INTERFOR

Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 2017

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 and six months ended June 30, 2017 ("Q2'17"). 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 and six months ended June 30, 2017, 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 August 3, 2017.

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 2016 Annual Report.

Forward-Looking Statements

This MD&A contains information and statements that are forward-looking in nature, including, but not limited to, statements about the Company's business outlook, objectives, plans, strategic priorities and other statements that are not historical facts. A statement Interfor makes is forward-looking when it uses what is known today, to make a statement about the future. Forward-looking statements may be included under the headings "Overview of Second Quarter 2017", "Softwood Lumber Duties", "Outlook", "Summary of Second Quarter 2017 Financial Performance", "Summary of Year-to-Date 2017 Financial Performance", "Liquidity", "Capital Resources", "Off-Balance Sheet Arrangements", "Financial Instruments and Other Instruments", and "Accounting Policy Changes", and such statements may include words such as "believes", "will", "could", "should", "expected", "anticipate", "intend", "forecast", "target", "outlook" and "strategy". Such forward-looking statements are based on Interfor's current expectations and certain assumptions, including assumptions regarding lumber, log and wood chip prices; the Company's ability to compete; the availability and cost of log supply; the absence of natural or man-made disasters; currency exchange rates; no material changes in government regulation; the availability of the Company's allowable annual cut ("AAC"); the outcome of aboriginal claims and treaty settlements; the Company's ability to export its products; the outcome of the softwood lumber trade dispute between Canada and the U.S.; stumpage rates payable to the Province of British Columbia; environmental effects of the Company's operations; the absence of labour disruptions; and other factors referenced herein and in Interfor's 2016 annual Management's Discussion & Analysis under the heading "Risks and Uncertainties", which is available on www.sedar.com and www.interfor.com. Such forward-looking statements involve known and unknown risks and uncertainties that, if they eventuate, may cause Interfor's actual results to be materially different from those expressed or implied by those forward-looking statements. 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 as required by law.

Overview of Second Quarter 2017

Interfor recorded net earnings in Q2’17 of $24.5 million, or $0.35 per share, compared to $19.7 million, or $0.28 per share in Q1’17 and $23.2 million, or $0.33 per share in Q2’16. Adjusted net earnings in Q2’17 were $28.7 million or $0.41 per share, compared to $22.7 million, or $0.32 per share in Q1’17 and $17.5 million, or $0.25 per share in Q2’16.

Adjusted EBITDA for the second quarter, 2017 was $77.4 million on sales of $511.4 million versus $60.3 million on sales of $456.8 million in Q1’17.

Notable items in the quarter included:

- Strong Cash Flow and Substantially Lower Leverage
    - Interfor generated $73.3 million of cash from operations before changes in working capital, or $1.05 per share, plus a $32.5 million reduction in working capital, for total cash generated from operations of $105.8 million.
    - Capital spending was $20.4 million.
    - Net debt ended the quarter at $218.3 million, or 21.1% of invested capital.
- Higher Lumber Prices For Western Species
    - The key Western commodity benchmark prices improved quarter-over-quarter as a result of strong demand in both North American and international markets. The Western SPF Composite and KD H-F Stud 2x4 9’ benchmarks were up US$39 to US$378 per mfbm and US$38 to US$398 per mfbm, respectively. Prices in the U.S. South region were less robust, with the SYP Composite benchmark increasing US$1 quarter-over-quarter to US$417 per mfbm.
    - Interfor’s average lumber selling price increased $38 from Q1’17 to $642 per mfbm, due to a combination of the higher benchmark prices, improved grade yields in the U.S. South region and a weaker Canadian Dollar.
- Increased Production
    - Total production increased for the second successive quarter, driven by strong customer demand. 655 million board feet of lumber was produced in Q2’17, up 15 and 48 million board feet over Q1’17 and Q4’16, respectively. Sales of Interfor–produced lumber were 654 million board feet in Q2’17 versus 624 million board feet in Q1’17.
    - Production in the U.S. South region increased to 294 million board feet from 285 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 215 million board feet and 146 million board feet, respectively, compared with 215 million board feet and 140 million board feet in Q1’17, respectively.
- Progress on Optimization Initiative and EBITDA Gains
    - In early 2016, Interfor launched a Business Optimization Initiative to capture additional margin opportunities across the Company’s operating platform, with a particular focus on the U.S. South region, where $35 million in annualized EBITDA gains were targeted by year-end 2017.
    - In Q2’17, the Company realized on 110% of the targeted EBITDA gains, due to a combination of increased operating hours, improvements in productivity, lumber recovery and grade yields, and lower manufacturing costs.
    - The Company has identified a series of additional opportunities that include both non-capital operating improvements and targeted capital investments. The non-capital operating improvements are currently underway and are expected to be realized over the next 12-18 months. The capital investments, which are expected to generate very attractive returns, will be implemented over the next three years. The specifics of these investments will be released once detailed engineering has been completed and the sequencing of the projects has been finalized.

Softwood Lumber Duties

During the second quarter, the U.S. Department of Commerce ("DoC") preliminarily ruled on its cases against Canadian softwood lumber producers for both countervailing and anti-dumping duties. As a result, the U.S. Customs and Border Protection Agency began collecting deposits from Interfor on its shipments of softwood lumber from Canada into the U.S. for countervailing duties on April 28, 2017 at a preliminary rate of 19.88% and for anti-dumping duties on June 30, 2017 at a preliminary rate of 6.87%.

In addition, the DoC has taken the unjustified position that most Canadian lumber producers, including Interfor, may be required to submit deposits for retroactive countervailing duties for the 90 days prior to April 28, 2017 and for retroactive anti-dumping duties for the 90 days prior to June 30, 2017. Interfor has not submitted any such deposits, which could total approximately US$8.4 million and US$3.0 million for countervailing and anti-dumping duties, respectively. Interfor does not believe the retroactive application of duties will stand up under final scrutiny which, in turn, should result in a full return of any related deposits to the Company.

In Q2'17, Interfor shipped approximately 100 million board feet from its Canadian operations to the U.S. market, which represented approximately 15% of the Company's total lumber sales. Interfor is of the view that the DoC's positions are without merit and are politically driven. Interfor intends to vigorously defend the Company's and the Canadian industry's positions through various appeal processes, in conjunction with the B.C. and Canadian Governments.

