



Interfor Corporation

Burnaby, B.C.

May 4, 2023

Interfor Reports Q1'23 Results Adjusted EBITDA of \$26 million and Net Loss of \$41 million

INTERFOR CORPORATION ("Interfor" or the "Company") (TSX: IFP) recorded a Net loss in Q1'23 of \$41.3 million, or \$0.80 per share, compared to \$72.2 million, or \$1.40 per share in Q4'22 and Net earnings of \$397.0 million, or \$6.69 per share in Q1'22.

Adjusted EBITDA was \$26.1 million on sales of \$829.9 million in Q1'23 versus negative Adjusted EBITDA of \$68.7 million on sales of \$810.3 million in Q4'22 and Adjusted EBITDA of \$570.1 million on sales of \$1.3 billion in Q1'22.

Notable items in the quarter:

- Lower Lumber Prices
 - Lumber prices continued to reflect softened demand driven by the elevated interest rate environment. Interfor's average selling price was \$639 per mfbm, down \$60 per mfbm versus Q4'22. The Western SPF Composite, SYP Composite, KD H-F Stud 2x4 9' and ESPF Composite price benchmarks decreased quarter-over-quarter by US\$21, US\$19, US\$33 and US\$24 per mfbm to US\$399, US\$442, US\$428 and US\$474 per mfbm, respectively.
- Lumber Production Balanced with Demand
 - Lumber production totaled 1.0 billion board feet, representing an increase of 157 million board feet quarter-over-quarter. This growth was mostly driven by a decrease in temporary production curtailments in Q1'23 compared to Q4'22 and the first full quarter of contribution from two sawmills acquired in November 2022.
 - The U.S. South and U.S. Northwest regions accounted for 473 million board feet and 142 million board feet, respectively, compared to 404 million board feet and 135 million board feet in Q4'22. The Eastern Canada region produced 250 million board feet versus 212 million board feet in Q4'22. Production in the B.C. region increased to 166 million board feet from 123 million board feet in Q4'22.
 - Lumber shipments were 1.0 billion board feet, or 65 million board feet higher than Q4'22.
- Financial Flexibility Maintained
 - Net debt at quarter-end was \$880.0 million, or 30.7% of invested capital, while available liquidity was ample at \$321.4 million.
 - Liquidity is expected to be strengthened during the remainder of 2023 by the draw down of seasonally high working capital and income tax refunds totaling approximately \$98.0 million related to over-installments for the 2022 tax year.

- Strategic Capital Investments
 - Capital spending was \$63.7 million, including \$45.4 million on discretionary projects. The majority of this discretionary spending was focused on the multi-year rebuild of the Thomaston, GA sawmill, a new planer at the Castlegar, B.C. sawmill and upgrades to the Perry, GA sawmill.
 - Total capital expenditures planned for 2023 have been reduced to approximately \$210.0 million from \$240.0 million in response to ongoing lumber market weakness. This reduction reflects the delay of certain components of ongoing strategic capital projects.
- Ongoing Monetization of Coastal B.C. Operations
 - The Company is continuing to work with the Ministry of Forests to subdivide and transfer a number of forest tenures from its 1.57 million cubic metres of annual harvesting rights. The timing remains uncertain as to when the Ministry approval and certain contractual consents may be received.
- Softwood Lumber Duties
 - Interfor expensed \$10.7 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 8.59%.
 - Interfor has cumulative duties of US\$520.6 million, or approximately \$10.00 per share after-tax, held in trust by U.S. Customs and Border Protection as at March 31, 2023. Except for US\$156.8 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.

Outlook

North American lumber markets over the near term are expected to be volatile 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. Interfor is well positioned with its strong balance sheet and significant available liquidity to continue pursuing its strategic plans despite ongoing economic and geo-political uncertainty globally. 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 Highlights¹

