Interfor Corporation
First Quarter Report
For the three months ended March 31, 2018

Management's Discussion and Analysis

This Management's Discussion and Analysis ("MD&A") provides a review of financial condition and results of operations as at and for the three months ended March 31, 2018 ("Q1'18"). It should be read in conjunction with the unaudited consolidated financial statements of Interfor Corporation and its subsidiaries ("Interfor" or the "Company") for the three months ended March 31, 2018, and the notes thereto which have been prepared in accordance with International Financial Reporting Standards ("IFRS"). This MD&A contains certain non-GAAP measures which, within the Non-GAAP Measures section, are discussed, defined and reconciled to figures reported in the Company's consolidated financial statements. This MD&A has been prepared as of May 3, 2018.

All figures are stated in Canadian Dollars, unless otherwise noted, and references to US$/USD are to the United States Dollar. For definitions of technical terms and abbreviations used within this MD&A, refer to the Glossary in the Company's 2017 Annual Report.

Forward-Looking Information

This MD&A 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. Forward-looking information is included under the headings "Overview of First Quarter, 2018", "Strategic Capital Plan", "Outlook", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", "Accounting Policy Changes" and "Risks and Uncertainties". 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 report, 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 report are described under the heading "Risks and Uncertainties" herein and in Interfor's 2017 annual Management's Discussion and Analysis, which is available on www.sedar.com and www.interfor.com. Material factors and assumptions used to develop the forward-looking information in this report, 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 dispute between Canada and the U.S.; stumpage fees payable to the Province of British Columbia ("B.C."); environmental impacts of the Company's operations; labour disruptions; cyber-security measures; and the assumptions described under the heading "Critical Accounting Estimates" herein and in Interfor's 2017 annual Management's Discussion and Analysis.

Unless otherwise indicated, the forward-looking statements in this report are based on the Company's expectations at the date of this report. Interfor undertakes no obligation to update such forward-looking information or statements, except as required by law.

Overview of First Quarter 2018

Q1’18 Results

Interfor recorded net earnings in Q1’18 of $33.0 million, or $0.47 per share, compared to $36.2 million, or $0.52 per share in Q4’17 and $19.7 million, or $0.28 per share in Q1’17. Adjusted net earnings in Q1’18 were $36.8 million or $0.52 per share, compared to $45.1 million, or $0.64 per share in Q4’17 and $22.7 million, or $0.32 per share in Q1’17.

Adjusted EBITDA was $81.1 million on sales of $527.6 million in Q1’18 versus $89.5 million on sales of $532.8 million in Q4’17.

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$37, US$33 and US$63 per mfbm, respectively. Interfor’s average lumber selling price increased $38 from Q4’17 to a record $688 per mfbm.
- Increased Production/Reduced Shipments
  - Total lumber production was 666 million board feet or 11 million board feet more than the prior quarter. Production in the U.S. South region increased to 302 million board feet from 296 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 218 million board feet and 146 million board feet, respectively, compared to 219 million board feet and 140 million board feet in Q4’17, respectively.
  - Total lumber shipments were 648 million board feet, including agency and wholesale volumes, or 38 million board feet lower than Q4’17. This reduction was the result of industry-wide logistics issues, particularly due to weather-impacted rail constraints in B.C.
- Continued Financial Flexibility
  - Net debt ended the quarter at $127.1 million, or 12.4% of invested capital, resulting in available liquidity of $444.6 million.
  - Interfor generated $75.5 million of cash from operations before changes in working capital, or $1.08 per share. Total cash generated from operations was $18.5 million after considering an increase in working capital, including a $34.0 million increase in inventories, a $10.9 million increase in accounts receivable due primarily to higher lumber prices, and the payment of annual employee incentive compensation.
  - Capital spending was $18.1 million on a mix of high-return discretionary, maintenance and woodlands projects.
- Softwood Lumber Duties
  - Interfor expensed $12.9 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 mandated final 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 previously announced projects at the Company’s Meldrim and Monticello sawmills are on track for completion in Q1’19.
- The Company completed the installation of an autograding system at its Perry, Georgia sawmill in Q1’18.

- Other large capital projects to enhance existing operations are continuing to be advanced from an engineering and feasibility standpoint. In particular, the Company is refining plans for a series of substantial capital investment opportunities at three of its U.S. South sawmills. It is expected that these projects could be completed between 2019 and 2021. These projects will be subject to Board approval in the normal course.
- The greenfield sawmill opportunity in the Central Region of the U.S. South is in the final stages of assessment with a decision on the project expected by mid-2018.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term as the U.S. housing market recovers and market promotion efforts in North America and offshore take full effect.

Interfor's strategy of maintaining a diversified portfolio of lumber operations allows the Company to both reduce risk and maximize returns on invested capital over the business cycle. Interfor will continue its disciplined approach to production, cost control, inventory management and capital spending. At the same time, Interfor will remain alert to growth opportunities to position the Company for long term success.

Financial and Operating Highlights (1)

		For the three months ended		
		Mar. 31	Mar. 31	Dec. 31
	Unit	2018	2017	2017
Financial Highlights(2)				
Total sales	$MM	527.6	456.8	532.8
Lumber	$MM	445.9	389.6	446.0
Logs, residual products and other	$MM	81.7	67.2	86.8
Operating earnings	$MM	46.5	30.4	47.9
Net earnings	$MM	33.0	19.7	36.2
Net earnings per share, basic	$/share	0.47	0.28	0.52
Adjusted net earnings(3)	$MM	36.8	22.7	45.1
Adjusted net earnings per share, basic(3)	$/share	0.52	0.32	0.64
Operating cash flow per share (before working capital changes)(3)	$/share	1.08	0.85	1.19
Adjusted EBITDA(3)	$MM	81.1	60.3	89.5
Adjusted EBITDA margin(3)	%	15.4%	13.2%	16.8%
Total assets	$MM	1,410.1	1,318.8	1,353.0
Total debt	$MM	257.9	325.4	250.9
Net debt to invested capital(3)	%	12.4%	27.6%	12.3%
Return on invested capital(3)	%	32.4%	22.0%	36.4%
Operating Highlights				
Lumber production	million fbm	666	640	655
Total lumber sales	million fbm	648	645	686
Lumber sales - Interfor produced	million fbm	635	624	666
Lumber sales - wholesale and commission	million fbm	13	21	20
Lumber - average selling price(4)	$/thousand fbm	688	604	650
Average USD/CAD exchange rate(5)	1 USD in CAD	1.2647	1.3238	1.2713
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.2894	1.3322	1.2545

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 MD&A is prepared in accordance with IFRS and is unaudited.
(3) Refer to the Non-GAAP Measures section of this MD&A 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.