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. In addition, the Company is focused on a series of targeted initiatives related to margin improvement opportunities across its operations in both the U.S. and Canada that should contribute to Interfor's financial results.

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]

	Unit	For the 3 months ended Jun. 30, 2017	Jun. 30, 2016	Mar. 31, 2017	For the 6 months ended Jun. 30, 2017	Jun. 30, 2016
Financial Highlights[2]						
Total sales	$MM	511.4	458.8	456.8	968.2	892.8
Lumber	$MM	433.7	371.1	389.6	823.3	720.0
Logs, residual products and other	$MM	77.7	87.7	67.2	144.9	172.8
Operating earnings	$MM	42.7	30.0	30.4	73.1	33.4
Net earnings	$MM	24.5	23.2	19.7	44.2	24.0
Net earnings per share, basic	$/share	0.35	0.33	0.28	0.63	0.34
Adjusted net earnings[3]	$MM	28.7	17.5	22.7	51.5	20.2
Adjusted net earnings per share, basic[3]	$/share	0.41	0.25	0.32	0.73	0.29
Adjusted EBITDA[3]	$MM	77.4	56.9	60.3	137.7	90.2
Adjusted EBITDA margin[3]	%	15.1%	12.4%	13.2%	14.2%	10.1%
Total assets	$MM	1,296.0	1,337.6	1,318.8	1,296.0	1,337.6
Total debt	$MM	259.5	407.0	325.4	259.5	407.0
Pre-tax return on total assets[3]	%	13.4%	9.8%	9.5%	11.5%	5.4%
Net debt to invested capital[3]	%	21.1%	35.2%	27.6%	21.1%	35.2%
Operating Highlights						
Lumber production	million fbm	655	637	640	1,295	1,255
Total lumber sales	million fbm	675	658	645	1,320	1,295
Lumber sales - Interfor produced	million fbm	654	634	624	1,278	1,243
Lumber sales - wholesale and commission	million fbm	21	24	21	42	52
Lumber - average selling price[4]	$/thousand fbm	642	564	604	624	556

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 a definition and reconciliation of this measure to figures reported in the Company's consolidated financial statements.
(4) Gross sales before export taxes and duties.

Summary of Second Quarter 2017 Financial Performance

Sales

Interfor recorded $511.4 million of total sales, up 11.5% from $458.8 million in the second quarter of 2016, driven by the sale of 675 million board feet of lumber at an average price of $642 per mfbm. Lumber sales volume increased 17 million board feet, or 2.6%, while average selling prices increased $78 per mfbm, or 13.8%, as compared to the same quarter of 2016.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in Q2'17 as compared to Q2'16. The Western SPF Composite and SYP Composite benchmark improved US$78 to US$378 per mfbm and US$27 to US$417 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$43 to US$398 per mfbm. The positive impact of increased U.S. Dollar lumber prices was augmented by the weakening of the Canadian Dollar against the U.S. Dollar by 4.4% on average in Q2'17 as compared to Q2'16.

Sales generated from logs, residual products and other decreased by $10.0 million or 11.4% compared to the same quarter of 2016. This decrease is related to a 15.3% drop in log production in the Canadian operations primarily due to winter storms. Q2'16 log sales revenues were also higher as the Tacoma sawmill disposed of log inventories following its closure.

Operations

Production costs increased by $23.7 million or 6.1% over the second quarter of 2016, explained primarily by an increase of 17 million board feet in lumber sales volume, higher average log costs, and the weaker Canadian Dollar in Q2'17 compared to Q2'16.

U.S. countervailing duties, with an effective date of April 28, 2017, and anti-dumping duties, with an effective date of June 30, 2017, totalled $7.3 million of additional expense in Q2'17 as compared to Q2'16. Countervailing duties and anti-dumping duties were levied at preliminary rates of 19.88% and

6.87%, respectively, on Interfor's shipments of softwood lumber from Canada into the U.S.

Depreciation of plant and equipment was $20.0 million, up by 6.4% over Q2'16 in large part due to the weaker average Canadian Dollar. Depletion and amortization of timber, roads and other was $10.0 million, up $0.3 million from Q2'16, as increased conventional logging on the B.C. Coast was offset by lower log production in the B.C. Interior due to poor spring break-up conditions.

Corporate and Other

Selling and administration expenses were $12.4 million, up $0.6 million from the second quarter of 2016. The second quarter of 2017 included accruals for certain IT infrastructure expenses and costs related to the softwood lumber dispute not reflected in the Q2'16 comparative.

The $3.3 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing, coupled with an 8.1% increase during the quarter in the price of Interfor Common Shares used to value share-based awards. The $4.1 million long term incentive compensation recovery in Q2'16 resulted primarily from the impact of incentive awards maturing, offset by a 23.0% decrease in the market price for Interfor Common Shares during that quarter.

Finance costs were $3.5 million, or $1.5 million lower than the second quarter of 2016, due mainly to a lower average level of debt outstanding in Q2'17 as compared to Q2'16.

Restructuring charges in Q2'17 relate to costs associated with the relocation of a sales office and settlement of various human resource matters. Q2'16 restructuring charges relate to costs associated with the closure of the Tacoma sawmill and severance costs.

Other foreign exchange loss of $0.9 million in Q2'17 and gain of $0.5 million in Q2'16 result primarily from unrealized losses on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $13.3 million in Q2'17, comprised of a $0.4 million current tax expense and a $12.9 million deferred tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q1'17 following full recognition of previously unrecognized assets for non-capital loss carry-forwards. Q2'16 income tax expense of $1.9 million was mainly in respect of Interfor's U.S. operations, net of a $0.8 million tax credit in respect of job creation in the U.S. South region.

Net Earnings

The Company recorded net earnings of $24.5 million or $0.35 per share, compared to $23.2 million or $0.33 per share in the second quarter of 2016. Adjusted net earnings were $28.7 million or $0.41 per share compared to $17.5 million or $0.25 per share in Q2'16.

