Interfor Corporation
Second Quarter Report
For the three and six months ended June 30, 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 and six months ended June 30, 2018 ("Q2'18" and "YTD'18", respectively). 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, 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 August 2, 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 Second 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 Second Quarter 2018

Q2'18 Results

Interfor recorded net earnings in Q2'18 of $63.8 million, or $0.91 per share, compared to $33.0 million, or $0.47 per share in Q1'18 and $24.5 million, or $0.35 per share in Q2'17. Adjusted net earnings in Q2'18 were $68.9 million or $0.98 per share, compared to $36.8 million, or $0.52 per share in Q1'18 and $28.7 million, or $0.41 per share in Q2'17.

Adjusted EBITDA was a record $123.8 million on sales of $619.9 million in Q2'18 versus $81.1 million on sales of $527.6 million in Q1'18.

Notable items in the quarter included:

- Higher Lumber Prices
  - The key benchmark prices improved quarter-over-quarter with the SYP Composite, Western SPF Composite and KD H-F Stud 2x4 9' increasing by US$73, US$61 and US$94 per mfbm, respectively. Interfor's average lumber selling price increased $65 from Q1'18 to $753 per mfbm.
- Increased Production and Shipments
  - Total lumber production was a record 688 million board feet or 22 million board feet more than the prior quarter. Production in the U.S. South region increased to 325 million board feet from 302 million board feet in the preceding quarter. The B.C. and U.S. Northwest regions accounted for 215 million board feet and 148 million board feet, respectively, compared to 218 million board feet and 146 million board feet in Q1'18, respectively. In Q2'18, the B.C Interior operations were negatively impacted by seven days of downtime at the Grand Forks mill, due to severe flooding in the region.
  - Total lumber shipments were 700 million board feet, of which 689 million board feet were Interfor produced volumes, with the balance of 11 million board feet being agency and wholesale volumes. Total lumber shipments were 52 million board feet higher than Q1'18, as Q1'18 shipments were negatively impacted by industry-wide logistics issues, and particularly by weather-impacted rail constraints in B.C. The Company's lumber inventory volume at June 30, 2018 was comparable to March 31, 2018.
- Strong Cash Flows and Liquidity
  - Interfor generated $123.2 million of cash from operations before changes in working capital, or $1.76 per share. Total cash generated from operations was $133.7 million.
  - Net debt ended the quarter at $34.4 million, or 3.4% of invested capital, resulting in available liquidity of $542.3 million.
  - Capital spending was $23.3 million on a mix of high-return discretionary, maintenance and woodlands projects.
- Softwood Lumber Duties
  - Interfor expensed $14.8 million of duties in the quarter, representing the full amount of countervailing ("CV") and anti-dumping ("AD") duties incurred on its Canadian shipments of softwood lumber into the U.S. at a combined rate of 20.23%.

Strategic Capital Plan

- Interfor continues to make progress on its multi-year strategic capital plan that involves a number of discretionary projects designed to capture the opportunities within its current operating platform and to pursue opportunities for further growth. The strategic capital plan was advanced over the past quarter, including site preparation and mill readiness initiatives for the previously announced US$65 million of projects at the Meldrim, GA and Monticello, AR sawmills. The projects remain on track for completion in Q1'19. These projects are designed to increase production capacity by approximately 150 million board feet per year, as well as generate other benefits related to costs and product mix.

- In addition, the Company has received Board approval to proceed with three new strategic capital projects totaling US$240 million at its Thomaston, GA, Eatonton, GA and Georgetown, SC sawmills. These projects include major modernizations and rebuilds, and are designed to increase production capacity by approximately 275 million board feet per year, as well as substantially reduce cash conversion costs, improve lumber recovery and enhance grade outturns and product mix. The projects are expected to generate a pre-tax cash payback of less than five years, using conservative lumber price assumptions. The projects are expected to be completed in various phases during 2019 to 2021.
- The Company is also undertaking a number of machine center upgrades at certain mills in B.C., the U.S. Northwest and the U.S. South. These projects are planned for completion over the next 12 to 18 months.
- The timeline for assessing and deciding upon greenfield sawmill opportunities in the Central Region of the U.S. South has been extended beyond mid-2018, as the Company focused on completing plans for its strategic capital projects. With those projects now underway, the Company is in a position to further develop greenfield opportunities over the coming months. A decision is dependent upon satisfactory conclusion of due diligence and assessment against Interfor's investment criteria.

