulted in 640 million board feet of production in Q1'17, up 33 million board feet over the preceding quarter. Sales of Interfor-produced lumber were 624 million board feet in Q1'17 versus 598 million board feet in Q4'16.
 - Production in the U.S. South region was up in Q1'17, increasing to 285 million board feet (equivalent to an operating rate of 86%) from 260 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 215 million board feet (equivalent to operating rates of 97% in the B.C. Interior and 43% on the B.C. Coast) and 140 million board feet (equivalent to an operating rate of 88%) in Q1'17, respectively, compared with 209 million board feet and 137 million board feet in Q4'16, respectively.
 - The B.C. Coast logging business was negatively impacted by difficult winter conditions that resulted in log production and log revenues declining by 18% and 39%, respectively, in Q1'17 versus Q4'16.
- Progress on Optimization Initiative and EBITDA Gains
 - In early 2016, Interfor launched a Business Optimization Initiative to capture additional margin opportunities across the Company's operating platform, with a particular focus on the U.S. South region, where \$35 million in annualized EBITDA gains were targeted by year-end 2017. In Q1'17, the Company realized on 45% of the targeted EBITDA gains.
 - The Q1'17 gains were mostly realized in the later part of the quarter when various operational and product mix improvements allowed the Company to proceed with its plan to add incremental operating hours at certain mills.
 - The Company previously stated that its goal was to achieve an operating rate in the South of 90% or more by Q4'17. The Company is ahead of schedule, with the operating rate averaging 91% during the month of March.

Softwood Lumber Duties

Following the quarter end, the U.S. Department of Commerce ("DoC") preliminarily ruled on its case against Canadian softwood lumber producers. As a result, the U.S. Customs and Border Protection Agency will begin collecting deposits from Interfor on April 28, 2017, for countervailing duties at a preliminary rate of 19.88% on its shipments of softwood lumber from Canada into the U.S.

In addition, the DoC has taken the unjustified position that most Canadian lumber producers, including Interfor, may be required to submit a deposit for retroactive countervailing duties for the 90-day period from January 28 to April 27, 2017. Interfor does not believe the retroactive application of duties will stand up under final scrutiny which, in turn, should result in a full return of the related deposit to the Company.

In Q1'17, Interfor shipped approximately 100 million board feet from its Canadian operations to the U.S. market, which represented approximately 16% of the Company's total lumber sales. Interfor is of the view that the DoC's positions are without merit and are politically driven. Interfor intends to vigorously defend the Company's and the Canadian industry's positions through various appeal processes, in conjunction with the B.C. and Canadian Governments.

Summary of Quarterly Results⁽¹⁾

Unit	2017	2016				2015			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	
Financial Performance (Unaudited)									
Total sales	\$MM	456.8	442.3	457.6	458.8	433.9	411.4	430.8	429.7
Lumber	\$MM	389.6	363.5	374.8	371.1	348.9	325.0	343.3	352.2
Logs, residual products and other	\$MM	67.2	78.8	82.8	87.7	85.0	86.4	87.5	77.5
Operating earnings (loss)	\$MM	30.4	22.3	20.1	30.0	3.5	(6.3)	(11.6)	(25.8)
Net earnings (loss)	\$MM	19.7	26.6	15.1	23.2	0.8	(3.5)	(6.1)	(20.6)
Net earnings (loss) per share, basic	\$/share	0.28	0.38	0.22	0.33	0.01	(0.05)	(0.09)	(0.29)
Adjusted net earnings (loss) ⁽²⁾	\$MM	22.7	17.7	20.7	17.5	2.7	4.5	(16.6)	(10.3)
Adjusted net earnings (loss) per share, basic ⁽²⁾	\$/share	0.32	0.25	0.30	0.25	0.04	0.06	(0.24)	(0.15)
Adjusted EBITDA ⁽²⁾	\$MM	60.3	51.3	58.1	56.9	33.4	35.8	11.5	12.7
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	640	607	628	637	618	568	618	672
Total lumber sales	million fbm	645	619	647	658	637	615	686	719
Lumber sales - Interfor produced	million fbm	624	598	627	634	609	586	663	688
Lumber sales - wholesale and commission	million fbm	21	21	20	24	28	29	23	31
Lumber - average selling price ⁽³⁾	\$/thousand fbm	604	588	580	564	548	529	500	490
Average USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.3238	1.3341	1.3050	1.2886	1.3732	1.3354	1.3089	1.2297
Closing USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.3322	1.3427	1.3117	1.3009	1.2971	1.3840	1.3394	1.2474