Summary of Year-to-Date 2017 Financial Performance

Sales

Interfor recorded $968.2 million of total sales, up 8.4% from $892.8 million in the first half of 2016, driven by the sale of 1.3 billion board feet of lumber at an average price of $624 per mfbm. Lumber sales volume increased 25 million board feet, or 1.9%, while average selling prices increased $68 per mfbm, or 12.2%, as compared to the first six months of 2016.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'17 as compared to YTD'16. The Western SPF Composite and SYP Composite benchmark improved US$78 to US$359 per mfbm and US$41 to US$417 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$36 to US$379 per mfbm YTD'17 as compared to YTD'16.

Sales generated from logs, residual products and other declined by $27.9 million or 16.1% in the first half, 2017, as compared to the same period of 2016. Most of this decrease is related to a 23.4% decrease in log sales volume, primarily from domestic sales in the U.S. Northwest and export log sales from the B.C. Coast.

Operations

Production costs increased by $17.7 million or 2.3% over the first half of 2016, explained primarily by an increase in lumber sales volume of 25 million board feet, higher log costs on average at the Company's B.C. and U.S. Northwest operations, and higher conversion costs in the B.C. sawmills.

U.S. countervailing duties, with an effective date of April 28, 2017, and anti-dumping duties, with an effective date of June 30, 2017, totalled $7.3 million in YTD'17.

Depreciation of plant and equipment was $39.6 million, up 1.8% from the first half of 2016. Depletion and amortization of timber, roads and other was $16.3 million, down $1.3 million from the comparable six months of 2016, as weather hampered logging activity in B.C.

Corporate and Other

Selling and administration expenses were $24.9 million, up $2.3 million from the first half of 2016. The first half of 2017 included an incremental accrual for short term incentive compensation, certain IT infrastructure expenses and costs related to the softwood lumber dispute, not reflected in the YTD'16 comparative.

The $6.9 million long term incentive compensation expense mostly reflects the impact of incentive awards maturing and a 23.6% year-to-date increase in the price of Interfor Common Shares used to value share-based awards. The $4.0 million long term incentive compensation recovery in YTD'16 resulted from the impact of incentive awards maturing, offset by a 21.2% decrease in the market price for Interfor Common Shares during the first half of 2016.

Finance costs decreased to $7.6 million from $10.1 million in the first half of 2016 as a result of a lower average level of debt outstanding.

Restructuring charges in YTD'17 relate to costs associated with the relocation of a sales office and settlement of various human resource matters. The YTD'16 restructuring charges relate to costs associated with the closure of the Tacoma sawmill and severance costs.

Other foreign exchange losses of $1.1 million in YTD'17 and $0.4 million in YTD'16 result primarily from unrealized losses on short-term intercompany funding.

Income Taxes

The Company recorded an income tax expense of $19.6 million in YTD'17, comprised of a $0.7 million current tax expense and an $18.9 million deferred tax expense. The Company started to recognize deferred tax expense in respect of its Canadian operations in Q1'17 following full recognition of previously unrecognized assets for non-capital loss carry-forwards. The YTD'16 income tax recovery of $1.5 million was mainly in respect of Interfor's U.S. operations, net of a $0.8 million tax credit in respect of job creation in the U.S. South region.

Net Earnings

The Company recorded net earnings of $44.2 million, or $0.63 per share, compared to $24.0 million, or $0.34 per share, in the similar period of 2016. Adjusted net earnings were $51.5 million, or $0.73 per share, compared to $20.2 million, or $0.29 per share in YTD'16.

Summary of Quarterly Results[1]

	Unit	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4	2015 Q3
Financial Performance (Unaudited)									
Total sales	$MM	511.4	456.8	442.3	457.6	458.8	433.9	411.4	430.8
Lumber	$MM	433.7	389.6	363.5	374.8	371.1	348.9	325.0	343.3
Logs, residual products and other	$MM	77.7	67.2	78.8	82.8	87.7	85.0	86.4	87.5
Operating earnings (loss)	$MM	42.7	30.4	22.3	20.1	30.0	3.5	(6.3)	(11.6)
Net earnings (loss)	$MM	24.5	19.7	26.6	15.1	23.2	0.8	(3.5)	(6.1)
Net earnings (loss) per share, basic	$/share	0.35	0.28	0.38	0.22	0.33	0.01	(0.05)	(0.09)
Adjusted net earnings (loss)[2]	$MM	28.7	22.7	17.7	20.7	17.5	2.7	4.5	(16.6)
Adjusted net earnings (loss) per share, basic[2]	$/share	0.41	0.32	0.25	0.30	0.25	0.04	0.06	(0.24)
Adjusted EBITDA[2]	$MM	77.4	60.3	51.3	58.1	56.9	33.4	35.8	11.5
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	655	640	607	628	637	618	568	618
Total lumber sales	million fbm	675	645	619	647	658	637	615	686
Lumber sales - Interfor produced	million fbm	654	624	598	627	634	609	586	663
Lumber sales - wholesale and commission	million fbm	21	21	21	20	24	28	29	23
Lumber - average selling price[3]	$/thousand fbm	642	604	588	580	564	548	529	500
Average USD/CAD exchange rate[4]	1 USD in CAD	1.3449	1.3238	1.3341	1.3050	1.2886	1.3732	1.3354	1.3089
Closing USD/CAD exchange rate[4]	1 USD in CAD	1.2977	1.3322	1.3427	1.3117	1.3009	1.2971	1.3840	1.3394

Notes:

(1) Figures in this table may not add due to rounding.
(2) Refer to the Non-GAAP Measures section of this MD&A for a definition and reconciliation of this measure to figures reported in the Company's consolidated financial statements.
(3) Gross sales before export taxes and duties.
(4) 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.

The permanent closure of the Tacoma sawmill and the acquisition of the Monticello sawmill impacted production and sales subsequent to May 22, 2015 and June 29, 2015, respectively. Reduced production in Q4'15 primarily reflects temporary market-related adjustments to operating schedules across the U.S. South platform and severe weather events which impacted certain sawmills in that region. Severe weather conditions also impacted B.C. Coastal log production and lumber production at certain sawmills in B.C. and the U.S. Northwest in Q4'17 and Q1'17. Countervailing and anti-dumping imposed on Canadian lumber shipments to the U.S. affected results subsequent to Q1'17.