Summary of First Quarter 2018 Financial Performance

Sales

Interfor recorded $527.6 million of total sales, up 15.5% from $456.8 million in the first quarter of 2017, driven by the sale of 648 million board feet of lumber at a record average price of $688 per mfbm. Lumber sales volume increased 3 million board feet, or 0.5%, while average selling prices increased $84 per mfbm, or 13.9%, as compared to the same quarter of 2017. Lumber sales volumes were affected by logistics issues in Q1'18, particularly in B.C. operations due to rail car constraints.

The increase in the average selling price of lumber reflects significantly higher prices across all key commodity grade benchmarks in Q1'18 as compared to Q1'17. The Western SPF Composite improved by US$133 to US$472 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US$108 to US$468 per mfbm and US$37 to US$453 per mfbm, respectively. The positive impact of increased U.S. Dollar lumber prices was somewhat reduced by the strengthening of the Canadian Dollar against the U.S. Dollar by 4.5% on average in Q1'18 as compared to Q1'17.

Sales generated from logs, residual products and other increased by $14.5 million or 21.7% compared to the same quarter of 2017. This increase is related to a 16.5% increase in log production on the B.C. Coast, which had been negatively impacted in Q1'17 by winter storms, higher chip prices in B.C. and the U.S. Northwest, partially offset by the stronger Canadian Dollar in Q1'18 versus Q1'17.

Operations

Production costs increased by $35.5 million, or 9.2% over Q1'17, explained primarily by higher average conversion costs, market driven log cost increases including higher stumpage rates in in B.C., and an increase in log sales volume, somewhat offset by the stronger Canadian Dollar in Q1'18 compared to Q1'17.

Lumber production of 666 million board feet in Q1'18 was 26 million board feet higher than Q1'17.

Production from the Company's nine U.S. South sawmills totaled 302 million board feet in Q1'18, up 17 million board feet compared to Q1'17, as the Company increased operating schedules at several of the mills.

Production from the Company's U.S. Northwest operations totaled 146 million board feet in Q1'18, an increase of 6 million board feet from Q1'17. Canadian production totaled 218 million board feet in Q1'18, up 3 million board feet as compared to Q1'17.

U.S. CV and AD duty deposits levied on Interfor's shipments of softwood lumber from Canada into the U.S. totaled $12.9 million for Q1'18. As CV and AD duties did not come into effect until April 28, 2017, there was no corresponding expense in Q1'17.

Depreciation of plant and equipment was $20.1 million, up by $0.5 million versus Q1'17. This increase is attributable to a full quarter's depreciation on capital projects completed in 2017 and increased operating hours in Q1'18, slightly offset by the stronger Canadian Dollar.

Depletion and amortization of timber, roads and other was $9.4 million, up $3.1 million from Q1'17, primarily related to the B.C. Coast where logging was hampered by winter storms in Q1'17.

Corporate and Other

Selling and administration expenses were $14.1 million, up $1.7 million from the first quarter of 2017. Q1'18 included higher accruals for short term incentive compensation and certain IT infrastructure improvements not reflected in the Q1'17 comparative.

The $4.9 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing, coupled with an 11.2% increase during the quarter in the price of Interfor Common Shares used to value share-based awards. The $3.6 million long term incentive compensation expense in Q1'17 resulted primarily from the impact of incentive awards maturing and a 14.3% increase in the market price for Interfor Common Shares during that quarter.

Finance costs were $2.9 million, or $1.2 million lower than the first quarter of 2017, due mainly to a lower average level of debt outstanding in Q1'18 as compared to Q1'17.

Restructuring charges in Q1'18 relate primarily to impairment of an intangible asset. Q1'17 restructuring charges relate to costs associated with the relocation of a sales office.

Other foreign exchange gain of $0.1 million in Q1'18 results primarily from gains on U.S. cash held by Canadian operations slightly offset by unrealized losses on short-term intercompany funding. Q1'17 losses of $0.2 million result primarily from unrealized losses on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $10.5 million in Q1'18, comprised of a $0.8 million current tax expense and a $9.7 million deferred tax expense. As at December 31, 2017, the Company had non-capital loss carry-forwards of approximately $67 million in Canada, with expiry dates between 2032 and 2036, and US$132 million in the U.S., with expiry dates between 2024 and 2035.

Net Earnings

The Company recorded net earnings of $33.0 million or $0.47 per share, compared to net earnings of $19.7 million or $0.28 per share in the comparable period of 2017. Adjusted net earnings were $36.8 million or $0.52 per share compared with $22.7 million or $0.32 per share in Q1'17.

