



Interfor Corporation

Vancouver, B.C.

May 7, 2020

Interfor Reports Q1'20 Results EBITDA¹ of \$37 million on Sales of \$480 million Net Debt to Invested Capital¹ of 27%; Liquidity of \$431 million

INTERFOR CORPORATION ("Interfor" or the "Company") (TSX: IFP) recorded net earnings in Q1'20 of \$6.3 million, or \$0.09 per share, compared to net losses of \$41.7 million, or \$0.62 per share in Q4'19 and \$15.3 million, or \$0.23 per share in Q1'19. Adjusted net earnings were \$0.7 million in Q1'20 compared to Adjusted net losses of \$17.4 million in Q4'19 and \$12.7 million in Q1'19.

Adjusted EBITDA was \$36.6 million on sales of \$479.6 million in Q1'20 versus \$17.6 million on sales of \$456.8 million in Q4'19.

Net debt ended the quarter at \$322.0 million, or 26.7% of invested capital, resulting in available liquidity of \$430.9 million.

Effects of COVID-19 and Interfor's Response

On March 11, 2020 the World Health Organization declared the COVID-19 outbreak a pandemic and to date, the pandemic and related government-imposed restrictions and quarantines have had an unprecedented impact on the global economy.

As a result, industry-wide demand for lumber products has declined substantially. Benchmark lumber prices weakened significantly through early April and have since found a level of support from industry-wide production curtailments that began in the second half of March.

Considerable uncertainty remains as to the duration and extent of the economic impact and in turn, the magnitude of impact on Interfor's operations, demand for its products and financial outlook. However, Interfor is well positioned for this uncertainty with a strong balance sheet and significant available liquidity.

The Company has taken the following proactive measures to protect the health of its employees, balance its lumber production with reduced demand and safeguard its financial position in response to COVID-19:

- Interfor has modified its operational procedures, suspended all non-essential travel and adopted work-from-home measures in accordance with public health authority directives.
- On March 18, 2020 Interfor announced a temporary reduction in lumber production by approximately 35 million board feet per week across its operations in British Columbia, the U.S. Northwest and the U.S. South for an initial two-week period, representing approximately 60% of Interfor's production capacity. On March 26, 2020 the Company announced a further production curtailment, resulting in a total reduction of approximately 50 million board feet for the week of March 30, 2020. The Company will continue to evaluate and adjust its operating schedule on a regular basis with consideration given to employee safety, market pricing and demand, and inventory levels.

¹ Refer to Adjusted EBITDA and Net debt to invested capital in the Non-GAAP Measures section

- Cash conservation actions have been implemented to significantly reduce non-essential operating expenses and discretionary capital expenditures. On March 18, 2020 the Company announced a reduction of approximately \$140 million of its capital expenditures planned for 2020 and 2021. With this reduction, Interfor's capital expenditures are expected to be approximately \$100 million in 2020 and substantially below \$100 million in 2021.
- Interfor has modified components of its previously announced US\$240 million Phase II strategic capital plan. The rebuild of the sawmill operation at Thomaston, GA has been postponed while the sawmill portion of the rebuild at the Eatonton, GA operation has been deferred with completion now planned for 2022. US\$66.1 million has been spent on the Phase II plan through March 31, 2020. Interfor will re-evaluate its capital expenditures as market conditions continue to evolve and maintains significant flexibility to modify the rate of spending.

The Company will continue to be proactive in taking measures to safeguard the Company's financial position, while remaining alert to opportunities that may become available.