The volatility of the Canadian Dollar against the U.S. Dollar also impacted results. A weaker Canadian Dollar increases the lumber sales realizations of Canadian operations and increases net earnings or losses of U.S. operations when translated to Canadian Dollars.

Liquidity

Balance Sheet

Net debt at June 30, 2017 was $218.3 million, or 21.1% of invested capital, representing a decrease of $177.7 million from June 30, 2016 and a decrease of $71.3 million from December 31, 2016. A slight strengthening of the Canadian Dollar against the U.S. Dollar reduced net debt by $9.1 million over the first six months of 2017.

Thousands of dollars	For the 3 months ended June 30, 2017	For the 3 months ended June 30, 2016	For the 6 months ended June 30, 2017	For the 6 months ended June 30, 2016
Net debt				
Net debt, period opening, CAD	$ 306,676	$ 428,062	$ 289,551	$ 452,303
Net repayment of credit facilities, CAD	(59,468)	(33,619)	(40,218)	(33,566)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	(6,359)	1,320	(9,063)	(28,175)
Decrease (increase) in cash and equivalents, CAD	(22,597)	196	(22,018)	5,397
Net debt, period ending, CAD	$ 218,252	$ 395,959	$ 218,252	$ 395,959
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$ 235,979	$ 338,692	$ 230,000	$ 338,699
Net repayment on credit facilities, USD	(35,979)	(41,192)	(30,000)	(41,199)
U.S. Dollar debt, period ending, USD	200,000	297,500	200,000	297,500
Spot rate, period end			1.2977	1.3009
U.S. Dollar debt expressed in CAD			259,540	387,018
Canadian Dollar debt, including bank indebtedness, CAD			-	20,000
Total debt, CAD			259,540	407,018
Cash and cash equivalents, CAD			(41,288)	(11,059)
Net debt, period ending, CAD			$ 218,252	$ 395,959

Cash Flow from Operating Activities

The Company generated $133.0 million of cash flow from operations before changes in working capital in YTD’17, up $45.7 million over the first half of 2016 driven primarily by increased lumber sales volume and margins.

There was a net cash inflow from operations after changes in working capital of $110.5 million in YTD’17, with $22.5 million of cash invested in operating working capital related to higher sales prices, building of inventories, and the payments of the Simpson contingent liability of US$10.0 million and accrued 2016 incentive compensation. There was a net cash inflow from operations after changes in working capital of $82.6 million in YTD’16, with $4.7 million invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totalled $40.8 million in YTD’17, including $23.2 million for property, plant and equipment and $16.5 million for development of logging roads and bridges. Discretionary mill improvements totalled $12.1 million during the period, of which the majority was spent on U.S. South operations. Maintenance mill improvements of $11.1 million during YTD’17 included $3.7 million for a kiln conversion project in the U.S. South.

In the second half of 2016, investing activities totalled $42.8 million, including $22.0 million for property, plant and equipment and $11.2 million for development of logging roads and bridges. Discretionary spending of $12.1 million during the period included $5.8 million for completion of the Castlegar sawmill rebuild.

Cash Flow from Financing Activities

The financing activity outflow of $47.1 million in YTD’17 included net repayments of $40.2 million and $6.8 million in interest payments. Financing activities in the comparable period of 2016, totalled $45.6 million, including $11.2 million of interest payments on higher average debt levels than in YTD’17, and a reduction of drawings under credit facilities by $33.6 million.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 2017:

Thousands of Canadian Dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 259,540	$ 64,885	$ 589,425
Maximum borrowing available	$ 65,000	$ 200,000	$ 259,540	$ 64,885	$ 589,425
Less:					
Drawings	-	-	259,540	-	259,540
Outstanding letters of credit included in line utilization	11,038	-	-	4,023	15,061
Unused portion of facility	$ 53,962	$ 200,000	$ -	$ 60,862	$ 314,824
Add: Cash and cash equivalents					41,288
Available liquidity at June 30, 2017					$ 356,112

As of June 30, 2017, the Company had commitments for capital expenditures totaling $12.1 million, related to both maintenance and discretionary projects.

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

As at June 30, 2017, the Company had net working capital of $177.1 million and available capacity on operating and term facilities of $314.8 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

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 and six months ended June 30, 2017.

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. At June 30, 2017, such instruments aggregated $56.7 million (December 31, 2016 - $45.7 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 currency exchange rates. The Company's policy is to not use derivatives for trading or speculative purposes. 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. There were no derivative contracts outstanding at June 30, 2017.

Outstanding Shares

As of August 3, 2017, Interfor had 70,030,455 Common Shares issued and outstanding. These shares are listed on the Toronto Stock Exchange under the symbol IFP.

Controls and Procedures

There have been no changes in the Company's internal controls over financial reporting ("ICFR") during the three months ended June 30, 2017, 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 June 30, 2017. Interfor's critical accounting estimates are described in its MD&A for the year ended December 31, 2016, filed under the Company's profile on www.sedar.com.

Accounting Policy Changes

The Company adopted the disclosure requirements in Disclosure Initiative (Amendments to IAS 7), which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in relation to the changes in borrowings arising from financing activities for the three and six months ended June 30, 2017.

A number of new standards, and amendments to existing standards and interpretations, were not yet effective for the quarter ended June 30, 2017, and have not been applied in preparing the Company's unaudited interim consolidated financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements:

IFRS 9, *Financial Instruments*, will replace 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15, *Revenue from Contracts with Customers*, will replace all existing IFRS revenue requirements and is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

Based on the Company's preliminary analysis to date, neither IFRS 9 nor IFRS 15 will have a significant impact on the Company's financial statements.

IFRS 16, *Leases*, 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. 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 has not yet completed an assessment of the impact of this standard on its financial statements.