Summary of Quarterly Results(1)

		2018	2017				2016		
	Unit	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Financial Performance(2)									
Total sales	$MM	527.6	532.8	489.2	511.4	456.8	442.3	457.6	458.8
Lumber	$MM	445.9	446.0	410.2	433.7	389.6	363.5	374.8	371.1
Logs, residual products and other	$MM	81.7	86.8	79.0	77.7	67.2	78.8	82.8	87.7
Operating earnings	$MM	46.5	47.9	28.3	42.7	30.4	22.3	20.1	30.0
Net earnings	$MM	33.0	36.2	16.8	24.5	19.7	26.6	15.1	23.2
Net earnings per share, basic	$/share	0.47	0.52	0.24	0.35	0.28	0.38	0.22	0.33
Adjusted net earnings(3)	$MM	36.8	45.1	20.0	28.7	22.7	17.7	20.7	17.5
Adjusted net earnings per share, basic(3)	$/share	0.52	0.64	0.29	0.41	0.32	0.25	0.30	0.25
Operating cash flow per share (before working capital changes)(3)	$/share	1.08	1.19	0.82	1.05	0.85	0.72	0.78	0.80
Adjusted EBITDA(3)	$MM	81.1	89.5	60.5	77.4	60.3	51.3	58.1	56.9
Adjusted EBITDA margin(3)	%	15.4%	16.8%	12.4%	15.1%	13.2%	11.6%	12.7%	12.4%
Return on invested capital(3)	%	32.4%	36.4%	23.9%	28.9%	22.0%	18.9%	21.0%	20.2%
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	70.0	70.0	70.0
Operating Performance									
Lumber production	million fbm	666	655	645	655	640	607	628	637
Total lumber sales	million fbm	648	686	671	675	645	619	647	658
Lumber sales - Interfor produced	million fbm	635	666	650	654	624	598	627	634
Lumber sales - wholesale and commission	million fbm	13	20	21	21	21	21	20	24
Lumber - average selling price(4)	$/thousand fbm	688	650	611	642	604	588	580	564
Average USD/CAD exchange rate(5)	1 USD in CAD	1.2647	1.2713	1.2528	1.3449	1.3238	1.3341	1.3050	1.2886
Closing USD/CAD exchange rate(5)	1 USD in CAD	1.2894	1.2545	1.2480	1.2977	1.3322	1.3427	1.3117	1.3009

Notes:

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(4) Gross sales before duties.
(5) Based on Bank of Canada foreign exchange rates.

The Company's quarterly financial trends are most impacted by seasonality, levels of lumber production, log costs, market prices for lumber and the USD/CAD foreign currency exchange rate.

Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and the first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest in the winter season due to reduced construction and renovation activities.

Severe weather conditions impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'16 and Q1'17 and in the U.S. South in Q3'17. Countervailing and anti-dumping duties imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17. Q1'18 lumber shipments were impacted by logistics issues, particularly in B.C. operations.

The volatility of the Canadian Dollar against the U.S. Dollar also impacted results. A stronger Canadian Dollar decreases the lumber sales realizations of Canadian operations, all else equal, and decreases net earnings of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Interfor maintained a strong financial position throughout Q1'18. Net debt at March 31, 2018 was $127.1 million, or 12.4% of invested capital, representing a decrease of $179.6 million from March 31, 2017, and an increase of $7.8 million from December 31, 2017. The majority of the increase in net debt in Q1'18 is as a result of the weakened Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars.

	For the three months ended		
Thousands of Dollars	**Mar. 31, 2018**	**Dec. 31, 2017**	**Mar. 31, 2017**
Net debt			
Net debt, period opening, CAD	$119,300	$177,787	$289,551
Net drawing (repayment) on credit facilities, CAD	(1)	(1)	19,250
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	6,981	1,301	(2,704)
Increase in cash and cash equivalents, CAD	784	(59,787)	579
Net debt, period ending, CAD	$127,064	$119,300	$306,676
Net debt components by currency			
U.S. Dollar debt, period opening, USD	$200,000	$200,000	$230,000
Net repayment on credit facilities, USD	-	-	5,979
U.S. Dollar debt, period ending, USD	200,000	200,000	235,979
Spot rate, period end	1.2894	1.2545	1.3322
U.S. Dollar debt expressed in CAD	257,880	250,900	314,371
Canadian Dollar debt, CAD	-	-	4,987
Canadian Dollar operating line, CAD	-	-	6,009
Total debt, CAD	257,880	250,900	325,367
Cash and cash equivalents, CAD	(130,816)	(131,600)	(18,691)
Net debt, period ending, CAD	$127,064	$119,300	$306,676

As at March 31, 2018, the Company had net working capital of $316.0 million and available liquidity of $444.6 million, including cash and borrowing capacity on operating and term line facilities.

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.

Cash Flow from Operating Activities

The Company generated $75.5 million of cash flow from operations before changes in working capital in Q1'18, or a $15.8 million increase over Q1'17, driven by significant improvements in lumber sales margins, and slightly offset by a strengthened Canadian Dollar and CV and AD duties.

There was a net cash inflow from operations after changes in working capital of $18.5 million in Q1'18, with the $57.0 million of cash used in operating working capital related to higher sales prices, building of inventories and the payment of accrued 2017 incentive compensation. There was a net cash inflow from operations after change in working capital of $4.7 million in Q1'17, with $55.0 million invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $18.5 million in Q1'18, net of $0.1 million in proceeds on the disposal of property, plant and equipment. Spending included $12.0 million for property, plant and equipment, timber and other intangible assets, and $6.1 million for development of roads. Discretionary mill improvements of $7.6 million in Q1'18 include a number of projects in the U.S. South, the most significant of which relate to the rebuild of the Monticello sawmill in Arkansas and installation of an autograder at the sawmill in Perry, Georgia. Maintenance mill improvements totaled $4.4 million in Q1'18, of which the majority was spent on U.S. South operations.

In Q1'17, investing activities totaled $20.8 million, including $12.7 million for property, plant and equipment and $7.1 million for development of roads. Discretionary mill improvements of $6.5 million were focused on U.S. South operations. Maintenance mill improvements of $6.2 million during Q1'17 included $3.0 million for a kiln conversion project at the Preston sawmill in the U.S. South.

Cash Flow from Financing Activities

Net cash outflow of $2.5 million in Q1'18 related to the payment of interest, slightly offset by proceeds received on the issuance of shares under the Company's stock option plan. Activity on the Company's credit facilities was negligible.