Debt Financing

In conjunction with the planned increase in capital spending over the coming several years, Interfor modified its debt financing arrangements in order to further enhance its financial flexibility. In particular, the Company entered into an agreement to extend US$84 million of its 2021 to 2023 term debt maturities to 2027 to 2029. This transaction is expected to close in mid-August, upon which Interfor's weighted average interest rate on its term debt will be 4.47%. In addition, Interfor recently extended the maturity of its US$50 million U.S. Operating Line by two years to June 15, 2021.

Outlook

Interfor expects demand for lumber to continue to grow over the mid-term, particularly in the North American repair & renovation, residential and industrial segments, as well as in offshore markets.

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 2018	Jun. 30 2017	Mar. 31 2018	For the 6 months ended Jun. 30 2018	Jun. 30 2017
Financial Highlights[2]						
Total sales	$MM	619.9	511.4	527.6	1,147.5	968.2
Lumber	$MM	527.0	433.7	445.9	972.9	823.3
Logs, residual products and other	$MM	92.9	77.7	81.7	174.6	144.9
Operating earnings	$MM	85.9	42.7	46.5	132.4	73.1
Net earnings	$MM	63.8	24.5	33.0	96.8	44.2
Net earnings per share, basic	$/share	0.91	0.35	0.47	1.38	0.63
Adjusted net earnings[3]	$MM	68.9	28.7	36.8	105.7	51.5
Adjusted net earnings per share, basic[3]	$/share	0.98	0.41	0.52	1.51	0.73
Operating cash flow per share (before working capital changes)[3]	$/share	1.76	1.05	1.08	2.84	1.90
Adjusted EBITDA[3]	$MM	123.8	77.4	81.1	204.8	137.7
Adjusted EBITDA margin[3]	%	20.0%	15.1%	15.4%	17.8%	14.2%
Total assets	$MM	1,536.0	1,296.0	1,410.0	1,536.0	1,296.0
Total debt	$MM	263.4	259.5	257.9	263.4	259.5
Net debt to invested capital[3]	%	3.4%	21.1%	12.4%	3.4%	21.1%
Annualized return on invested capital[3]	%	48.5%	28.9%	32.4%	41.3%	26.1%
Operating Highlights						
Lumber production	million fbm	688	655	666	1,354	1,295
Total lumber sales	million fbm	700	675	648	1,348	1,320
Lumber sales - Interfor produced	million fbm	689	654	635	1,324	1,278
Lumber sales - wholesale and commission	million fbm	11	21	13	24	42
Lumber - average selling price[4]	$/thousand fbm	753	642	688	722	624
Average USD/CAD exchange rate[5]	1 USD in CAD	1.2911	1.3449	1.2647	1.2781	1.3343
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.3168	1.2977	1.2894	1.3168	1.2977

Notes:

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.
(2) Financial information presented for interim periods in this 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 Second Quarter 2018 Financial Performance

Sales

Interfor recorded $619.9 million of total sales, up 21.2% from $511.4 million in the second quarter of 2017, driven by the sale of 700 million board feet of lumber at a record average price of $753 per mfbm. Lumber sales volume increased 25 million board feet, or 3.7%, while average selling prices increased $111 per mfbm, or 17.3%, as compared to the same quarter of 2017.

The increase in the average selling price of lumber reflects significantly higher prices across all key commodity grade benchmarks in Q2'18 as compared to Q2'17. The Western SPF Composite improved by US$155 to US$533 per mfbm, while the KD HF Stud 2x4 9' benchmark and the Southern Pine Composite improved US$164 to US$562 per mfbm and US$109 to US$526 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 4.0% on average in Q2'18 as compared to Q2'17.

Sales generated from logs, residual products and other increased by $15.2 million or 19.6% compared to the same quarter of 2017. Most of this increase is related to a 24.9% increase in log sales volume from B.C. operations, a greater proportion of higher value export log sales, and higher chip prices in B.C. and the U.S. Northwest, partially offset by the stronger Canadian Dollar in Q2'18 versus Q2'17.