Non-GAAP Measures

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

Thousands of Canadian Dollars except number of shares and per share amounts	For the 3 months ended Jun. 30, 2017	Jun. 30, 2016	Mar. 31, 2017	For the 6 months ended Jun. 30, 2017	Jun. 30, 2016
Adjusted Net Earnings[1]					
Net earnings	$ 24,512	$ 23,205	$ 19,667	$ 44,179	$ 24,000
Add:					
Restructuring costs and capital asset write-downs	1,457	2,304	345	1,802	3,507
Other foreign exchange loss (gain)	913	(503)	181	1,094	396
Long term incentive compensation expense (recovery)	3,270	(4,147)	3,593	6,863	(3,969)
Other expense	456	458	189	645	365
Beaver sawmill post-closure wind-down costs	5	3	7	12	11
Tacoma sawmill post-acquisition losses and closure costs	-	311	1	1	683
Income tax effect of above adjustments	(1,883)	(725)	(1,249)	(3,132)	(1,479)
Recognition of previously unrecognized deferred tax assets	-	(3,384)	-	-	(3,268)
Adjusted net earnings	$ 28,730	$ 17,522	$ 22,734	$ 51,464	$ 20,246
Weighted average number of shares - basic ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*70,030*
Adjusted net earnings per share	$ 0.41	$ 0.25	$ 0.32	$ 0.73	$ 0.29
Adjusted EBITDA					
Net earnings	$ 24,512	$ 23,205	$ 19,667	$ 44,179	$ 24,000
Add:					
Depreciation of plant and equipment	19,967	18,765	19,603	39,570	38,934
Depletion and amortization of timber, roads and other	10,024	9,652	6,297	16,321	17,621
Restructuring costs and capital asset write-downs	1,457	2,304	345	1,802	3,507
Finance costs	3,535	4,965	4,062	7,597	10,149
Other foreign exchange loss (gain)	913	(503)	181	1,094	396
Income tax expense (recovery)	13,289	1,852	6,320	19,609	(1,474)
EBITDA	73,697	60,240	56,475	130,172	93,133
Add:					
Long term incentive compensation expense (recovery)	3,270	(4,147)	3,593	6,863	(3,969)
Other expense	456	458	189	645	365
Beaver sawmill post-closure wind-down costs	5	3	7	12	11
Tacoma sawmill post-acquisition losses and closure costs	-	311	1	1	683
Adjusted EBITDA[2]	$ 77,428	$ 56,865	$ 60,265	$ 137,693	$ 90,223
Pre-tax return on total assets					
Operating earnings before restructuring costs	$ 44,162	$ 32,281	$ 30,764	$ 74,926	$ 36,943
Total assets[3]	$1,318,784	$1,323,788	$1,301,648	$1,298,832	$1,363,683
Pre-tax return on total assets[4]	13.4%	9.8%	9.5%	11.5%	5.4%
Net debt to invested capital					
Net debt					
Total debt	$ 259,540	$ 407,018	$ 325,367	$ 259,540	$ 407,018
Cash and cash equivalents	(41,288)	(11,059)	(18,691)	(41,288)	(11,059)
Total net debt	$ 218,252	$ 395,959	$ 306,676	$ 218,252	$ 395,959
Invested capital					
Net debt	$ 218,252	$ 395,959	$ 306,676	$ 218,252	$ 395,959
Shareholders' equity	816,136	727,470	804,748	816,136	727,470
Total invested capital	$1,034,388	$1,123,429	$1,111,424	$1,034,388	$1,123,429
Net debt to invested capital[5]	21.1%	35.2%	27.6%	21.1%	35.2%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$ 105,816	$ 62,559	$ 4,682	$ 110,498	$ 82,602
Cash used in (generated from) operating work capital	(32,531)	(6,259)	55,033	22,502	4,720
Operating cash flow (before working capital changes)	$ 73,285	$ 56,300	$ 59,715	$ 133,000	$ 87,322
Weighted average number of shares - basic ('000)	*70,030*	*70,030*	*70,030*	*70,030*	*70,030*
Operating cash flow per share (before working capital changes)	*$ 1.05*	*$ 0.80*	*$ 0.85*	*$ 1.90*	*$ 1.25*

Notes:

(1) Certain historical periods have been recast to exclude the recognition of previously unrecognized deferred tax assets from Adjusted net earnings.

(2) If countervailing and anti-dumping duties expense of $7.3 million were excluded, Adjusted EBITDA for Q2'17 would be $84.7 million. Other periods presented were not impacted by such duties.

(3) Total assets at period beginning for three month periods; average of opening and closing total assets for six month periods.

(4) Annualized rate.

(5) 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, 2016, filed under the Company's profile on www.sedar.com. There have been no significant changes to the Company's risks and uncertainties, other than the imposition of softwood lumber duties, during the six month period ended June 30, 2017.

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.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
For the three and six months ended June 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Sales (note 12)	$ 511,376	$ 458,813	$ 968,156	$ 892,757
Costs and expenses:				
Production	414,205	390,487	798,282	780,623
Selling and administration	12,435	11,775	24,881	22,605
Long term incentive compensation expense (recovery)	3,270	(4,147)	6,863	(3,969)
U.S. countervailing and anti-dumping duty deposits (note 15)	7,313	-	7,313	-
Depreciation of plant and equipment (note 8)	19,967	18,765	39,570	38,934
Depletion and amortization of timber, roads and other (note 8)	10,024	9,652	16,321	17,621
	467,214	426,532	893,230	855,814
Operating earnings before restructuring costs	44,162	32,281	74,926	36,943
Restructuring costs (note 9)	1,457	2,304	1,802	3,507
Operating earnings	42,705	29,977	73,124	33,436
Finance costs (note 10)	(3,535)	(4,965)	(7,597)	(10,149)
Other foreign exchange gain (loss)	(913)	503	(1,094)	(396)
Other expense	(456)	(458)	(645)	(365)
	(4,904)	(4,920)	(9,336)	(10,910)
Earnings before income taxes	37,801	25,057	63,788	22,526
Income tax expense (recovery)				
Current	380	330	686	461
Deferred	12,909	1,522	18,923	(1,935)
	13,289	1,852	19,609	(1,474)
Net earnings	$ 24,512	$ 23,205	$ 44,179	$ 24,000
Net earnings per share, basic and diluted (note 11)	$ 0.35	$ 0.33	$ 0.63	$ 0.34

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the three and six months ended June 30, 2017 and 2016 (unaudited)