Highlights of First Quarter, 2020

- Strengthened Liquidity
 - Available liquidity increased to \$430.9 million, up \$67.8 million from December 31, 2019.
 - On March 26, 2020 the Company completed the previously announced US\$100 million of long-term debt financing with Prudential Private Capital. As a result, Interfor's long-term debt now totals US\$300 million, with a weighted average interest rate of 4.08% and maturities principally in the years 2024-2030.
 - Interfor generated \$38.4 million of cash flow from operations before changes in working capital, or \$0.57 per share. Working capital investment increased by \$19.1 million as a result of a seasonal increase in trade receivables.
 - Capital spending was \$84.2 million, including \$56.6 million for the acquisition of timber licences, roads and other assets, net of assumed liabilities from Canadian Forest Products Ltd. ("Canfor").
- Acquisition of B.C. Interior Cutting Rights from Canfor
 - On March 9, 2020, Interfor completed its acquisition from Canfor of two replaceable timber licences with annual cutting rights of approximately 349,000 cubic metres, an interest in a non-replaceable forest licence and other related forestry assets in the Adams Lake area of the B.C. Interior.
- Production Balanced with Shipments
 - Total lumber production in Q1'20 was 627 million board feet, down 41 million board feet from Q4'19. Production in the B.C. region declined to 186 million board feet from 187 million board feet in the preceding quarter. The U.S. South and U.S. Northwest regions accounted for 311 million board feet and 130 million board feet, respectively, compared to 342 million board feet and 139 million board feet in Q4'19.
 - Total lumber shipments were 641 million board feet, including Interfor produced volume of 632 million board feet and agency and wholesale volumes of 9 million board feet, or 40 million board feet lower than Q4'19.
 - Lumber inventory levels decreased 4 million board feet over the course of Q1'20.
- Higher Overall Lumber Prices in Q1'20
 - 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\$11, US\$26 and US\$84 per mfbm to US\$351, US\$380 and US\$431 per mfbm, respectively. Interfor's average lumber selling price increased \$26 from Q4'19 to \$592 per mfbm.

- Softwood Lumber Duties
 - On February 3, 2020 the U.S. Department of Commerce issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates remain preliminary, with final rate determinations not expected until September 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of March 31, 2020 to reflect the preliminary revised duty rates.
 - Interfor expensed \$10.6 million of duties in the quarter, representing the full amount of countervailing and anti-dumping duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.
 - Cumulative duties of US\$101.7 million have been paid by Interfor since the inception of the current trade dispute and are held in trust by U.S. Customs and Border Protection. Except for US\$3.3 million in respect of overpayments arising from duty rate adjustments, Interfor has recorded the duty deposits as an expense.

Outlook

Near-term lumber demand is expected to be negatively impacted by uncertainties related to COVID-19. However, industry-wide lumber production curtailments should help balance supply with demand.

Interfor expects demand for lumber to normalize over the mid- to long-term, particularly in the North American repair and renovation, residential and industrial segments.

Interfor's strategy of maintaining a diversified portfolio of operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle.

Financial and Operating Highlights¹

	Unit	For the three months ended		
		Mar. 31, 2020	Mar. 31, 2019	Dec. 31, 2019
Financial Highlights²				
Total sales	\$MM	479.6	451.2	456.8
Lumber	\$MM	379.3	380.5	385.2
Logs, residual products and other	\$MM	100.3	70.7	71.6
Operating earnings (loss)	\$MM	14.6	(16.8)	(49.0)
Net earnings (loss)	\$MM	6.3	(15.3)	(41.7)
Net earnings (loss) per share, basic	\$/share	0.09	(0.23)	(0.62)
Adjusted net earnings (loss) ³	\$MM	0.7	(12.7)	(17.4)
Adjusted net earnings (loss) per share, basic ³	\$/share	0.01	(0.19)	(0.26)
Operating cash flow per share (before working capital changes) ³	\$/share	0.57	0.25	0.24
Adjusted EBITDA ³	\$MM	36.6	16.3	17.6
Adjusted EBITDA margin ³	%	7.6%	3.6%	3.9%
Total assets	\$MM	1,569.5	1,491.5	1,341.9
Total debt	\$MM	425.6	267.3	259.8
Net debt ³	\$MM	322.0	172.7	224.9
Net debt to invested capital ³	%	26.7%	15.6%	21.3%
Annualized return on invested capital ³	%	12.9%	6.1%	6.6%
Operating Highlights				
Lumber production	million fbm	627	646	668
Total lumber sales	million fbm	641	621	681
Lumber sales - Interfor produced	million fbm	632	610	671
Lumber sales - wholesale and commission	million fbm	9	11	10
Lumber - average selling price ⁴	\$/thousand fbm	592	613	566
Average USD/CAD exchange rate ⁵	1 USD in CAD	1.3449	1.3295	1.3200
Closing USD/CAD exchange rate ⁵	1 USD in CAD	1.4187	1.3363	1.2988

Notes:

- Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
- Financial information presented for interim periods in this release is prepared in accordance with IFRS and is unaudited.
- 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.
- Gross sales before duties.
- Based on Bank of Canada foreign exchange rates.