Operations

Production costs increased by $53.2 million, or 12.8% over Q2'17, explained primarily by an increase in lumber sales volume of 25 million board feet, higher average conversion costs per mfbm, market driven log cost increases including higher stumpage rates in B.C. and an increase in log sales volume, somewhat offset by the stronger Canadian Dollar in Q2'18 compared to Q2'17.

Lumber production of 688 million board feet in Q2'18 was 33 million board feet higher than Q2'17.

Production from the Company's nine U.S. South sawmills totaled 325 million board feet in Q2'18, up 31 million board feet compared to Q2'17, as the Company increased operating schedules at several of the mills. Production from the Company's U.S. Northwest operations totaled 148 million board feet in Q2'18, an increase of 2 million board feet from Q2'17. Canadian production totaled 215 million board feet in Q2'18, consistent with production in Q2'17. In Q2'18, the B.C Interior operations were negatively impacted by seven days of downtime at the Grand Forks mill, due to severe flooding in the region.

Interfor expensed the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S. which totaled $14.8 million for Q2'18, up $7.5 million from Q2'17. This increase is attributable to the fact that CV duties did not come into effect until April 28, 2017 with AD duties following on June 30, 2017, somewhat offset by lower rates in Q2'18 than the preliminary rates levied in Q2'17.

Depreciation of plant and equipment was $20.9 million, up by $0.9 million versus Q2'17. This increase is attributable to a full quarter's depreciation on capital projects completed in 2017 and increased operating hours in Q2'18, slightly offset by the stronger Canadian Dollar.

Depletion and amortization of timber, roads and other was $8.4 million, down $1.6 million from Q2'17, with reduced conventional logging on the B.C. Coast in Q2'18 as compared to Q2'17.

Corporate and Other

Selling and administration expenses were $14.0 million, up $1.6 million from the second quarter of 2017. Q2'18 included higher accruals for short term incentive compensation and certain non-recurring costs not reflected in the Q2'17 comparative.

The $4.0 million long term incentive compensation expense mostly reflects the impact of a 7.5% increase during the quarter in the price of Interfor Common Shares used to value share-based awards, coupled with incentive awards maturing. The $3.3 million long term incentive compensation expense in Q2'17 resulted primarily from the impact of incentive awards maturing and an 8.1% increase in the market price for Interfor Common Shares during that quarter.

Finance costs were $2.8 million, or $0.7 million lower than the second quarter of 2017, due mainly to a lower average level of debt outstanding and increased interest revenue on investments in Q2'18 as compared to Q2'17.

Restructuring charges in Q2'18 relate to non-cash impairments of certain equipment in the U.S. South. Q2'17 restructuring charges relate to costs associated with the relocation of a sales office and settlement of various human resource matters.

Other foreign exchange gains of $1.9 million in Q2'18 result primarily from gains on U.S. Dollar cash held by Canadian operations and short-term intercompany funding as the Canadian Dollar weakened by 2.1% over the quarter and the Company significantly increased its U.S. Dollar cash balances. Q2'17 losses of $0.9 million reflect unrealized losses on short-term intercompany funding affected by a 2.7% stronger Canadian Dollar over the quarter.

Income Taxes

The Company recorded an income tax expense of $21.1 million in Q2'18, comprised of a $1.6 million current tax expense and a $19.5 million deferred tax expense. 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. As a result of U.S. Tax Reform enacted December 22, 2017, the Company's effective tax rate is reduced in Q2'18 as compared to the comparable quarter of 2017.

Net Earnings

The Company recorded net earnings of $63.8 million or $0.91 per share, compared to net earnings of $24.5 million or $0.35 per share in the comparable period of 2017. Adjusted net earnings were $68.9 million or $0.98 per share compared with $28.7 million or $0.41 per share in Q2'17.