The financing activity inflow of $15.6 million in Q1'17 included net drawings of $19.3 million used to fund a US$10.0 million payment in relation to its acquisition of sawmill operations in the U.S. in 2015 and various operating activities, offset by $3.5 million in interest payments.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of March 31, 2018:

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$65,000	$200,000	$257,880	$64,470	$587,350
Maximum borrowing available	$65,000	$200,000	$257,880	$64,470	$587,350
Less:					
Drawings	-	-	257,880	-	257,880
Outstanding letters of credit included in line utilization	12,168	-	-	3,172	15,340
Unused portion of facility	$52,832	$200,000	$ -	$61,298	314,130
Add: Unrestricted cash and cash equivalents					130,453
Available liquidity at March 31, 2018					$444,583

As of March 31, 2018, the Company had commitments for capital expenditures totaling $29.5 million.

Transactions between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the three months ended March 31, 2018.

Off-Balance Sheet Arrangements

The Company has off-balance sheet arrangements which include letters of credit and surety performance and payment bonds, primarily for timber purchases and duty deposits. At March 31, 2018, such instruments aggregated $42.4 million (December 31, 2017 - $41.0 million). Off-balance sheet arrangements have not had, and are not reasonably likely to have, any material impact on the Company's current or future financial condition, results of operations or cash flows.

Financial Instruments and Other Instruments

From time to time, the Company employs financial instruments, such as interest rate swaps and foreign currency forward and option contracts, to manage exposure to fluctuations in interest rates and foreign exchange rates. The Company also trades lumber futures from time-to-time to manage price risk. The Company's policy is not to use derivatives for trading or speculative purposes. The risk management strategies and relationships are formally documented and assessed on a regular, ongoing basis to ensure derivatives are effective in offsetting changes in fair values or cash flows of hedged items.

The counter-parties for all derivative contracts except lumber futures are the Company's Canadian bankers who are highly-rated and, hence, the risk of credit loss on the instruments is mitigated.

Lumber futures are traded through a well-established financial services firm with a long history of providing trading, exchange and clearing services for commodities and foreign currencies. As trading activities are closely monitored by senior management and restricted including a maximum number of outstanding contracts at any point in time, the risk of credit loss on these instruments is considered low.

Outstanding Shares

As of May 3, 2018, Interfor had 70,038,162 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP. The Company issued 7,707 Common Shares during Q1'18 as a result of the exercise of share options.

Interfor renewed its normal course issuer bid ("NCIB") through March 6, 2019, whereby it can purchase for cancellation up to 3,500,000 Common Shares. No shares were purchased during the quarter.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended March 31, 2018, that have materially affected, or are reasonably likely to materially affect, its ICFR.

Critical Accounting Estimates

There were no significant changes to the Company's critical accounting estimates during the quarter ended March 31, 2018. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2017, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

IFRS 9, *Financial Instruments*, sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial assets and financial liabilities.

IFRS 9 also replaces the “incurred loss” model in IAS 39 with an “expected credit loss” (“ECL”) model to calculate the impairment of financial assets. Application of the ECL model had no impact on the Company’s financial statements.

IFRS 15, *Revenue from Contracts with Customers*, replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. There were no changes to the Company’s revenue recognition policies as a result of adoption of this standard.

Adoption of these standards had no financial impact on Interfor’s financial statements and accordingly, the information presented for 2017 has not been restated. The Company has adopted the additional disclosures required under these standards.

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, is considered to be the most significant of several pronouncements that may affect future financial statements.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, operating leases become an on-balance sheet liability that attracts interest, together with a corresponding right-of-use asset, which will be depreciated. Lease expense, which is currently recorded as a Production cost in the Statement of earnings, will be replaced by Depreciation and Finance costs. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

<u>Non-GAAP Measures</u>

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 three months ended		
Thousands of Canadian Dollars except number of shares and per share amounts	**Mar. 31, 2018**	**Mar. 31, 2017**	**Dec. 31, 2017**
Adjusted Net Earnings			
Net earnings	$32,976	$19,667	$36,196
Add:			
Restructuring costs and capital asset write-downs	236	345	7,422
Other foreign exchange loss (gain)	(111)	181	(412)
Long term incentive compensation expense	4,858	3,593	3,110
Other expense	178	189	995
Post closure wind-down costs and losses	4	8	5
Income tax effect of above adjustments	(1,374)	(1,249)	(2,260)
Adjusted net earnings	$36,767	$22,734	$45,056
Weighted average number of shares - basic ('000)	*70,033*	*70,030*	*70,030*
Adjusted net earnings per share	$0.52	$0.32	$0.64
Adjusted EBITDA			
Net earnings	$32,976	$19,667	$36,196
Add:			
Depreciation of plant and equipment	20,068	19,603	19,217
Depletion and amortization of timber, roads and other	9,417	6,297	11,879
Restructuring costs and capital asset write-downs	236	345	7,422
Finance costs	2,905	4,062	3,139
Other foreign exchange loss (gain)	(111)	181	(412)
Income tax expense	10,533	6,320	7,968
EBITDA	76,024	56,475	85,409
Add:			
Long term incentive compensation expense	4,858	3,593	3,110
Other expense	178	189	995
Post closure wind-down costs and losses	4	8	5
Adjusted EBITDA	$81,064	$60,265	$89,519
Net debt to invested capital			
Net debt			
Total debt	$257,880	$325,367	$250,900
Cash and cash equivalents	(130,816)	(18,691)	(131,600)
Total net debt	$127,064	$306,676	$119,300
Invested capital			
Net debt	$127,064	$306,676	$119,300
Shareholders' equity	901,176	804,748	854,188
Total invested capital	$1,028,240	$1,111,424	$973,488
Net debt to invested capital(1)	12.4%	27.6%	12.3%
Operating cash flow per share (before working capital changes)			
Cash provided by operating activities	$18,511	$4,682	$86,749
Cash used in (generated from) operating working capital	56,973	55,033	(3,332)
Operating cash flow (before working capital changes)	$75,484	$59,715	$83,417
Weighted average number of shares - basic ('000)	*70,033*	*70,030*	*70,030*
Operating cash flow per share (before working capital changes)	$1.08	$0.85	$1.19
Return on invested capital			
Adjusted EBITDA	$81,064	$60,265	$89,519
Invested capital, beginning of period	$973,488	$1,076,218	$995,463
Invested capital, end of period	1,028,240	1,111,424	973,488
Average invested capital	$1,000,864	$1,093,821	$984,476
Adjusted EBITDA divided by average invested capital	8.1%	5.5%	9.1%
Annualization factor	4.0	4.0	4.0
Return on invested capital	32.4%	22.0%	36.4%