	Unit	For the three months ended		
		Mar. 31 2023	Mar. 31 2022	Dec. 31 2022
Financial Highlights ²				
Total sales	\$MM	829.9	1,349.0	810.3
Lumber	\$MM	642.5	1,212.5	656.3
Logs, residual products and other	\$MM	187.4	136.5	154.0
Operating earnings (loss)	\$MM	(36.2)	512.7	(114.8)
Net earnings (loss)	\$MM	(41.3)	397.0	(72.2)
Net earnings (loss) per share, basic	\$/share	(0.80)	6.69	(1.40)
Operating cash flow per share (before working capital changes) ^{3,5}	\$/share	0.47	6.18	(1.75)
Adjusted EBITDA ³	\$MM	26.1	570.1	(68.7)
Adjusted EBITDA margin ³	%	3.1%	42.3%	(8.5%)
Total assets	\$MM	3,695.1	3,081.4	3,619.8
Total debt	\$MM	946.2	403.1	798.0
Net debt ³	\$MM	880.0	340.2	720.4
Net debt to invested capital ³	%	30.7%	15.8%	26.2%
Annualized return on capital employed ³	%	(5.0%)	86.6%	(13.8%)
Operating Highlights				
Lumber production	million fbm	1,031	917	874
Lumber sales	million fbm	1,004	843	939
Lumber - average selling price ⁴	\$/thousand fbm	639	1,410	699
Average USD/CAD exchange rate ⁶	1 USD in CAD	1.3525	1.2662	1.3578
Closing USD/CAD exchange rate ⁶	1 USD in CAD	1.3533	1.2496	1.3544

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 unaudited condensed consolidated interim financial statements.
- Gross sales including duties and freight.
- 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 \$(0.20) – Q1 2022.
- Based on Bank of Canada foreign exchange rates.

Liquidity

Balance Sheet

Interfor's Net debt at March 31, 2023 was \$880.0 million, or 30.7% of invested capital, representing an increase of \$159.6 million from the level of Net debt at December 31, 2022.

As at March 31, 2023 the Company had net working capital of \$512.9 million and available liquidity of \$321.4 million, based on the available borrowing capacity under its \$600 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.

Thousands of Dollars	For the three months ended		
	Mar. 31 2023	Dec. 31 2022	Mar. 31 2022
Net debt			
Net debt (cash), period opening	\$720,361	\$249,718	\$(162,886)
Net issuance of Senior Secured Notes	-	270,160	-
Revolving Term Line net drawings	149,478	133,430	31,150
Decrease in cash and cash equivalents	10,810	73,812	478,203
Foreign currency translation impact on U.S. Dollar denominated cash and cash equivalents and debt	(656)	(6,759)	(6,287)
Net debt, period ending	\$879,993	\$720,361	\$340,180

On December 16, 2022, the Company completed an expansion of its Term Line. The commitment under the Term Line was increased by \$100 million to a total of \$600 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.

Capital Resources

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

Thousands of Canadian Dollars	Revolving Term Line	Senior Secured Notes	Total
Available line of credit and maximum borrowing available	\$600,000	\$661,989	\$1,261,989
Less:			
Drawings	284,193	661,989	946,182
Outstanding letters of credit included in line utilization	60,622	-	60,622
Unused portion of facility	\$255,185	\$ -	255,185
Add:			
Cash and cash equivalents			66,189
Available liquidity at March 31, 2023			\$321,374

Interfor's Term Line matures in December 2026 and its Senior Secured Notes have maturities in the years 2023-2033.

As of March 31, 2023, the Company had commitments for capital expenditures totaling \$156.9 million for both maintenance and discretionary capital projects.

Non-GAAP Measures

This release 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:

For the three months ended

	Mar. 31	Mar. 31	Dec. 31
	2023	2022	2022

Thousands of Canadian Dollars except number of shares and per share amounts

	Mar. 31	Mar. 31	Dec. 31
	2023	2022	2022
Adjusted EBITDA			
Net earnings (loss)	\$(41,289)	\$397,031	\$(72,175)
Add:			
Depreciation of plant and equipment	45,054	33,113	39,594
Depletion and amortization of timber, roads and other	12,235	9,124	11,668
Finance costs	10,944	5,169	4,643
Income tax expense (recovery)	(11,497)	132,026	(40,687)
EBITDA	15,447	576,463	(56,957)
Add:			
Long-term incentive compensation expense (recovery)	2,636	3,671	(4,202)
Other foreign exchange gain	(17)	(12,823)	(11,274)
Other expense (income) excluding business interruption insurance	6,424	(395)	4,719
Asset write-downs and restructuring costs (recoveries)	1,594	3,198	(1,033)
Adjusted EBITDA	\$26,084	\$570,114	\$(68,747)
Sales	\$829,882	\$1,349,038	\$810,361
Adjusted EBITDA margin	3.1%	42.3%	(8.5%)
Net debt to invested capital			
Net debt			
Total debt	\$946,182	\$403,112	\$797,967
Cash and cash equivalents	(66,189)	(62,932)	(77,606)
Total net debt	\$879,993	\$340,180	\$720,361
Invested capital			
Net debt	\$879,993	\$340,180	\$720,361
Shareholders' equity	1,985,246	1,817,371	2,027,038
Total invested capital	\$2,865,239	\$2,157,551	\$2,747,399
Net debt to invested capital ¹	30.7%	15.8%	26.2%
Operating cash flow per share (before working capital changes)²			
Cash provided by (used in) operating activities	\$(84,588)	\$281,214	\$10,306
Cash used in (generated from) operating working capital	108,829	85,478	(100,284)
Operating cash flow (before working capital changes)	\$24,241	\$366,692	\$(89,978)
Weighted average number of shares - basic ('000)	51,438	59,357	51,435
Operating cash flow per share (before working capital changes)	\$0.47	\$6.18	\$(1.75)
Annualized return on capital employed			
Net earnings (loss)	\$(41,289)	\$397,031	\$(72,175)
Add:			
Finance costs	10,944	5,169	4,643
Income tax expense (recovery)	(11,497)	132,026	(40,687)
Earnings (loss) before income taxes and finance costs	\$(41,842)	\$534,226	\$(108,219)
Capital employed			
Total assets	\$3,695,105	\$3,081,351	\$3,619,833
Current liabilities	(342,977)	(472,686)	(325,997)
Less:			
Current portion of long-term debt	52,440	6,769	7,336
Current portion of lease liabilities	14,803	15,014	14,796
Capital employed, end of period	\$3,419,371	\$2,630,448	\$3,315,968
Capital employed, beginning of period	3,315,968	2,303,177	2,938,800
Average capital employed	\$3,367,670	\$2,466,812	\$3,127,384
Earnings (loss) before income taxes and finance costs divided by average capital employed	(1.2%)	21.7%	(3.5%)
Annualization factor	4.0	4.0	4.0
Annualized return on capital employed	(5.0%)	86.6%	(13.8%)

Notes:

- 1 Net debt to invested capital as of the period end.
- 2 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 \$(0.20) - Q1 2022.



CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars except per share amounts)

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Sales	\$829,882	\$1,349,038
Costs and expenses:		
Production	776,732	733,830
Selling and administration	17,201	17,628
Long-term incentive compensation expense	2,636	3,671
U.S. countervailing and anti-dumping duty deposits	10,669	35,817
Depreciation of plant and equipment	45,054	33,113
Depletion and amortization of timber, roads and other	12,235	9,124
	864,527	833,183
Operating earnings (loss) before asset write-downs and restructuring costs	(34,645)	515,855
Asset write-downs and restructuring costs	1,594	3,198
Operating earnings (loss)	(36,239)	512,657
Finance costs	(10,944)	(5,169)
Other foreign exchange gain	17	12,823
Other income (expense)	(5,620)	8,746
	(16,547)	16,400
Earnings (loss) before income taxes	(52,786)	529,057
Income tax expense (recovery):		
Current	(5,469)	122,580
Deferred	(6,028)	9,446
	(11,497)	132,026
Net earnings (loss)	\$(41,289)	\$397,031
Net earnings (loss) per share		
Basic	\$(0.80)	\$6.69
Diluted	\$(0.80)	\$6.66

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars)

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Net earnings (loss)	\$(41,289)	\$397,031
Other comprehensive loss:		
Items that will not be recycled to Net earnings (loss):		
Defined benefit plan actuarial gain, net of tax	649	2,786
Items that are or may be recycled to Net earnings (loss):		
Foreign currency translation differences for foreign operations, net of tax	(1,482)	(24,729)
Total other comprehensive loss, net of tax	(833)	(21,943)
Comprehensive income (loss)	\$(42,122)	\$375,088



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2023 and 2022 (unaudited)

(thousands of Canadian Dollars)