Notes:

- (1) Figures in this table may not add due to rounding.
- (2) Refer to the Non-GAAP Measures section of this release for a definition and reconciliation of this measure to figures reported in the Company's consolidated financial statements.
- (3) Gross sales before export taxes.
- (4) Based on Bank of Canada foreign exchange rates.

Liquidity

Balance Sheet

Net debt at March 31, 2017 was \$306.7 million, or 27.6% of invested capital, representing a decrease of \$121.4 million from March 31, 2016 and an increase of \$17.1 million from December 31, 2016. A slightly stronger Canadian Dollar against the U.S. Dollar offset Q1'17 borrowings by \$2.7 million as the majority of debt is denominated in U.S. Dollars.

Thousands of dollars	For the 3 months ended	
	2017	March 31, 2016
Net debt		
Net debt, period opening, CAD	\$ 289,551	\$ 452,303
Net drawing on credit facilities, CAD	19,250	53
Impact on U.S. Dollar denominated debt from strengthening CAD	(2,704)	(29,495)
Decrease in cash and cash equivalents, CAD	579	5,201
Net debt, period ending, CAD	<u>\$ 306,676</u>	<u>\$ 428,062</u>
Net debt components by currency		
U.S. Dollar debt, period opening, USD	\$ 230,000	\$ 338,699
Net drawing (repayment) on credit facilities, USD	5,979	(7)
U.S. Dollar debt, period ending, USD	235,979	338,692
Spot rate, period end	1.3322	1.2971
U.S. Dollar debt expressed in CAD	314,371	439,317
Canadian Dollar debt, including bank indebtedness, CAD	4,987	-
Canadian Dollar operating line, CAD	6,009	-
Total debt, CAD	325,367	439,317
Cash and cash equivalents, CAD	(18,691)	(11,255)
Net debt, period ending, CAD	<u>\$ 306,676</u>	<u>\$ 428,062</u>

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of March 31, 2017:

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	\$ 266,440	\$ 66,610	\$ 598,050
Maximum borrowing available	\$ 65,000	\$ 200,000	\$ 266,440	\$ 66,610	\$ 598,050
Less:					
Drawings	10,996	13,322	266,440	34,609	325,367
Outstanding letters of credit included in line utilization	10,394	-	-	4,230	14,624
Unused portion of facility	\$ 43,610	\$ 186,678	\$ -	\$ 27,771	\$ 258,059
Add cash and cash equivalents					18,691
Available liquidity at Mar. 31, 2017					\$ 276,750

As of March 31, 2017, the Company had commitments for capital expenditures totaling \$7.6 million, related to both maintenance and discretionary projects.

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand.

As at March 31, 2017, the Company had net working capital of \$190.8 million and available capacity on operating and term facilities of \$258.1 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Non-GAAP Measures

This release makes reference to the following non-GAAP measures: Adjusted net earnings (loss), Adjusted net earnings (loss) per share, EBITDA, Adjusted EBITDA, Pre-tax return on total assets, Net debt to invested capital and Operating cash flow per share (before working capital changes) which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim consolidated financial statements prepared in accordance with IFRS:

Thousands of Canadian dollars except number of shares and per share amounts	For the 3 months ended		
	Mar. 31 2017	Mar. 31 2016	Dec. 31, 2016
Adjusted Net Earnings ⁽¹⁾			
Net earnings	\$ 19,667	\$ 795	\$ 26,550
Add:			
Restructuring costs and capital asset write-downs	345	1,203	2,281
Other foreign exchange loss (gain)	181	899	(1,072)
Long term incentive compensation expense	3,593	178	199
Other (income) expense	189	(93)	(14,452)
Beaver sawmill post-closure wind-down costs	7	8	128
Tacoma sawmill post-acquisition losses and closure costs	1	372	(13)
Income tax effect of above adjustments	(1,249)	(754)	4,895
Recognition of previously unrecognized deferred tax assets	-	116	(769)
Adjusted net earnings	\$ 22,734	\$ 2,724	\$ 17,747
Weighted average number of shares - basic ('000)	70,030	70,030	70,030
Adjusted net earnings per share	\$ 0.32	\$ 0.04	\$ 0.25
Adjusted EBITDA			
Net earnings	\$ 19,667	\$ 795	\$ 26,550
Add:			
Depreciation of plant and equipment	19,603	20,169	18,534
Depletion and amortization of timber, roads and other	6,297	7,969	7,833
Restructuring costs and capital asset write-downs	345	1,203	2,281
Finance costs	4,062	5,184	4,074
Other foreign exchange loss (gain)	181	899	(1,072)
Income tax expense (recovery)	6,320	(3,326)	7,236
EBITDA	56,475	32,893	65,436
Add:			
Long term incentive compensation expense	3,593	178	199
Other (income) expense	189	(93)	(14,452)
Beaver sawmill post-closure wind-down costs	7	8	128
Tacoma sawmill post-acquisition losses and closure costs	1	372	(13)
Adjusted EBITDA	\$ 60,265	\$ 33,358	\$ 51,298
Pre-tax return on total assets			
Operating earnings before restructuring costs	\$ 30,764	\$ 4,662	\$ 24,617
Total assets ⁽²⁾	\$1,301,648	\$1,389,796	\$1,326,792
Pre-tax return on total assets ⁽³⁾	9.5%	1.3%	7.4%
Net debt to invested capital			
Net debt			
Total debt	\$ 325,367	\$ 439,317	\$ 308,821
Cash and cash equivalents	(18,691)	(11,255)	(19,270)
Total net debt	\$ 306,676	\$ 428,062	\$ 289,551
Invested capital			
Net debt	\$ 306,676	\$ 428,062	\$ 289,551
Shareholders' equity	804,748	705,214	786,667
Total invested capital	\$1,111,424	\$1,133,276	\$1,076,218
Net debt to invested capital ⁽⁴⁾	27.6%	37.8%	26.9%
Operating cash flow per share (before working capital changes)			
Cash provided by operating activities	\$ 4,682	\$ 20,043	\$ 48,981
Cash used in operating work capital	55,033	10,979	1,399
Operating cash flow (before working capital changes)	\$ 59,715	\$ 31,022	\$ 50,380
Weighted average number of shares - basic ('000)	70,030	70,030	70,030
Operating cash flow per share (before working capital changes)	\$ 0.85	\$ 0.44	\$ 0.72

Notes:

- (1) Certain historical periods have been recast to exclude the recognition of previously unrecognized deferred tax assets from Adjusted net earnings.
- (2) Total assets at period beginning for three month periods.
- (3) Annualized rate.
- (4) Net debt to invested capital as of the period end.



CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the three months ended March 31, 2017 and 2016 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months Mar. 31, 2017	3 Months Mar. 31, 2016
Sales	\$ 456,780	\$ 433,944
Costs and expenses:		
Production	384,077	390,136
Selling and administration	12,446	10,830
Long term incentive compensation	3,593	178
Depreciation of plant and equipment	19,603	20,169
Depletion and amortization of timber, roads and other	6,297	7,969
	<u>426,016</u>	<u>429,282</u>
Operating earnings before restructuring costs	30,764	4,662
Restructuring costs	345	1,203
Operating earnings	30,419	3,459
Finance costs	(4,062)	(5,184)
Other foreign exchange loss	(181)	(899)
Other income (expense)	(189)	93
	<u>(4,432)</u>	<u>(5,990)</u>
Earnings (loss) before income taxes	25,987	(2,531)
Income tax expense (recovery)		
Current	306	131
Deferred	6,014	(3,457)
	<u>6,320</u>	<u>(3,326)</u>
Net earnings	\$ 19,667	\$ 795
Net earnings per share, basic and diluted	\$ 0.28	\$ 0.01

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months ended March 31, 2017 and 2016 (unaudited)