Summary of Year-to-Date 2018 Financial Performance

Sales

Interfor recorded $1.1 billion of total sales, up 18.5% from $1.0 billion in the first half of 2017, driven by the sale of 1.3 billion board feet of lumber at an average price of $722 per mfbm. Lumber sales volume increased 28 million board feet, or 2.1%, while average selling prices increased $98 per mfbm, or 15.7%, as compared to the first six months of 2017.

The increase in the average selling price of lumber reflects higher prices across all benchmark products in YTD'18 as compared to YTD'17. The Western SPF Composite and SYP Composite benchmarks improved US$144 to US$503 per mfbm and US$73 to US$490 per mfbm, respectively. The KD HF Stud 2x4 9' benchmark was up US$136 to US$515 per mfbm for YTD'18 as compared to YTD'17. 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 4.2% on average in YTD'18 as compared to YTD'17.

Sales generated from logs, residual products and other increased by $29.7 million or 20.5% in the first half, 2018, as compared to the same period of 2017. Most of this increase is related to a 32.7% increase in log sales volume from B.C. operations with a greater proportion of export log sales, and higher chip prices in B.C. and the U.S. Northwest, partially offset by the stronger Canadian Dollar in YTD'18 versus YTD'17.

Operations

Production costs increased by $88.6 million or 11.1% over the first half of 2017, explained primarily by an increase in lumber sales volume of 28 million board feet, higher average conversion costs per mfbm, market driven log cost increases including higher stumpage rates in B.C., and an increase in log sales volume, somewhat offset by the stronger Canadian Dollar in YTD'18 compared to YTD'17.

Lumber production of 1.4 billion board feet in YTD'18 was 59 million board feet higher than YTD'17.

Production from the Company's nine U.S. South sawmills totaled 627 million board feet in YTD'18, up 48 million board feet compared to YTD'17, as the Company increased operating schedules at several of the mills. Production from the Company's U.S. Northwest operations totaled 294 million board feet in YTD'18, an increase of 8 million board feet from YTD'17 while Canadian production totaled 433 million board feet in YTD'18, an increase of 3 million board feet.

Interfor expensed $27.8 million of U.S. CV and AD duty deposits YTD'18, representing the full amount of U.S. CV and AD duty deposits levied on its Canadian shipments of softwood lumber into the U.S Interfor. YTD'18 CV and AD duty expense increased by $20.5 million over the first half of 2017, attributable to the fact that CV duties did not come into effect until April 28, 2017 with AD duties following on June 30, 2017, somewhat offset by lower rates in YTD'18 than the preliminary rates levied in YTD'17.

Depreciation of plant and equipment was $40.9 million, up 3.3% from the first half of 2017. This increase is attributable to a full six months' depreciation on capital projects completed in 2017 and increased operating hours in YTD'18, slightly offset by the stronger Canadian Dollar.

Depletion and amortization of timber, roads and other was $17.8 million, up $1.5 million from the comparable six months of 2017, in line with increased conventional logging on the B.C. Coast.

Corporate and Other

Selling and administration expenses were $28.0 million, up $3.1 million from the first half of 2017. The first half of 2018 included an incremental accrual for short term incentive compensation and certain non-recurring costs not reflected in the YTD'17 comparative.

The $8.9 million long term incentive compensation expense mostly reflects the impact of a 19.6% year-to-date increase in the market price of Interfor Common Shares used to value share-based awards and incentive awards maturing. The $6.9 million long term incentive compensation expense in YTD’17 resulted from the impact of incentive awards maturing and a 23.6% increase in the price for Interfor Common Shares during the first half of 2017.

Finance costs decreased to $5.7 million from $7.6 million in the first half of 2017 as a result of a lower average level of debt outstanding and increased interest revenue on investments.

Restructuring charges in YTD’18 relate to costs associated with non-cash impairments of an intangible asset and certain equipment in the U.S. South. The YTD’17 restructuring charges relate to costs associated with the relocation of sales office and settlement of various human resource matters.

Other foreign exchange gains of $2.0 million in YTD’18 result primarily from gains on U.S. Dollar cash held by Canadian operations and short-term intercompany funding as the Canadian Dollar weakened by 5.0% year-to-date and the Company significantly increased its U.S. Dollar cash balances. YTD’17 Other foreign exchange losses of $1.1 million resulted primarily from unrealized losses on short-term intercompany funding affected by a 3.4% weaker Canadian Dollar year-to-date.