Liquidity

Balance Sheet

Interfor's net debt at March 31, 2020 was \$322.0 million, or 26.7% of invested capital, representing an increase of \$97.2 million since December 31, 2019.

In response to COVID-19, the Company has taken steps to significantly reduce its working capital through balancing inventory levels with demand and reducing discretionary spending and commitments. The Company is also actively reviewing the evolving Canadian and U.S. government stimulus programs to access any available support for its business operations and employees.

As at March 31, 2020 the Company had net working capital of \$283.7 million and available liquidity of \$430.9 million, based on the full borrowing capacity under its \$350 million Revolving Term Line.

The Revolving Term Line and Senior Secured Notes are subject to financial covenants, including net debt to total capitalization ratios, and an EBITDA interest coverage ratio that could affect the Company's borrowing capacity under the Revolving Term Line.

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.

Thousands of Canadian Dollars	For the three months ended		
	Mar. 31, 2020	Dec. 31, 2019	Mar. 31, 2019
Net debt			
Net debt, period opening	\$224,860	\$212,674	\$63,825
Issuance of Senior Secured Notes	140,770	-	-
Term Line net drawings (repayments)	(59)	(1)	750
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	25,139	(5,099)	(6,330)
Decrease (increase) in cash and cash equivalents	(68,984)	16,994	68,890
Decrease in marketable securities	-	-	41,766
Impact on U.S. Dollar denominated cash and cash equivalents and marketable securities from strengthening CAD	310	292	3,845
Net debt, period ending	\$322,036	\$224,860	\$172,746

On March 26, 2020, the Company issued US\$50,000,000 of Series F Senior Secured Notes, bearing interest at 3.34%, and US\$50,000,000 of Series G Senior Secured Notes, bearing interest at 3.25%. Each series of these Senior Secured Notes have equal payments of US\$16,667,000 due on each of March 26, 2028, 2029 and on maturity in 2030.

Net debt was negatively impacted by a weakened Canadian Dollar as all debt held was denominated in U.S. Dollars.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of March 31, 2020:

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	\$350,000	\$425,610	\$775,610
Less:			
Drawings	-	425,610	425,610
Outstanding letters of credit included in line utilization	22,630	-	22,630
Unused portion of facility	\$327,370	\$-	327,370
Add:			
Cash and cash equivalents			103,574
Available liquidity at March 31, 2020			\$430,944

Interfor's Revolving Term Line matures in March 2024 and its Senior Secured Notes have maturities principally in the years 2024-2030.

As of March 31, 2020, the Company had commitments for capital expenditures totaling \$76.8 million for both maintenance and discretionary capital projects.

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, Adjusted EBITDA margin, 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 audited consolidated financial statements (unaudited for interim periods) prepared in accordance with IFRS:

	For the three months ended		
	Mar. 31, 2020	Mar. 31, 2019	Dec. 31, 2019
Thousands of Canadian Dollars except number of shares and per share amounts			
Adjusted Net Earnings (Loss)			
Net earnings (loss)	\$6,309	\$(15,302)	\$(41,676)
Add:			
Capital asset and goodwill write-downs and restructuring costs	371	1,665	30,416
Other foreign exchange loss (gain)	849	(340)	510
Long term incentive compensation expense (recovery)	(8,946)	1,983	1,265
Other expense	115	164	298
Income tax effect of above adjustments	2,043	(875)	(8,241)
Adjusted net earnings (loss)	\$741	\$(12,705)	\$(17,428)
Weighted average number of shares - basic ('000)	67,260	67,348	67,257
Adjusted net earnings (loss) per share	\$0.01	\$(0.19)	\$(0.26)
Adjusted EBITDA			
Net earnings (loss)	\$6,309	\$(15,302)	\$(41,676)
Add:			
Depreciation of plant and equipment	20,061	19,722	20,711
Depletion and amortization of timber, roads and other	10,530	9,737	14,214
Capital asset and goodwill write-downs and restructuring costs	371	1,665	30,416
Finance costs	4,096	4,176	3,740
Other foreign exchange loss (gain)	849	(340)	510
Income tax expense (recovery)	3,205	(5,508)	(11,851)
EBITDA	45,421	14,150	16,064
Add:			
Long term incentive compensation expense (recovery)	(8,946)	1,983	1,265
Other expense	115	164	298
Adjusted EBITDA	\$36,590	\$16,297	\$17,627
Sales	\$479,646	\$451,163	\$456,819
Adjusted EBITDA margin	7.6%	3.6%	3.9%
Net debt to invested capital			
Net debt			
Total debt	\$425,610	\$267,260	\$259,760
Cash and cash equivalents	(103,574)	(94,514)	(34,900)
Total net debt	\$322,036	\$172,746	\$224,860
Invested capital			
Net debt	\$322,036	\$172,746	\$224,860
Shareholders' equity	882,917	933,509	830,982
Total invested capital	\$1,204,953	\$1,106,255	\$1,055,842
Net debt to invested capital ¹	26.7%	15.6%	21.3%
Operating cash flow per share (before working capital changes)			
Cash provided by (used in) operating activities	\$19,319	\$(58,350)	\$24,642
Cash used in (generated from) operating working capital	19,103	75,435	(8,334)
Operating cash flow (before working capital changes)	\$38,422	\$17,085	\$16,308
Weighted average number of shares - basic ('000)	67,260	67,348	67,257
Operating cash flow per share (before working capital changes)	\$0.57	\$0.25	\$0.24
Annualized return on invested capital			
Adjusted EBITDA	\$36,590	\$16,297	\$17,627
Invested capital, beginning of period	\$1,055,842	\$1,032,591	\$1,093,528
Invested capital, end of period	1,204,953	1,106,255	1,055,842
Average invested capital	\$1,130,398	\$1,069,423	\$1,074,685
Adjusted EBITDA divided by average invested capital	3.2%	1.5%	1.6%
Annualization factor	4.0	4.0	4.0
Annualized return on invested capital	12.9%	6.1%	6.6%

Note: 1 Net debt to invested capital as of the period end.



CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars except earnings per share)

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Sales	\$479,646	\$451,163
Costs and expenses:		
Production	423,228	413,183
Selling and administration	9,228	10,565
Long term incentive compensation expense (recovery)	(8,946)	1,983
U.S. countervailing and anti-dumping duty deposits	10,600	11,118
Depreciation of plant and equipment	20,061	19,722
Depletion and amortization of timber, roads and other	10,530	9,737
	464,701	466,308
Operating earnings (loss) before write-downs and restructuring costs	14,945	(15,145)
Capital asset write-downs and restructuring costs	371	1,665
Operating earnings (loss)	14,574	(16,810)
Finance costs	(4,096)	(4,176)
Other foreign exchange gain (loss)	(849)	340
Other expense	(115)	(164)
	(5,060)	(4,000)
Earnings (loss) before income taxes	9,514	(20,810)
Income tax expense (recovery):		
Current	329	160
Deferred	2,876	(5,668)
	3,205	(5,508)
Net earnings (loss)	\$6,309	\$(15,302)
Net earnings (loss) per share, basic and diluted	\$0.09	\$(0.23)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Net earnings (loss)	\$6,309	\$(15,302)
Other comprehensive income (loss):		
Items that will not be recycled to Net earnings (loss):		
Defined benefit plan actuarial gain (loss), net of tax	(713)	572
Items that are or may be recycled to Net earnings (loss):		
Foreign currency translation differences for foreign operations, net of tax	46,083	(12,873)
Total other comprehensive income (loss), net of tax	45,370	(12,301)
Comprehensive income (loss)	\$51,679	\$(27,603)



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2020 and 2019 (unaudited)

(thousands of Canadian Dollars)