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Net earnings	$ 24,512	$ 23,205	$ 44,179	$ 24,000
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial loss, net of tax	(1,222)	(3,580)	(398)	(2,946)
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	(12,057)	2,607	(14,562)	(18,832)
Loss in fair value of interest rate swaps (note 14)	-	(32)	(11)	(139)
Total items that are or may be recycled to Net earnings	(12,057)	2,575	(14,573)	(18,971)
Total other comprehensive loss, net of tax	(13,279)	(1,005)	(14,971)	(21,917)
Comprehensive income	$ 11,233	$ 22,200	$ 29,208	$ 2,083

See accompanying notes to consolidated financial statements

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars)	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 24,512	$ 23,205	$ 44,179	$ 24,000
Items not involving cash:				
Depreciation of plant and equipment (note 8)	19,967	18,765	39,570	38,934
Depletion and amortization of timber, roads and other (note 8)	10,024	9,652	16,321	17,621
Income tax expense (recovery)	13,289	1,852	19,609	(1,474)
Finance costs (note 10)	3,535	4,965	7,597	10,149
Other assets	231	(83)	182	(284)
Reforestation liability	(234)	(2,157)	2,309	(543)
Provisions and other liabilities	1,232	(2,120)	2,047	(3,295)
Stock options	155	56	261	133
Write-down of plant and equipment (note 9)	-	1,018	-	1,018
Unrealized foreign exchange (gain) loss	(1)	689	(9)	698
Other	575	458	934	365
	73,285	56,300	133,000	87,322
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	3,312	(11,134)	(12,256)	(12,053)
Inventories	(432)	(8,512)	(15,672)	(5,768)
Prepayments and other	2,365	2,410	(419)	263
Trade accounts payable and provisions	27,415	23,703	6,265	13,304
Income taxes paid	(129)	(208)	(420)	(466)
	105,816	62,559	110,498	82,602
Investing activities:				
Additions to property, plant and equipment	(10,409)	(9,446)	(23,152)	(21,997)
Additions to logging roads and bridges	(9,429)	(6,148)	(16,531)	(11,237)
Additions to timber licences and other intangible assets	(531)	(219)	(1,365)	(355)
Proceeds on disposal of property, plant and equipment	423	139	398	314
Investments and other assets	(35)	(8,764)	(152)	(9,553)
	(19,981)	(24,438)	(40,802)	(42,828)
Financing activities:				
Interest payments	(3,211)	(4,354)	(6,753)	(11,165)
Debt refinancing costs	(42)	(110)	(170)	(842)
Change in operating line components of long term debt (note 6)	(40,918)	(18,467)	(65)	(11,733)
Additions to long term debt (note 6)	-	28,000	76,107	28,000
Repayments of long term debt (note 6)	(18,550)	(43,154)	(116,260)	(49,834)
	(62,721)	(38,085)	(47,141)	(45,574)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(517)	(232)	(537)	403
Increase (decrease) in cash	22,597	(196)	22,018	(5,397)
Cash and cash equivalents, beginning of period	18,691	11,255	19,270	16,456
Cash and cash equivalents, end of period	$ 41,288	$ 11,059	$ 41,288	$ 11,059

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and December 31, 2016 (unaudited)

(thousands of Canadian Dollars)	Jun. 30, 2017	Dec. 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	$ 41,288	$ 19,270
Trade accounts receivable and other	105,307	95,059
Income taxes receivable	19	222
Inventories (note 5)	167,283	154,535
Prepayments and other	15,055	14,016
Investments and other assets	3,097	2,911
	332,049	286,013
Employee future benefits	2,260	2,471
Investments and other assets	1,885	2,341
Property, plant and equipment	697,851	730,981
Logging roads and bridges	25,906	20,739
Timber licences	68,018	69,273
Other intangible assets	16,351	19,017
Goodwill	151,695	156,502
Deferred income taxes	-	14,311
	$ 1,296,015	$ 1,301,648
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 143,358	$ 138,029
Reforestation liability	11,194	11,609
Income taxes payable	376	317
	154,928	149,955
Reforestation liability	28,468	25,931
Long term debt (notes 6 and 14)	259,540	308,821
Employee future benefits	8,541	8,136
Provisions and other liabilities	22,978	21,290
Deferred income taxes	5,424	848
Equity:		
Share capital (note 7)	555,388	555,388
Contributed surplus	8,260	7,999
Translation reserve	55,012	69,574
Hedge reserve	-	11
Retained earnings	197,476	153,695
	816,136	786,667
	$ 1,296,015	$ 1,301,648

Contingency (note 13) and Countervailing and Anti-Dumping Duty Deposits (note 15)

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"*L. Sauder*"
Director

"*D.W.G. Whitehead*"
Director

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CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2017 and 2016 (unaudited)

(thousands of Canadian Dollars)	Common Shares	Contributed Surplus	Translation Reserve	Hedging Reserve	Retained Earnings	Total
Balance at December 31, 2016	$ 555,388	$ 7,999	$ 69,574	$ 11	$ 153,695	$ 786,667
Net earnings:	-	-	-	-	44,179	44,179
Other comprehensive loss:						
Foreign currency translation differences for foreign operations, net of tax	-	-	(14,562)	-	-	(14,562)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(398)	(398)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(11)	-	(11)
Contributions:						
Stock options	-	261	-	-	-	261
Balance at June 30, 2017	$ 555,388	$ 8,260	$ 55,012	$ -	$ 197,476	$ 816,136
Balance at December 31, 2015	$ 553,559	$ 7,665	$ 77,425	$ 62	$ 86,543	$ 725,254
Net earnings:	-	-	-	-	24,000	24,000
Other comprehensive loss:						
Foreign currency translation differences for foreign operations, net of tax	-	-	(18,832)	-	-	(18,832)
Defined benefit plan actuarial loss, net of tax	-	-	-	-	(2,946)	(2,946)
Loss in fair value of interest rate swaps (note 14)	-	-	-	(139)	-	(139)
Contributions:						
Stock options	-	133	-	-	-	133
Balance at June 30, 2016	$ 553,559	$ 7,798	$ 58,593	$ (77)	$ 107,597	$ 727,470

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 and six months ended June 30, 2017 and 2016 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 do not include all of the information required for annual financial statements and should be read in conjunction with the Company's annual consolidated financial statements for the year ended December 31, 2016. These financial statements were approved by Interfor's Board of Directors on August 3, 2017.