Income Taxes

The Company recorded an income tax expense of $31.7 million in YTD’18, comprised of a $2.4 million current tax expense and a $29.3 million deferred tax expense. The YTD’17 income tax expense of $19.6 million is comprised of a $0.7 million current tax expense and an $18.9 million deferred tax expense. As a result of U.S. Tax Reform enacted December 22, 2017, the Company’s effective tax rate is reduced in YTD’18 as compared to YTD’17.

Net Earnings

The Company recorded net earnings of $96.8 million, or $1.38 per share, compared to $44.2 million, or $0.63 per share, in the same period of 2017. Adjusted net earnings were $105.7 million, or $1.51 per share, compared to $51.5 million, or $0.73 per share in YTD’17.

Summary of Quarterly Results[1]

	Unit	2018 Q2	2018 Q1	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3
Financial Performance[2]									
Total sales	$MM	619.9	527.6	532.8	489.2	511.4	456.8	442.3	457.6
Lumber	$MM	527.0	445.9	446.0	410.2	433.7	389.6	363.5	374.8
Logs, residual products and other	$MM	92.9	81.7	86.8	79.0	77.7	67.2	78.8	82.8
Operating earnings	$MM	85.9	46.5	47.9	28.3	42.7	30.4	22.3	20.1
Net earnings	$MM	63.8	33.0	36.2	16.8	24.5	19.7	26.6	15.1
Net earnings per share, basic	$/share	0.91	0.47	0.52	0.24	0.35	0.28	0.38	0.22
Adjusted net earnings[3]	$MM	68.9	36.8	45.1	20.0	28.7	22.7	17.7	20.7
Adjusted net earnings per share, basic[3]	$/share	0.98	0.52	0.64	0.29	0.41	0.32	0.25	0.30
Operating cash flow per share (before working capital changes)[3]	$/share	1.76	1.08	1.19	0.82	1.05	0.85	0.72	0.78
Adjusted EBITDA[3]	$MM	123.8	81.1	89.5	60.5	77.4	60.3	51.3	58.1
Adjusted EBITDA margin[3]	%	20.0%	15.4%	16.8%	12.4%	15.1%	13.2%	11.6%	12.7%
Annualized return on invested capital[3]	%	48.5%	32.4%	36.4%	23.9%	28.9%	22.0%	18.9%	21.0%
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	688	666	655	645	655	640	607	628
Total lumber sales	million fbm	700	648	686	671	675	645	619	647
Lumber sales - Interfor produced	million fbm	689	635	666	650	654	624	598	627
Lumber sales - wholesale and commission	million fbm	11	13	20	21	21	21	21	20
Lumber - average selling price[4]	$/thousand fbm	753	688	650	611	642	604	588	580
Average USD/CAD exchange rate[5]	1 USD in CAD	1.2911	1.2647	1.2713	1.2528	1.3449	1.3238	1.3341	1.3050
Closing USD/CAD exchange rate[5]	1 USD in CAD	1.3168	1.2894	1.2545	1.2480	1.2977	1.3322	1.3427	1.3117

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.

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, in the U.S. South in Q3'17 and in the B.C. Interior in Q2'18. 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 industry-wide 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 Q2'18. Net debt at June 30, 2018 was $34.4 million, or 3.4% of invested capital, representing a decrease of $183.8 million from June 30, 2017, and a decrease of $84.9 million from December 31, 2017. The majority of the decrease in net debt in Q2'18 is attributed to strong cash flows generated from operations. Net debt was negatively impacted by a weakened Canadian Dollar against the U.S. Dollar as all debt held was denominated in U.S. Dollars; this was partially hedged by the Company's U.S. Dollar cash balances.