	Three Months Mar. 31, 2023	Three Months Mar. 31, 2022
Cash provided by (used in):		
Operating activities:		
Net earnings (loss)	\$(41,289)	\$397,031
Items not involving cash:		
Depreciation of plant and equipment	45,054	33,113
Depletion and amortization of timber, roads and other	12,235	9,124
Deferred income tax expense (recovery)	(6,028)	9,446
Current income tax expense (recovery)	(5,469)	122,580
Finance costs	10,944	5,169
Other assets	116	(40)
Reforestation liability	4,842	1,736
Provisions and other liabilities	(3,249)	(12,910)
Stock options	226	241
Write-down of plant, equipment and other	1,454	1,223
Unrealized foreign exchange loss (gain)	184	(10,281)
Other expense (income)	5,620	(8,746)
Income taxes paid	(399)	(180,994)
	24,241	366,692
Cash generated from (used in) operating working capital:		
Trade accounts receivable and other	(53,890)	(61,629)
Inventories	(32,468)	(21,412)
Prepayments	3,485	2,860
Trade accounts payable and provisions	(25,956)	(5,297)
	(84,588)	281,214
Investing activities:		
Additions to property, plant and equipment	(63,145)	(51,023)
Additions to roads and bridges	(515)	155
Acquisitions, net of cash acquired	536	(537,679)
Proceeds on disposal of property, plant and equipment and other	4,114	1,190
Net proceeds from deposits and other assets	915	392
	(58,095)	(586,965)
Financing activities:		
Issuance of share capital, net of expenses	104	377
Share repurchases, net of expenses	-	(194,308)
Interest payments	(13,089)	(5,012)
Lease liability payments	(4,457)	(4,470)
Debt refinancing costs	(163)	(189)
Term line net drawings	149,478	31,150
	131,873	(172,452)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(607)	2,574
Decrease in cash	(11,417)	(475,629)
Cash and cash equivalents, beginning of period	77,606	538,561
Cash and cash equivalents, end of period	\$66,189	\$62,932



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
March 31, 2023 and December 31, 2022 (unaudited)

(thousands of Canadian Dollars)	Mar. 31, 2023	Dec. 31, 2022
Assets		
Current assets:		
Cash and cash equivalents	\$66,189	\$77,606
Trade accounts receivable and other	228,419	174,053
Income tax receivable	109,753	104,082
Inventories	429,376	396,908
Prepayments	22,157	25,932
	855,894	778,581
Employee future benefits	18,776	18,445
Deposits and other assets	275,099	281,628
Right of use assets	33,691	33,998
Property, plant and equipment	1,713,623	1,701,197
Roads and bridges	32,099	38,050
Timber licences	176,274	178,443
Goodwill and other intangible assets	587,095	588,098
Deferred income taxes	2,554	1,393
	\$3,695,105	\$3,619,833
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	\$257,735	\$285,604
Current portion of long-term debt	52,440	7,336
Reforestation liability	17,941	17,926
Lease liabilities	14,803	14,796
Income taxes payable	58	335
	342,977	325,997
Reforestation liability	33,750	28,671
Lease liabilities	20,220	20,456
Long-term debt	893,742	790,631
Employee future benefits	10,232	9,888
Provisions and other liabilities	20,702	24,166
Deferred income taxes	388,236	392,986
Equity:		
Share capital	408,861	408,713
Contributed surplus	5,657	5,475
Translation reserve	174,403	175,885
Retained earnings	1,396,325	1,436,965
	1,985,246	2,027,038
	\$3,695,105	\$3,619,833

Approved on behalf of the Board of Directors:

"L. Sauder"
 Director

"T.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 and Analysis under the heading "Risks and Uncertainties", 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; Indigenous reconciliation; the softwood lumber trade dispute between Canada and the United States; environmental impacts of the Company's operations; labour availability; and information systems security. Unless otherwise indicated, the forward-looking statements in this release are based on the Company's expectations at the date of this release. Interfor undertakes no obligation to update such forward-looking information or statements, 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 lumber production capacity of approximately 5.2 billion board feet and offers a diverse line of lumber products to customers around the world. For more information about Interfor, visit our website at www.interfor.com.

The Company's unaudited condensed consolidated interim financial statements and Management's Discussion and Analysis for Q1'23 are available at www.sedar.com and www.interfor.com.

There will be a conference call on Friday, May 5, 2023 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company's release of its first quarter 2023 financial results.

The dial-in number is **1-888-396-8049**. The conference call will also be recorded for those unable to join in for the live discussion and will be available until June 4, 2023. The number to call is **1-877-674-7070, Passcode 786874#**.

For further information:

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