(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 Interfor Corporation is the Canadian Dollar.

3. Significant accounting policies:

Except for the change noted below, these financial statements have been prepared on a consistent basis with the significant accounting policies and methods of computation applied in the Company's audited December 31, 2016 annual consolidated financial statements, which are available on www.sedar.com.

a) Change in accounting policy:

The Company has adopted the disclosure requirements in *Disclosure Initiative (Amendments to IAS 7),* which came into effect on January 1, 2017. Consequently, the Company has provided additional disclosure in relation to the changes in borrowings arising from financing activities for the three and six months ended June 30, 2017 (note 6).

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 three and six months ended June 30, 2017, and have not been applied in preparing these financial statements. The following pronouncements are considered by the Company to be the most significant of several pronouncements that may affect future financial statements.

IFRS 9, *Financial Instruments*, will replace 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted.

IFRS 15, *Revenue from Contracts with Customers*, will supersede IAS 18, *Revenue*, IAS 11, *Construction Contracts* and related interpretations. The new standard is effective for annual periods beginning on or after January 1, 2018.

Based on the Company's preliminary analysis to date, neither IFRS 9 nor IFRS 15 will have a significant impact on the Company's financial statements.

IFRS 16, *Leases*, 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. 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 has not yet completed an assessment of the impact of this standard on its financial statements.

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 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 during the winter season due to reduced construction and renovation activities.

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

5. Inventories:

	June 30, 2017	Dec. 31, 2016
Lumber	$ 91,373	$ 80,726
Logs	59,517	58,739
Other	16,393	15,070
	$ 167,283	$ 154,535

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 June 30, 2017 was $10,199,000 (December 31, 2016 - $7,922,000).

6. Cash and borrowings:

June 30, 2017	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 259,540	$ 64,885	$ 589,425
Maximum borrowing available	65,000	200,000	259,540	64,885	589,425
Drawings	-	-	259,540	-	259,540
Outstanding letters of credit included in line utilization	11,038	-	-	4,023	15,061
Unused portion of line	$ 53,962	$ 200,000	$ -	$ 60,862	$ 314,824
December 31, 2016					
Available line of credit	$ 65,000	$ 200,000	$ 268,540	$ 67,135	$ 600,675
Maximum borrowing available	65,000	200,000	268,540	65,627	599,167
Drawings	-	40,281	268,540	-	308,821
Outstanding letters of credit included in line utilization	10,026	-	-	3,296	13,322
Unused portion of line	$ 54,974	$ 159,719	$ -	$ 62,331	$ 277,024

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

Twelve months ending	
June 30, 2018	$ -
June 30, 2019	-
June 30, 2020	-
June 30, 2021	43,257
June 30, 2022	43,257
Thereafter	173,026
	$ 259,540

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

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Drawings at opening	$ 325,367	$ 439,317	$ 308,821	$ 468,759
Operating line net drawings	(40,918)	(18,467)	(65)	(11,733)
Additions to long term debt	-	28,000	76,107	28,000
Repayments of long term debt	(18,550)	(43,154)	(116,260)	(49,834)
Effects of changes in foreign exchange rates	(6,359)	1,322	(9,063)	(28,174)
Drawings at June 30	$ 259,540	$ 407,018	$ 259,540	$ 407,018

(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.

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 May 19, 2019.

As at June 30, 2017, including outstanding letters of credit, the Lines were drawn by $10,850,000 (December 31, 2016 - $10,026,000) and US$145,000 (December 31, 2016 - US$30,000,000) revalued at the quarter-end exchange rate to $188,000 (December 31, 2016 - $40,281,000) for total borrowings of $11,038,000 (December 31, 2016 - $50,307,000).

[1] EBITDA, as defined under the related credit 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. Cash and borrowings (continued):

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

As at June 30, 2017, $253,962,000 of the Lines were unused (December 31, 2016 - $214,693,000). As U.S. Dollar drawings under the Lines were designated as a hedge against the Company's investment in its U.S. operations, the Company recognized an unrealized foreign exchange gains of $128,000 in the first six months, 2017 (first six months, 2016 - $11,248,000 gain) and an unrealized foreign exchange loss of $241,000 in the second quarter, 2017 (Quarter 2, 2016 - $145,000 gain) arising on revaluation of the Lines in Foreign currency translation differences in Other comprehensive income.

(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 June 30, 2017, US$200,000,000 of Senior Secured Notes were outstanding (December 31, 2016 – US$200,000,000) and revalued at the quarter-end exchange rate to $259,540,000 (December 31, 2016 - $268,540,000).

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 gains of $9,000,000 in the first six months, 2017 (first six months, 2016 - $16,620,000 gain) and $6,900,000 in the second quarter, 2017 (Quarter 2, 2016 - $760,000 loss) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

(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. On May 12, 2017, the Company extended the maturity of its U.S. Operating Line from May 1, 2018 to May 1, 2019 with no other significant changes.

As at June 30, 2017, the U.S. Operating Line was drawn by US$3,100,000 including outstanding letters of credit, revalued at the quarter-end exchange rate to $4,023,000 (December 31, 2016 - US$2,455,000 revalued at the quarter-end exchange rate to $3,296,000).

As at June 30, 2017, $60,862,000 (US$46,900,000) of the U.S. Operating Line was unused (December 31, 2016 - $62,331,000, or US$46,422,000).

7. Share capital:

The transactions in share capital are described below:

	Number	Amount
Balance, December 31, 2015	70,030,455	$ 553,559
Deferred income tax on share issue costs	-	1,829
Balance, December 31, 2016 and June 30, 2017	70,030,455	$ 555,388

On March 2, 2017, the Company announced a normal course issuer bid ("NCIB") whereby it can purchase for cancellation up to 3,5000,000 common shares, representing approximately 5% of its common shares issued and outstanding as at March 2, 2017. This NCIB began on March 7, 2017 and expires on March 6, 2018. During the first six months of 2017, Interfor did not purchase any of its common shares.

