



## Interfor Corporation

Vancouver, B.C.

August 2, 2018

***Interfor Reports Q2'18 Results***  
***Record EBITDA<sup>(1)</sup> of \$124 million on Sales of \$620 million***  
***Operating Cash Flow<sup>(1)</sup> 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.

<sup>(1)</sup> 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 <sup>(1)</sup>

|   | Unit            | For the 3 months ended |         |         | For the 6 months ended |         |
|---|-----------------|------------------------|---------|---------|------------------------|---------|
|   |                 | Jun. 30                | Jun. 30 | Mar. 31 | Jun. 30                | Jun. 30 |
|   |                 | 2018                   | 2017    | 2018    | 2018                   | 2017    |
| <b>Financial Highlights<sup>(2)</sup></b>                                     |                 |                        |         |         |                        |         |
| 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 <sup>(3)</sup>  | \$MM            | 68.9                   | 28.7    | 36.8    | 105.7                  | 51.5    |
| Adjusted net earnings per share, basic <sup>(3)</sup>                         | \$/share        | 0.98                   | 0.41    | 0.52    | 1.51                   | 0.73    |
| Operating cash flow per share (before working capital changes) <sup>(3)</sup> | \$/share        | 1.76                   | 1.05    | 1.08    | 2.84                   | 1.90    |
| Adjusted EBITDA <sup>(3)</sup>  | \$MM            | 123.8                  | 77.4    | 81.1    | 204.8                  | 137.7   |
| Adjusted EBITDA margin <sup>(3)</sup>   | %               | 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 <sup>(3)</sup>                                   | %               | 3.4%                   | 21.1%   | 12.4%   | 3.4%                   | 21.1%   |
| Annualized return on invested capital <sup>(3)</sup>                          | %               | 48.5%                  | 28.9%   | 32.4%   | 41.3%                  | 26.1%   |
| <b>Operating Highlights</b>   |                 |                        |         |         |                        |         |
| 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 <sup>(4)</sup>                                 | \$/thousand fbm | 753                    | 642     | 688     | 722                    | 624     |
|   |                 |                        |         |         |                        |         |
| Average USD/CAD exchange rate <sup>(5)</sup>                                  | 1 USD in CAD    | 1.2911                 | 1.3449  | 1.2647  | 1.2781                 | 1.3343  |
| Closing USD/CAD exchange rate <sup>(5)</sup>                                  | 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<br>Jun. 30, |           | For the 6 months ended<br>Jun. 30, |           |
|---|------------------------------------|-----------|------------------------------------|-----------|
|   | 2018                               | 2017      | 2018                               | 2017      |
| <b>Net debt</b>   |                                    |           |                                    |           |
| 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 |
| <b>Net debt components by currency</b>                                    |                                    |           |                                    |           |
| 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<br>Line | Revolving<br>Term<br>Line | Senior<br>Secured<br>Notes | U.S.<br>Operating<br>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 |             |
|---|------------------------|-------------|-------------|------------------------|-------------|
|   | Jun. 30                | Jun. 30     | Mar. 31     | Jun. 30                | Jun. 30     |
| Thousands of Canadian Dollars except number of shares and per share amounts | 2018                   | 2017        | 2018        | 2018                   | 2017        |
| <b>Adjusted Net Earnings</b>  |                        |             |             |                        |             |
| 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      |
| <b>Adjusted EBITDA</b>  |                        |             |             |                        |             |
| 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   |
| <b>Adjusted EBITDA margin</b>   | 20.0%                  | 15.1%       | 15.4%       | 17.8%                  | 14.2%       |
| <b>Net debt to invested capital</b>   |                        |             |             |                        |             |
| 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 <sup>(1)</sup>                                 | 3.4%                   | 21.1%       | 12.4%       | 3.4%                   | 21.1%       |
| <b>Operating cash flow per share (before working capital changes)</b>       |                        |             |             |                        |             |
| 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      |
| <b>Annualized return on invested capital</b>                                |                        |             |             |                        |             |
| 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.