	Three Months Mar. 31, 2020	Three Months Mar. 31, 2019
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$6,309	\$(15,302)
Items not involving cash:		
Depreciation of plant and equipment	20,061	19,722
Depletion and amortization of timber, roads and other	10,530	9,737
Deferred income tax expense (recovery)	2,876	(5,668)
Income tax expense	329	160
Finance costs	4,096	4,176
Other assets	936	17
Reforestation liability	2,766	2,507
Provisions and other liabilities	(10,293)	(203)
Stock options	256	108
Write-down of plant and equipment	-	1,723
Unrealized foreign exchange loss (gain)	441	(56)
Other expense	115	164
	38,422	17,085
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(23,413)	(14,575)
Inventories	1,355	(27,170)
Prepayments	(2,113)	(2,869)
Trade accounts payable and provisions	5,062	(30,524)
Income taxes paid	6	(297)
	19,319	(58,350)
Investing activities:		
Additions to property, plant and equipment	(24,872)	(35,926)
Additions to roads and bridges	(2,704)	(7,844)
Additions to intangible assets	-	(52)
Acquisition of timber licenses, roads, and other assets, net of assumed liabilities	(56,606)	-
Proceeds on disposal of plant and equipment	162	108
Net proceeds from (additions to) marketable securities, deposits and other assets	(198)	46,771
	(84,218)	3,057
Financing activities:		
Issuance of share capital, net of expenses	-	63
Share repurchases	-	(7,825)
Interest payments	(3,758)	(2,580)
Lease liability payments	(2,934)	(2,986)
Debt refinancing costs	(136)	(1,019)
Operating line net repayments	(59)	-
Additions to long term debt	140,770	197,925
Repayments of long term debt	-	(197,175)
	133,883	(13,597)
Foreign exchange loss on cash and cash equivalents held in a foreign currency	(310)	(2,748)
Increase (decrease) in cash	68,674	(71,638)
Cash and cash equivalents, beginning of period	34,900	166,152
Cash and cash equivalents, end of period	\$103,574	\$94,514



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2020 and December 31, 2019 (unaudited)

(thousands of Canadian Dollars)

	Mar. 31, 2020	Dec. 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$103,574	\$34,900
Trade accounts receivable and other	113,911	86,608
Income taxes receivable	2,006	1,995
Inventories	189,795	181,577
Prepayments	24,112	20,449
	<u>433,398</u>	<u>325,529</u>
Employee future benefits	110	673
Deposits and other assets	9,410	9,296
Right of use assets	34,321	32,780
Property, plant and equipment	795,324	739,515
Roads and bridges	22,027	24,353
Timber licences	117,863	60,596
Other intangible assets	3,314	3,480
Goodwill	151,541	138,734
Deferred income taxes	2,200	6,961
	<u>\$1,569,508</u>	<u>\$1,341,917</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	\$121,746	\$114,358
Reforestation liability	15,841	13,021
Lease liabilities	11,819	10,105
Income taxes payable	342	163
	<u>149,748</u>	<u>137,647</u>
Reforestation liability	34,408	27,401
Lease liabilities	27,625	27,718
Long term debt	425,610	259,760
Employee future benefits	12,066	11,843
Provisions and other liabilities	9,242	18,957
Deferred income taxes	27,892	27,609
Equity:		
Share capital	533,685	533,685
Contributed surplus	4,727	4,471
Translation reserve	102,842	56,759
Retained earnings	241,663	236,067
	<u>882,917</u>	<u>830,982</u>
	<u>\$1,569,508</u>	<u>\$1,341,917</u>

Approved on behalf of the Board:

"L. Sauder"
 Director

"Thomas V. Milroy"
 Director

FORWARD-LOOKING STATEMENTS

This release 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. 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 release, 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 release are described in Interfor's first quarter and annual Management's Discussion & Analysis under the headings "Risks and Uncertainties" and "Effects of COVID-19 and Interfor's Response", which are available on www.interfor.com and under Interfor's profile on www.sedar.com. Material factors and assumptions used to develop the forward-looking information in this release include volatility in the selling prices for lumber, logs and wood chips; the Company's ability to compete on a global basis; the availability and cost of log supply; natural or man-made disasters; currency exchange rates; changes in government regulations; the availability of the Company's allowable annual cut ("AAC"); claims by and treaty settlements with Indigenous peoples; the Company's ability to export its products; the softwood lumber trade dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia; environmental impacts of the Company's operations; labour disruptions; information systems security; and the existence of a public health crisis (such as the current COVID-19 pandemic). Unless otherwise indicated, the forward-looking information in this release is based on the Company's expectations at the date of this release. Interfor undertakes no obligation to update such forward-looking information, except as required by law.

ABOUT INTERFOR

Interfor is a growth-oriented forest products company with operations in Canada and the United States. The Company has annual production capacity of approximately 3.0 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 Q1'20 are available at www.sedar.com and www.interfor.com.

There will be an analyst conference call on Friday, May 8, 2020 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company's release of its first quarter 2020 financial results.

The dial-in number is **1-833-297-9919**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until June 8, 2020. The number to call is **1-855-859-2056, Passcode 7198873**.

For further information:

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