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Production	$ 28,053	$ 26,354	$ 51,978	$ 52,374
Selling and administration	1,938	2,063	3,913	4,181
	$ 29,991	$ 28,417	$ 55,891	$ 56,555

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

9. Restructuring costs:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Severance, legal and other	$ 1,449	$ -	$ 1,785	$ 789
Tacoma Sawmill:				
Write-down of inventories	-	1,108	-	1,230
Site closure costs	8	178	17	470
Write-down of buildings	-	1,018	-	1,018
	$ 1,457	$ 2,304	$ 1,802	$ 3,507

10. Finance costs:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Interest on borrowings	$ 3,103	$ 4,383	$ 6,748	$ 8,947
Net interest expense on defined benefit obligations	94	98	184	196
Unwind of discount on provisions	134	326	266	674
Amortization of deferred finance costs	204	158	399	332
	$ 3,535	$ 4,965	$ 7,597	$ 10,149

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:

	3 Months June 30, 2017			3 Months June 30, 2016		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Issued shares at March 31		70,030			70,030	
Basic earnings per share	$ 24,512	70,030	$ 0.35	$ 23,205	70,030	$ 0.33
Effect of dilutive securities:						
Stock options	-	25		-	-	
Diluted earnings per share	$ 24,512	70,055	$ 0.35	$ 23,205	70,030	$ 0.33

	6 Months June 30, 2017			6 Months June 30, 2016		
	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			70,030	
Basic earnings per share	$ 44,179	70,030	$ 0.63	$ 24,000	70,030	$ 0.34
Effect of dilutive securities:						
Stock options	-	20		-	-	
Diluted earnings per share	$ 44,179	70,050	$ 0.63	$ 24,000	70,030	$ 0.34

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

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 South regions of the U.S.

Sales by market are as follows:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
United States	$ 361,635	$ 328,178	$ 681,869	$ 636,750
Canada	59,709	59,340	109,776	111,648
Japan	36,725	33,315	69,068	70,517
China/Taiwan	31,095	20,702	60,922	40,870
Other export	22,212	17,278	46,521	32,972
	$ 511,376	$ 458,813	$ 968,156	$ 892,757

Sales by product line are as follows:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Lumber	$ 433,676	$ 371,108	$ 823,300	$ 720,012
Logs	38,425	48,232	67,701	91,213
Wood chips and other by-products	37,362	36,864	73,567	75,473
Other	1,913	2,609	3,588	6,059
	$ 511,376	$ 458,813	$ 968,156	$ 892,757

13. Contingency:

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 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. Although it is not practicable at this time 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 June 30, 2017.

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 June 30, 2017, the fair value of the Company's long term debt exceeded its carrying value by $6,377,000 (December 31, 2016 – exceeded carrying value by $7,378,000) as 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 June 30, 2017, the Company had no outstanding obligations under foreign currency contracts, lumber futures, or interest rate swaps.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six months ended June 30, 2017 and 2016:

	3 Months June 30, 2017	3 Months June 30, 2016	6 Months June 30, 2017	6 Months June 30, 2016
Foreign exchange forward contracts[1]	$ 128	$ (15)	$ 236	$ 118
Interest rate swaps[2]	-	(32)	(11)	(139)
Lumber futures[3]	621	-	621	-
Total gain (loss), net	$ 749	$ (47)	$ 846	$ (21)

Notes: [1] Recognized in Other foreign exchange gain (loss) in Net earnings.
[2] Recognized in Other comprehensive income (loss).
[3] Recognized in Sales in Net earnings

15. U.S. Countervailing and Anti-Dumping Duty Deposits:

On November 25, 2016, a petition was filed by the U.S. Lumber Coalition and other petitioners seeking countervailing and anti-dumping duties on Canadian softwood lumber imports to the U.S. and on January 6, 2017, a preliminary determination was announced by the U.S. International Trade Commission ("ITC") that there is reasonable indication that the U.S. industry is materially injured by imports of softwood lumber products from Canada.

On April 24, 2017, the U.S. Department of Commerce ("DoC") preliminarily ruled that Canadian softwood lumber producers benefit from government subsidies and imposed a preliminary countervailing duty rate on each of the five specific companies reviewed, ranging from 3.02% to 24.12%, and the weighted average rate of 19.88% on all other companies including Interfor. As a result, the U.S. Customs and Border Protection Agency ("CBPA") began collecting countervailing duties from Interfor on April 28, 2017, to be posted by cash deposits or bonds, on its shipments of softwood lumber from Canada into the U.S resulting in an expense of $7,313,000 for the three month period ended June 30, 2017.

On June 26, 2017, the DoC announced its preliminary ruling for the imposition of a preliminary anti-dumping duty rate on each of the four specific companies reviewed, ranging from 4.59% to 7.72%, and the weighted average rate of 6.87% on all other companies including Interfor. As a result, the CBPA began collecting anti-dumping duties from Interfor on June 30, 2017, to be posted by cash deposits or bonds, on its shipments of softwood lumber from Canada into the U.S.

The preliminary countervailing and anti-dumping duties will only be applicable for a 120 days and 180 days from their dates of imposition, respectively, until they are suspended in accordance with U.S. law pending final rulings by the DoC and ITC. In terms of impact to Interfor, these duties will apply to only a fraction of the Company's total lumber sales, or approximately 16% of its total volume on average.

In addition, the DoC ruled affirmatively on the existence of critical circumstances in each of the countervailing and anti-dumping cases, for all Canadian lumber producers except mandatory respondents. Thus, Interfor may be required to submit deposits estimated to be US$8,359,000 for retroactive countervailing duties for the 90-day period from January 28 to April 27, 2017 and US$3,045,000 for retroactive anti-dumping duties for the 90-day period from April 1 to June 29, 2017. Since Interfor believes it is more likely than not that the ITC will subsequently rule against the retroactive applications, resulting in a return of any related deposits in full to Interfor by the CBPA, no associated liability has been recognized in these financial statements.

Final rulings by the DoC on its countervailing and anti-dumping investigations are expected to occur in the second half of 2017. ITC's final determinations on the countervailing and anti-dumping cases would follow approximately 45 days after the DoC final determinations.

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 determinations yet to be made by the DoC and ITC and any reviewing courts, NAFTA or WTO panels to which those determinations may be appealed.

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