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

Risks and Uncertainties

The Company is exposed to many risks and uncertainties in conducting its business including, but not limited to: price volatility; competition; availability and cost of log supply; natural or man-made disasters; foreign currency exchange fluctuations; government regulation; barriers to lumber trade between Canada and the U.S.; environmental matters; and labour disruptions. These risks and uncertainties are described in the Company's MD&A for the year ended December 31, 2017, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties during the three month period ended March 31, 2018.

Additional Information

Additional information relating to the Company and its operations, including the Company's Annual Information Form, can be found on its website at www.interfor.com and on SEDAR at www.sedar.com.

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the three months ended March 31, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars except earnings per share)	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Sales (note 12)	$ 527,644	$ 456,780
Costs and expenses:		
Production	419,582	384,077
Selling and administration	14,073	12,446
Long term incentive compensation	4,858	3,593
U.S. countervailing and anti-dumping duty deposits (note 13(a))	12,929	-
Depreciation of plant and equipment (note 8)	20,068	19,603
Depletion and amortization of timber, roads and other (note 8)	9,417	6,297
	480,927	426,016
Operating earnings before restructuring costs	46,717	30,764
Restructuring costs (note 9)	236	345
Operating earnings	46,481	30,419
Finance costs (note 10)	(2,905)	(4,062)
Other foreign exchange gain (loss)	111	(181)
Other expense	(178)	(189)
	(2,972)	(4,432)
Earnings before income taxes	43,509	25,987
Income tax expense:		
Current	770	306
Deferred	9,763	6,014
	10,533	6,320
Net earnings	$ 32,976	$ 19,667
Net earnings per share, basic and diluted (note 11)	$ 0.47	$ 0.28

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three months ended March 31, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Net earnings	$ 32,976	$ 19,667
Other comprehensive income (loss):		
Items that will not be recycled to Net earnings:		
Defined benefit plan actuarial gain, net of tax	885	824
Items that are or may be recycled to Net earnings:		
Foreign currency translation differences for foreign operations, net of tax	12,847	(2,505)
Loss in fair value of interest rate swaps (note 14)	-	(11)
Total items that are or may be recycled to Net earnings	12,847	(2,516)
Total other comprehensive income (loss), net of tax	13,732	(1,692)
Comprehensive income	$ 46,708	$ 17,975

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three months ended March 31, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Cash provided by (used in):		
Operating activities:		
Net earnings	$ 32,976	$ 19,667
Items not involving cash:		
Depreciation of plant and equipment (note 8)	20,068	19,603
Depletion and amortization of timber, roads and other (note 8)	9,417	6,297
Income tax expense	10,533	6,320
Finance costs (note 10)	2,905	4,062
Other assets	(295)	(49)
Reforestation liability	2,289	2,543
Provisions and other liabilities	(2,842)	815
Stock options	137	106
Write-down of intangibles (note 9)	219	-
Unrealized foreign exchange gains and other	(101)	(8)
Other expense	178	359
	75,484	59,715
Cash used in operating working capital:		
Trade accounts receivable and other	(10,896)	(15,568)
Inventories	(34,037)	(15,240)
Prepayments and other	(4,325)	(2,784)
Trade accounts payable and accrued liabilities	(7,544)	(21,150)
Income taxes paid	(171)	(291)
	18,511	4,682
Investing activities:		
Additions to property, plant and equipment	(12,039)	(12,743)
Additions to roads and bridges	(6,082)	(7,102)
Additions to timber and other intangible assets	13	(834)
Proceeds (costs) on disposal of property, plant and equipment	109	(25)
Investments and other assets	(486)	(117)
	(18,485)	(20,821)
Financing activities:		
Issuance of share capital, net of expenses	143	-
Interest payments	(2,676)	(3,542)
Debt refinancing costs	(1)	(128)
Change in operating line components of long term debt (note 6)	(1)	40,853
Additions to long term debt (note 6)	-	76,107
Repayments of long term debt (note 6)	-	(97,710)
	(2,535)	15,580
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	1,725	(20)
Decrease in cash and cash equivalents	(784)	(579)
Cash and cash equivalents, beginning of period	131,600	19,270
Cash and cash equivalents, end of period	$ 130,816	$ 18,691

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

March 31, 2018 and December 31, 2017 (unaudited)

(thousands of Canadian Dollars)	Mar. 31, 2018	Dec. 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 130,816	$ 131,600
Trade accounts receivable and other	124,310	112,470
Income tax receivable	917	1,289
Inventories (note 5)	201,070	165,156
Prepayments and other	17,193	12,562
	474,306	423,077
Employee future benefits	1,577	502
Investments and other assets	7,032	6,404
Property, plant and equipment	673,912	670,830
Roads and bridges	23,141	24,092
Timber licences	65,968	66,589
Other intangible assets	12,362	14,170
Goodwill	150,809	147,081
Deferred income taxes	976	251
	$ 1,410,083	$ 1,352,996
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 144,455	$ 152,854
Reforestation liability	13,526	12,873
Income taxes payable	341	224
	158,322	165,951
Reforestation liability	29,965	27,535
Long term debt (notes 6 and 14)	257,880	250,900
Employee future benefits	8,234	8,249
Provisions and other liabilities	24,122	26,976
Deferred income taxes	30,384	19,197
Equity:		
Share capital (note 7)	555,602	555,388
Contributed surplus	8,648	8,582
Translation reserve	53,567	40,720
Retained earnings	283,359	249,498
	901,176	854,188
	$ 1,410,083	$ 1,352,996