Thousands of Dollars	For the 3 months ended Jun. 30, 2018	For the 3 months ended Jun. 30, 2017	For the 6 months ended Jun. 30, 2018	For the 6 months ended Jun. 30, 2017
Net debt				
Net debt, period opening, CAD	$127,064	$306,676	$119,300	$289,551
Net repayment on credit facilities, CAD	-	(59,468)	(1)	(40,218)
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	5,480	(6,359)	12,461	(9,063)
Increase in cash and cash equivalents, CAD	(98,129)	(22,597)	(97,345)	(22,018)
Net debt, period ending, CAD	$34,415	$218,252	$34,415	$218,252
Net debt components by currency				
U.S. Dollar debt, period opening, USD	$200,000	$235,979	$200,000	$230,000
Net repayment on credit facilities, USD	-	(35,979)	-	(30,000)
U.S. Dollar debt, period ending, USD	200,000	200,000	200,000	200,000
Spot rate, period end			1.3168	1.2977
U.S. Dollar debt expressed in CAD			263,360	259,540
Total debt, CAD			263,360	259,540
Cash and cash equivalents, CAD			(228,945)	(41,288)
Net debt, period ending, CAD			$34,415	$218,252

As at June 30, 2018, the Company had net working capital of $417.1 million and available liquidity of $542.3 million, including unrestricted cash and borrowing capacity on operating and term line facilities.

On June 15, 2018, the Company extended the maturity of its U.S. Operating line from May 1, 2019 to June 15, 2021, with no other significant changes. On July 10, 2018, Interfor entered into an agreement to extend US$84 million of its 2021 to 2023 Senior Secured Note maturities to 2027 to 2029. Upon completion of this transaction, which is expected in mid-August, Interfor's weighted average interest rate on its term debt will be 4.47%.

These resources, in addition to cash generated from operations, will be used to support capital expenditures, working capital requirements and debt servicing commitments. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Cash Flow from Operating Activities

The Company generated $198.6 million of cash flow from operations before changes in working capital in YTD'18, or a $65.6 million increase over YTD'17, driven by significant improvements in lumber sales margins, and slightly offset by CV and AD duties.

There was a net cash inflow from operations after changes in working capital of $152.2 million in YTD'18, with the $46.4 million of cash used in operating working capital primarily related to increased sales volumes, higher sales prices and building of inventories. There was a net cash inflow from operations after changes in working capital of $110.5 million in YTD'17, with $22.5 million invested in operating working capital.

Cash Flow from Investing Activities

Investing activities totaled $54.8 million in YTD'18, net of $0.2 million in proceeds on the disposal of property, plant and equipment. Spending included $27.2 million for property, plant and equipment, timber and other intangible assets, and $14.2 million for development of roads. Discretionary mill improvements of $17.1 million in YTD'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 $10.1 million in YTD'18, of which the majority was spent on U.S. South operations.

In addition, the Company made deposits in Q2'18 to secure equipment for capital improvement projects.

In YTD'17, investing activities totaled $40.8 million, including $23.2 million for property, plant and equipment and $16.5 million for development of roads. Discretionary mill improvements of $12.1 million were focused on U.S. South operations. Maintenance mill improvements of $11.1 million during YTD'17 included $3.7 million for a kiln conversion project at the Preston sawmill in the U.S. South.

Cash Flow from Financing Activities

Net cash outflow of $5.0 million in YTD'18 related to the payment of interest, very 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 outflow of $47.1 million in YTD'17 included net repayments of $40.2 million and $6.8 million in interest payments.

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 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	$263,360	$65,840	$594,200
Maximum borrowing available	$65,000	$200,000	$263,360	$65,840	$594,200
Less:					
Drawings	-	-	263,360	-	263,360
Outstanding letters of credit included in line utilization	13,899	-	-	3,239	17,138
Unused portion of facility	$51,101	$200,000	$ -	$62,601	313,702
Add: Unrestricted cash and cash equivalents					228,635
Available liquidity at June 30, 2018					$542,337

As of June 30, 2018, the Company had commitments for capital expenditures totaling $44.9 million.

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, 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 June 30, 2018, such instruments aggregated $62.9 million (December 31, 2017 - $56.2 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 August 2, 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 the first half of 2018 as a result of share option exercises.

On March 1, 2018, 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 under the NCIB.

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, 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 June 30, 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 June 30, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, is considered to be the most significant to Interfor.

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.