**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<br>Jun. 30, 2018 | Three Months<br>Jun. 30, 2017 | Six Months<br>Jun. 30, 2018 | Six Months<br>Jun. 30, 2017 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|
| <b>Sales</b>  | <b>\$619,893</b>              | <b>\$511,376</b>              | <b>\$1,147,537</b>          | <b>\$968,156</b>            |
| <b>Costs and expenses:</b>                                |                               |                               |                             |                             |
| 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                      |
|   | <b>529,331</b>                | <b>467,214</b>                | <b>1,010,258</b>            | <b>893,230</b>              |
| <b>Operating earnings before restructuring costs</b>      | <b>90,562</b>                 | <b>44,162</b>                 | <b>137,279</b>              | <b>74,926</b>               |
| Restructuring costs                                       | 4,669                         | 1,457                         | 4,905                       | 1,802                       |
| <b>Operating earnings</b>                                 | <b>85,893</b>                 | <b>42,705</b>                 | <b>132,374</b>              | <b>73,124</b>               |
| 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)                       |
|   | <b>(986)</b>                  | <b>(4,904)</b>                | <b>(3,958)</b>              | <b>(9,336)</b>              |
| <b>Earnings before income taxes</b>                       | <b>84,907</b>                 | <b>37,801</b>                 | <b>128,416</b>              | <b>63,788</b>               |
| Income tax expense:                                       |                               |                               |                             |                             |
| Current   | 1,567                         | 380                           | 2,337                       | 686                         |
| Deferred  | 19,565                        | 12,909                        | 29,328                      | 18,923                      |
|   | <b>21,132</b>                 | <b>13,289</b>                 | <b>31,665</b>               | <b>19,609</b>               |
| <b>Net earnings</b>                                       | <b>\$63,775</b>               | <b>\$24,512</b>               | <b>\$96,751</b>             | <b>\$44,179</b>             |
| <b>Net earnings per share, basic and diluted</b>          | <b>\$0.91</b>                 | <b>\$0.35</b>                 | <b>\$1.38</b>               | <b>\$0.63</b>               |

**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<br>Jun. 30, 2018 | Three Months<br>Jun. 30, 2017 | Six Months<br>Jun. 30, 2018 | Six Months<br>Jun. 30, 2017 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|
| <b>Net earnings</b>   | <b>\$63,775</b>               | <b>\$24,512</b>               | <b>\$96,751</b>             | <b>\$44,179</b>             |
| <b>Other comprehensive income (loss):</b>                                   |                               |                               |                             |                             |
| <b>Items that will not be recycled to Net earnings:</b>                     |                               |                               |                             |                             |
| Defined benefit plan actuarial gain (loss), net of tax                      | 1,004                         | (1,222)                       | 1,889                       | (398)                       |
| <b>Items that are or may be recycled to Net earnings:</b>                   |                               |                               |                             |                             |
| 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)                        |
| <b>Total items that are or may be recycled to Net earnings</b>              | <b>11,130</b>                 | <b>(12,057)</b>               | <b>23,977</b>               | <b>(14,573)</b>             |
| <b>Total other comprehensive income (loss), net of tax</b>                  | <b>12,134</b>                 | <b>(13,279)</b>               | <b>25,866</b>               | <b>(14,971)</b>             |
| <b>Comprehensive income</b>   | <b>\$75,909</b>               | <b>\$11,233</b>               | <b>\$122,617</b>            | <b>\$29,208</b>             |



**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<br>Jun. 30, 2018 | Three Months<br>Jun. 30, 2017 | Six Months<br>Jun. 30, 2018 | Six Months<br>Jun. 30, 2017 |
|---|-------------------------------|-------------------------------|-----------------------------|-----------------------------|
| <b>Cash provided by (used in):</b>  |                               |                               |                             |                             |
| <b>Operating activities:</b>  |                               |                               |                             |                             |
| <b>Net earnings</b>   | \$63,775                      | \$24,512                      | \$96,751                    | \$44,179                    |
| <b>Items not involving cash:</b>  |                               |                               |                             |                             |
| 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                     |
| <b>Cash generated from (used in) operating working capital:</b>                             |                               |                               |                             |                             |
| 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                     |
| <b>Investing activities:</b>  |                               |                               |                             |                             |
| 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)                    |
| <b>Financing activities:</b>  |                               |                               |                             |                             |
| 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                      |
| <b>Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency</b> | 3,118                         | (517)                         | 4,843                       | (537)                       |
| <b>Increase in cash</b>   | 98,129                        | 22,597                        | 97,345                      | 22,018                      |
| <b>Cash and cash equivalents, beginning of period</b>                                       | 130,816                       | 18,691                        | 131,600                     | 19,270                      |
| <b>Cash and cash equivalents, end of period</b>   | \$228,945                     | \$41,288                      | \$228,945                   | \$41,288                    |



# CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2018 and December 31, 2017 (unaudited)

(thousands of Canadian Dollars)

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

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](http://www.sedar.com) and [www.interfor.com](http://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](http://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](http://www.sedar.com) and [www.interfor.com](http://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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