Contingencies (note 13)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"L. Sauder"
Director

"D.W.G. Whitehead"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the three months ended March 31, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2017	$ 555,388	$ 8,582	$ 40,720	$ -	$ 249,498	$ 854,188
Net earnings:	-	-	-	-	32,976	32,976
Other comprehensive earnings:						
Foreign currency translation differences for foreign operations, net of tax	-	-	12,847	-	-	12,847
Defined benefit plan actuarial gain, net of tax	-	-	-	-	885	885
Contributions:						
Share issuance, net of share issue expenses	214	(71)	-	-	-	143
Stock options	-	137	-	-	-	137
Balance at March 31, 2018	$ 555,602	$ 8,648	$ 53,567	$ -	$ 283,359	$ 901,176
Balance at December 31, 2016	$ 555,388	$ 7,999	$ 69,574	$ 11	$ 153,695	$ 786,667
Net earnings:	-	-	-	-	19,667	19,667
Other comprehensive earnings (loss):						
Foreign currency translation differences for foreign operations, net of tax	-	-	(2,505)	-	-	(2,505)
Defined benefit plan actuarial gain, net of tax	-	-	-	-	824	824
Loss in fair value of interest rate swaps (note 14)	-	-	-	(11)	-	(11)
Contributions:						
Stock options	-	106	-	-	-	106
Balance at March 31, 2017	$ 555,388	$ 8,105	$ 67,069	$ -	$ 174,186	$ 804,748

See accompanying notes to consolidated financial statements

1. Nature of operations:

Interfor Corporation and its subsidiaries (the "Company" or "Interfor") produce wood products in British Columbia, the U.S. Northwest and the U.S. South for sale to markets around the world.

Interfor Corporation exists under the *Business Corporations Act* (British Columbia) with shares listed on the Toronto Stock Exchange. Its head office, principal address and records office are located at Suite 3500, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1H7.

These unaudited condensed consolidated interim financial statements as at and for the three months ended March 31, 2018 and 2017 comprise the accounts of Interfor Corporation and its subsidiaries.

2. Basis of Preparation:

(a) Statement of compliance:

These financial statements, including comparatives, have been prepared in accordance with IAS 34 *Interim Financial Reporting* using accounting policies consistent with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These financial statements were approved by Interfor's Board of Directors on May 3, 2018.

(b) Basis of measurement:

These financial statements are prepared on the historical cost basis except for the following items in the Statements of Financial Position:

(i) Derivative financial instruments are measured at fair value;

(ii) Liabilities for cash-settled share-based payment arrangements are measured at fair value; and

(iii) Employee benefit plan assets and liabilities are recognized as the net of the fair value of the plan assets and the present value of the benefit obligations on a plan by plan basis.

The functional and presentation currency of the parent company is the Canadian Dollar.

3. Significant accounting policies:

Except for the changes noted below, these financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's audited December 31, 2017 annual consolidated financial statements, which are available on www.sedar.com.

(a) Changes in accounting policies:

Effective January 1, 2018, the Company adopted IFRS 9, *Financial Instruments* and IFRS 15, *Revenue from Contracts with Customers*.

IFRS 9, *Financial Instruments*, sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaced the multiple classification and measurement models in IAS 39, *Financial Instruments: Recognition and Measurement*, with a single model that has only two classification categories: amortized cost and fair value. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies for financial assets and financial liabilities.

IFRS 9 also replaces the "incurred loss" model in IAS 39 with an "expected credit loss" ("ECL") model to calculate the impairment of financial assets. Application of the ECL model had no impact on the Company's financial statements.

IFRS 15, *Revenue from Contracts with Customers*, replaced IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. There were no changes to the Company's revenue recognition policies as a result of adoption of this standard.

Adoption of these standards had no financial impact on Interfor's financial statements and accordingly, the information presented for 2017 has not been restated. The Company has adopted the additional disclosures required under these standards.

(b) New standards and interpretations not yet adopted:

A number of new standards, and amendments to standards and interpretations, are not yet effective for the quarter ended March 31, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, is considered to be the most significant of several pronouncements that may affect future financial statements.

IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, operating leases become an on-balance sheet liability that attracts interest, together with a corresponding right-of-use asset, which will be depreciated. Lease expense, which is currently recorded as a Production cost in the Statement of earnings, will be replaced by Depreciation and Finance costs. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The Company is in the process of assessing the impact of this standard on its financial statements.

(Tabular amounts expressed in thousands except number of shares and per share amounts)

4. Seasonality of operating results:

Quarterly operating results of the Company reflect the seasonality of its operations and markets. Logging operations are seasonal due to a number of factors including weather, ground conditions and fire season closures. Generally, production from the Company's B.C. Coastal logging operations is relatively low in the second half of the fourth quarter and the first half of the first quarter due to the impact of winter storms. Logging activity in the B.C. Interior is typically reduced during the annual spring break-up. Sawmill operations are dependent on the availability of logs from our logging operations and our suppliers. In addition, the market demand for lumber and related products is generally lowest in the winter season due to reduced construction and renovation activities.

5. Inventories:

	Mar. 31, 2018	Dec. 31, 2017
Lumber	$ 103,090	$ 82,850
Logs	82,337	67,815
Other	15,643	14,491
	$ 201,070	$ 165,156

Inventory cost includes production costs, depreciation of plant and equipment, and depletion and amortization of timber, roads and other. The inventory write-down in order to record inventory at the lower of cost and net realizable value at March 31, 2018 was $8,051,000 (December 31, 2017 - $9,292,000).