Non-GAAP Measures

This MD&A makes reference to the following non-GAAP measures: Adjusted net earnings, Adjusted net earnings per share, EBITDA, Adjusted EBITDA, Net debt to invested capital, Operating cash flow per share (before working capital changes) and Return on invested capital which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers.

The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim consolidated financial statements prepared in accordance with IFRS:

	For the 3 months ended			For the 6 months ended	
	Jun. 30	**Jun. 30**	**Mar.31**	**Jun. 30**	**Jun. 30**
Thousands of Canadian Dollars except number of shares and per share amounts	**2018**	**2017**	**2018**	**2018**	**2017**
Adjusted Net Earnings					
Net earnings	$63,775	$24,512	$32,976	$96,751	$44,179
Add:					
Restructuring costs and capital asset write-downs	4,669	1,457	236	4,905	1,802
Other foreign exchange loss (gain)	(1,880)	913	(111)	(1,991)	1,094
Long term incentive compensation expense	3,996	3,270	4,858	8,854	6,863
Other expense	80	456	178	258	645
Post closure wind-down costs and losses	-	5	4	4	13
Income tax effect of above adjustments	(1,701)	(1,883)	(1,374)	(3,075)	(3,132)
Adjusted net earnings	$68,939	$28,730	$36,767	$105,706	$51,464
Weighted average number of shares - basic ('000)	*70,038*	*70,030*	*70,033*	*70,036*	*70,030*
Adjusted net earnings per share	$0.98	$0.41	$0.52	$1.51	$0.73
Adjusted EBITDA					
Net earnings	$63,775	$24,512	$32,976	$96,751	$44,179
Add:					
Depreciation of plant and equipment	20,851	19,967	20,068	40,919	39,570
Depletion and amortization of timber, roads and other	8,350	10,024	9,417	17,767	16,321
Restructuring costs and capital asset write-downs	4,669	1,457	236	4,905	1,802
Finance costs	2,786	3,535	2,905	5,691	7,597
Other foreign exchange loss (gain)	(1,880)	913	(111)	(1,991)	1,094
Income tax expense	21,132	13,289	10,533	31,665	19,609
EBITDA	119,683	73,697	76,024	195,707	130,172
Add:					
Long term incentive compensation expense	3,996	3,270	4,858	8,854	6,863
Other expense	80	456	178	258	645
Post closure wind-down costs and losses	-	5	4	4	13
Adjusted EBITDA	$123,759	$77,428	$81,064	$204,823	$137,693
Sales	$619,893	$511,376	$527,644	$1,147,537	$968,156
Adjusted EBITDA margin	20.0%	15.1%	15.4%	17.8%	14.2%
Net debt to invested capital					
Net debt					
Total debt	$263,360	$259,540	$257,880	$263,360	$259,540
Cash and cash equivalents	(228,945)	(41,288)	(130,816)	(228,945)	(41,288)
Total net debt	$34,415	$218,252	$127,064	$34,415	$218,252
Invested capital					
Net debt	$34,415	$218,252	$127,064	$34,415	$218,252
Shareholders' equity	977,294	816,136	901,176	977,294	816,136
Total invested capital	$1,011,709	$1,034,388	$1,028,240	$1,011,709	$1,034,388
Net debt to invested capital(1)	3.4%	21.1%	12.4%	3.4%	21.1%
Operating cash flow per share (before working capital changes)					
Cash provided by operating activities	$133,729	$105,816	$18,511	$152,240	$110,498
Cash used in (generated from) operating working capital	(10,579)	(32,531)	56,973	46,394	22,502
Operating cash flow (before working capital changes)	$123,150	$73,285	$75,484	$198,634	$133,000
Weighted average number of shares - basic ('000)	*70,038*	*70,030*	*70,033*	*70,036*	*70,030*
Operating cash flow per share (before working capital changes)	$1.76	$1.05	$1.08	$2.84	$1.90
Annualized return on invested capital					
Adjusted EBITDA	$123,759	$77,428	$81,064	$204,823	$137,693
Invested capital, beginning of period	$1,028,240	$1,111,424	$973,488	$973,488	$1,076,218
Invested capital, end of period	1,011,709	1,034,388	1,028,240	1,011,709	1,034,388
Average invested capital	$1,019,975	$1,072,906	$1,000,864	$992,599	$1,055,303
Adjusted EBITDA divided by average invested capital	12.1%	7.2%	8.1%	20.6%	13.0%
Annualization factor	4.0	4.0	4.0	2.0	2.0
Annualized return on invested capital	48.5%	28.9%	32.4%	41.3%	26.1%