	3 Months Mar. 31, 2017	3 Months Mar. 31, 2016
Net earnings	\$ 19,667	\$ 795
Other comprehensive income (loss):		
Items that will not be recycled to Net earnings:		
Defined benefit plan actuarial gain, net of tax	824	634
Items that are or may be recycled to Net earnings:		
Foreign currency translation differences for foreign operations, net of tax	(2,505)	(21,439)
Loss in fair value of interest rate swaps	(11)	(107)
Total items that are or may be recycled to Net earnings	(2,516)	(21,546)
Total other comprehensive loss, net of tax	(1,692)	(20,912)
Comprehensive income (loss)	\$ 17,975	\$ (20,117)

See accompanying notes to consolidated financial statements



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2017 and 2016 (unaudited)

(thousands of Canadian dollars)

	3 Months Mar. 31, 2017	3 Months Mar. 31, 2016
Cash provided by (used in):		
Operating activities:		
Net earnings	\$ 19,667	\$ 795
Items not involving cash:		
Depreciation of plant and equipment	19,603	20,169
Depletion and amortization of timber, roads and other	6,297	7,969
Income tax expense (recovery)	6,320	(3,326)
Finance costs	4,062	5,184
Other assets	(49)	(201)
Reforestation liability	2,543	1,614
Provisions and other liabilities	815	(1,175)
Stock options	106	77
Unrealized foreign exchange (gain) loss	(8)	9
Other	359	(93)
	59,715	31,022
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(15,568)	(919)
Inventories	(15,240)	2,744
Prepayments and other	(2,784)	(2,147)
Trade accounts payable and provisions	(21,150)	(10,399)
Income taxes paid	(291)	(258)
	4,682	20,043
Investing activities:		
Additions to property, plant and equipment	(12,743)	(12,551)
Additions to logging roads and bridges	(7,102)	(5,089)
Additions to timber licences and other intangible assets	(834)	(136)
Proceeds (costs) on disposal of property, plant and equipment	(25)	175
Investments and other assets	(117)	(789)
	(20,821)	(18,390)
Financing activities:		
Interest payments	(3,542)	(6,811)
Debt refinancing costs	(128)	(732)
Change in operating line components of long term debt	40,853	6,734
Additions to long term debt	76,107	-
Repayments of long term debt	(97,710)	(6,680)
	15,580	(7,489)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(20)	635
Decrease in cash	(579)	(5,201)
Cash and cash equivalents, beginning of period	19,270	16,456
Cash and cash equivalents, end of period	\$ 18,691	\$ 11,255

See accompanying notes to consolidated financial statements



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2017 and December 31, 2016 (unaudited)

(thousands of Canadian dollars)

	Mar. 31, 2017	Dec. 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 18,691	\$ 19,270
Trade accounts receivable and other	110,297	95,059
Income tax receivable	173	222
Inventories	169,322	154,535
Prepayments and other	17,120	14,016
Investments and other assets	3,061	2,911
	318,664	286,013
Employee future benefits	3,374	2,471
Investments and other assets	2,286	2,341
Property, plant and equipment	719,091	730,981
Logging roads and bridges	23,969	20,739
Timber licences	68,589	69,273
Other intangible assets	18,005	19,017
Goodwill	155,380	156,502
Deferred income taxes	9,426	14,311
	\$ 1,318,784	\$ 1,301,648
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	\$ 115,467	\$ 138,029
Reforestation liability	12,070	11,609
Income taxes payable	287	317
	127,824	149,955
Reforestation liability	28,585	25,931
Long term debt	325,367	308,821
Employee future benefits	8,009	8,136
Provisions and other liabilities	21,831	21,290
Deferred income taxes	2,420	848
Equity:		
Share capital	555,388	555,388
Contributed surplus	8,105	7,999
Translation reserve	67,069	69,574
Hedge reserve	-	11
Retained earnings	174,186	153,695
	804,748	786,667
	\$ 1,318,784	\$ 1,301,648

Approved on behalf of the Board:

"L. Sauder"
 Director

"D.W.G. Whitehead"
 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, 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 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 Q1’17 are available at www.sedar.com and www.interfor.com.

There will be a conference call on Friday, May 5, 2017 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company’s release of its first quarter 2017 financial results.

The dial-in number is **1-866-233-4795**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until June 4, 2017. The number to call is **1-888-203-1112, Passcode 4485904**.

For further information:

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