6. Borrowings:

March 31, 2018	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 257,880	$ 64,470	$ 587,350
Maximum borrowing available	65,000	200,000	257,880	64,470	587,350
Drawings	-	-	257,880	-	257,880
Outstanding letters of credit included in line utilization	12,168	-	-	3,172	15,340
Unused portion of line	$ 52,832	$ 200,000	$ -	$ 61,298	$ 314,130
December 31, 2017					
Available line of credit	$ 65,000	$ 200,000	$ 250,900	$ 62,725	$ 578,625
Maximum borrowing available	65,000	200,000	250,900	62,725	578,625
Drawings	-	-	250,900	-	250,900
Outstanding letters of credit included in line utilization	12,515	-	-	2,634	15,149
Unused portion of line	$ 52,485	$ 200,000	$ -	$ 60,091	$ 312,576

Minimum principal amounts due on long term debt are as follows:

Twelve months ending	
March 31, 2019	$ -
March 31, 2020	-
March 31, 2021	-
March 31, 2022	42,980
March 31, 2023	42,980
Thereafter	171,920
	$ 257,880

Reconciliation of movements in borrowings to cash flows arising from financing activities:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Drawings at December 31	$ 250,900	$ 308,821
Operating line net drawings (repayments)	(1)	40,853
Additions to long term debt	-	76,107
Repayments of long term debt	-	(97,710)
Effect of changes in foreign exchange rates	6,981	(2,704)
Drawings at March 31	$ 257,880	$ 325,367

(a) Operating Line and Revolving Term Line:

The Canadian operating line of credit and revolving term line (the "Lines") may be drawn in either CAD$ or US$ advances, and bear interest at bank prime plus a margin or, at the Company's option, at rates for Bankers' Acceptances or LIBOR based loans plus a margin, and in all cases dependent upon a financial ratio of total debt divided by trailing twelve months' EBITDA[1]. Borrowing levels under the Lines are subject to a borrowing base calculation dependent on certain accounts receivable and inventories.

[1] EBITDA, as defined under the agreement, represents earnings before interest, taxes, depreciation, depletion, amortization and non-cash asset revaluations.

(Tabular amounts expressed in thousands except number of shares and per share amounts)

6. Borrowings (continued):

(a) Operating Line and Revolving Term Line (continued):

The Lines are secured by a general security agreement which includes a security interest in all accounts receivable and inventories, charges against timber tenures, and mortgage security on certain of the Company's sawmills.

The Lines are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. The Lines mature on September 15, 2021.

As at March 31, 2018, including outstanding letters of credit, the Lines were drawn by $12,086,000 (December 31, 2017 - $12,333,000) and US$64,000 (December 31, 2017 - US$145,000) revalued at the quarter-end exchange rate to $82,000 (December 31, 2017 - $182,000) for total borrowings of $12,168,000 (December 31, 2017 - $12,515,000).

As at March 31, 2018, $252,832,000 of the Lines were unused (December 31, 2017 - $252,485,000). As U.S. Dollar drawings under the Lines have been designated as a hedge against the Company's investment in its U.S. operations, the Company recognized foreign exchange losses of $1,000 (Quarter 1, 2017 - $369,000 gain) arising on revaluation of the Lines in Foreign currency translation differences in Other comprehensive income for the first quarter, 2018.

(b) Senior Secured Notes:

The Company's Senior Secured Notes consist of Series A Senior Secured Notes (US$50,000,000, bearing interest at 4.33%), Series B Senior Secured Notes (US$50,000,000, bearing interest at 4.02%) and Series C Senior Secured Notes (US$100,000,000, bearing interest at 4.17%). As at March 31, 2018, US$200,000,000 of Senior Secured Notes were outstanding (December 31, 2017 – US$200,000,000) and revalued at the quarter-end exchange rate to $257,880,000 (December 31, 2017 - $250,900,000).

The Senior Secured Notes are subject to certain financial covenants including a minimum working capital requirement, a maximum ratio of total debt to total capitalization and a minimum net worth calculation. Total payments of US$33,333,000 (US$16,667,000 for each of the Series A and Series B Senior Secured Notes) are required on each of June 26, 2021 and 2022, with the balance due on June 26, 2023 for the Series A and B Senior Secured Notes. Payments of US$33,333,000 are required on each of March 26, 2024 and 2025, with the balance due on March 26, 2026 for the Series C Senior Secured Notes.

The Senior Secured Notes have been designated as a hedge against the Company's investment in its U.S. operations and unrealized foreign exchange losses of $6,980,000 (Quarter 1, 2017 - $2,100,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income for the first quarter, 2018.

(c) U.S. Operating Line:

The U.S. Operating Line bears interest at rates for LIBOR based loans plus a margin and is secured by accounts receivable and inventories of wholly-owned subsidiary, Interfor U.S. Inc. The U.S. Operating Line is subject to a minimum net worth covenant, with borrowing levels subject to a collateral calculation dependent upon certain accounts receivable and inventories. The U.S. Operating line matures on May 1, 2019.

As at March 31, 2018, the U.S. Operating Line was drawn by US$2,460,000, including outstanding letters of credit, revalued at the quarter-end exchange rate to $3,172,000 (December 31, 2017 - US$2,100,000 revalued at the quarter-end exchange rate to $2,634,000).

As at March 31, 2018, $61,298,000 (US$47,540,000) of the U.S. Operating Line was unused (December 31, 2017 - $60,091,000, or US$47,900,000).

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2016 and December 31, 2017	70,030,455	$ 555,388
Exercise of stock options	7,707	214
Balance, March 31, 2018	70,038,162	$ 555,602

On March 1, 2018, the Company renewed its normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 3,500,000 common shares, representing approximately 5% of its common shares issued and outstanding as at March 1, 2018. This NCIB began on March 7, 2018 and expires on March 6, 2019. During the first three months of 2018, Interfor did not purchase any of its common shares.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Production	$ 27,628	$ 23,925
Selling and administration	1,857	1,975
	$ 29,485	$ 25,900

(Tabular amounts expressed in thousands except number of shares and per share amounts)

9. Restructuring costs:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Write-down of intangibles	$ 219	$ -
Severance and legal	17	336
Site closure costs	-	9
	$ 236	$ 345

10. Finance costs:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Interest on borrowings	$ 2,938	$ 3,669
Interest revenue	(460)	(24)
Interest on defined benefit obligations	563	578
Interest revenue on defined benefit assets	(454)	(488)
Unwind of discount on provisions	163	132
Amortization of deferred finance costs	155	195
	$ 2,905	$ 4,062

11. Net earnings per share:

Net earnings per share is calculated utilizing the treasury stock method for determining the dilutive effect of options issued. The reconciliation of the numerator and denominator is determined as follows:

	Three Months Mar. 31, 2018			Three Months Mar. 31, 2017		
	Net earnings	Weighted Average Number of Shares	Per share	Net earnings	Weighted Average Number of Shares	Per share
Issued shares at December 31		70,030,455			70,030,455	
Effect of shares issued in first three months		2,669			-	
Basic earnings per share	$ 32,976	70,033,124	$ 0.47	$ 19,667	70,030,455	$ 0.28
Effect of dilutive securities:						
Stock options		88,371			26,803	
Diluted earnings per share	$ 32,976	70,121,495	$ 0.47	$ 19,667	70,057,258	$ 0.28

12. Segmented information:

The Company manages its business as a single operating segment, being solid wood. The Company harvests and purchases logs which are sorted by species, size and quality and then either manufactured into lumber products at the Company's sawmills, or sold. Substantially all operations are located in British Columbia, Canada and the Northwest and Southeast regions of the U.S.

Sales to both foreign and domestic markets are as follows:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
United States	$ 377,819	$ 320,234
Canada	71,145	50,067
Japan	29,959	32,343
China/Taiwan	24,092	29,827
Other export	24,629	24,309
	$ 527,644	$ 456,780

Sales by product line are as follows:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Lumber	$ 445,891	$ 389,624
Logs	39,799	29,276
Wood chips and other by-products	40,176	36,205
Freight and other	1,778	1,675
	$ 527,644	$ 456,780

(Tabular amounts expressed in thousands except number of shares and per share amounts)

13. Contingencies:

(a) U.S. Countervailing and anti-dumping duty deposits

In late 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing ("CV") and anti-dumping ("AD") duties on Canadian softwood lumber imports to the U.S. On January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there was reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada and the U.S. Department of Commerce ("DoC") imposed duties on Canadian shipments of softwood lumber into the U.S.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially calculated at 19.88%, but subsequently retroactively amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially calculated at 6.87%, and subsequently retroactively amended to 6.04%.

The rate amendments resulted in an overpayment of duty deposits of US$3,004,000 ($3,920,000) which the Company recorded as a reduction to its U.S. CV and AD duty deposits in the Statement of earnings in December, 2017. As the dispute will be subject to a lengthy resolution process, this receivable was recorded in Investments and other assets on the Statement of Financial Position.

The long term U.S. duty deposit receivable was revalued at the quarter-end exchange rate to $3,874,000 (December 31, 2017 - $3,769,000).

Interfor is of the view that the DoC's positions are without merit and politically driven. As such, Interfor intends to vigorously defend the Company's and industry's positions through various appeals processes, in conjunction with the B.C. and Canadian Governments. The final amount and effective date of countervailing and anti-dumping duties that may be assessed on Canadian softwood lumber exports to the U.S. cannot be determined at this time and will depend on decisions yet to be made by any reviewing courts, NAFTA or WTO panels to which the DoC and ITC determinations may be appealed.

All duties paid remain held in trust by the U.S. pending the First Administrative Review and conclusion of all appeals of U.S. decisions.

(b) Timber licence

A Timber Licence held by Interfor for harvesting within the B.C. Coast region (the "Licence") was cancelled (or taken) by the Government of B.C., following the passing into law of the Great Bear Rainforest (Forest Management) Act (the "Act") and regulations, which took effect January 1, 2017.

Interfor is entitled to compensation from the Government of B.C. based upon the value of the harvesting rights under the Licence. In late 2017, the Company initiated arbitration proceedings, but remains in active negotiations with the Government. Although it is not practicable to estimate the value or form of compensation that would be received by Interfor, it is expected that such compensation would exceed the net book value of the Licence as at March 31, 2018.

14. Financial instruments:

Financial instruments in an asset position are classified as Trade accounts receivable and other in the Statements of Financial Position, while financial instruments in a liability position are classified as Trade accounts payable and provisions. Assets and liabilities are not netted, for purposes of presentation on the Statements of Financial Position.

At March 31, 2018, the fair value of the Company's long term debt exceeded its carrying value by $504,000 (December 31, 2017 – $6,937,000) measured based on Level 2 of the fair value hierarchy. The fair values of other financial instruments approximate their carrying values due to their short-term nature.

The Company may use a variety of derivative financial instruments to reduce its exposures to risks associated with fluctuations in foreign exchange rates, lumber prices, and interest rates. These include foreign currency forward, collar and option contracts, interest rate swaps, and lumber futures.

As at March 31, 2018, the Company has no outstanding obligations under foreign currency contracts, lumber futures or interest rate swaps.

The following table summarizes the loss on derivative financial instruments for the three months ended March 31, 2018 and 2017:

	Three Months Mar. 31, 2018	Three Months Mar. 31, 2017
Interest rate swaps [1]	$ -	$ (11)
Lumber futures [2]	(21)	-
Total loss	$ (21)	$ (11)

Notes: [1] Recognized in Other comprehensive income.
[2] Recognized in Sales in Net earnings

Interfor Corporation
P.O. Box 49114, Four Bentall Centre
3500 – 1055 Dunsmuir Street
Vancouver, B.C. Canada V7X 1H7
Telephone: (604) 689-6800 Fax: (604) 688-0313

Contact: Martin L. Juravsky, Senior Vice President
and Chief Financial Officer

Web Site: www.interfor.com