Notes:

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

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 six months ended June 30, 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 and six months ended June 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars except earnings per share)	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Sales (note 12)	$ 619,893	$ 511,376	$ 1,147,537	$ 968,156
Costs and expenses:				
Production	467,355	414,205	886,937	798,282
Selling and administration	13,952	12,435	28,025	24,881
Long term incentive compensation expense	3,996	3,270	8,854	6,863
U.S. countervailing and anti-dumping duty deposits (note 14(a))	14,827	7,313	27,756	7,313
Depreciation of plant and equipment (note 8)	20,851	19,967	40,919	39,570
Depletion and amortization of timber, roads and other (note 8)	8,350	10,024	17,767	16,321
	529,331	467,214	1,010,258	893,230
Operating earnings before restructuring costs	90,562	44,162	137,279	74,926
Restructuring costs (note 9)	4,669	1,457	4,905	1,802
Operating earnings	85,893	42,705	132,374	73,124
Finance costs (note 10)	(2,786)	(3,535)	(5,691)	(7,597)
Other foreign exchange gain (loss)	1,880	(913)	1,991	(1,094)
Other expense	(80)	(456)	(258)	(645)
	(986)	(4,904)	(3,958)	(9,336)
Earnings before income taxes	84,907	37,801	128,416	63,788
Income tax expense				
Current	1,567	380	2,337	686
Deferred	19,565	12,909	29,328	18,923
	21,132	13,289	31,665	19,609
Net earnings	$ 63,775	$ 24,512	$ 96,751	$ 44,179
Net earnings per share, basic and diluted (note 11)	$ 0.91	$ 0.35	$ 1.38	$ 0.63

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three and six months ended June 30, 2018 and 2017 (unaudited)

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Net earnings	$ 63,775	$ 24,512	$ 96,751	$ 44,179
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings:				
Defined benefit plan actuarial gain (loss), net of tax	1,004	(1,222)	1,889	(398)
Items that are or may be recycled to Net earnings:				
Foreign currency translation differences for foreign operations, net of tax	11,130	(12,057)	23,977	(14,562)
Loss in fair value of interest rate swaps (note 13)	-	-	-	(11)
Total items that are or may be recycled to Net earnings	11,130	(12,057)	23,977	(14,573)
Total other comprehensive income (loss), net of tax	12,134	(13,279)	25,866	(14,971)
Comprehensive income	$ 75,909	$ 11,233	$ 122,617	$ 29,208

See accompanying notes to consolidated financial statements

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the three and six months ended June 30, 2018 and 2017 (unaudited)

(thousands of Canadian Dollars)	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Cash provided by (used in):				
Operating activities:				
Net earnings	$ 63,775	$ 24,512	$ 96,751	$ 44,179
Items not involving cash:				
Depreciation of plant and equipment (note 8)	20,851	19,967	40,919	39,570
Depletion and amortization of timber, roads and other (note 8)	8,350	10,024	17,767	16,321
Income tax expense	21,132	13,289	31,665	19,609
Finance costs (note 10)	2,786	3,535	5,691	7,597
Other assets	(122)	231	(417)	182
Reforestation liability	(862)	(234)	1,427	2,309
Provisions and other liabilities	2,386	1,232	(456)	2,047
Stock options	209	155	346	261
Write-down of plant, equipment and intangibles (note 9)	4,645	-	4,864	-
Unrealized foreign exchange gain	(80)	(1)	(181)	(9)
Other expense	80	575	258	934
	123,150	73,285	198,634	133,000
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(13,074)	3,312	(23,970)	(12,256)
Inventories	2,111	(432)	(31,926)	(15,672)
Prepayments	1,541	2,365	(2,784)	(419)
Trade accounts payable and provisions	21,152	27,415	13,608	6,265
Income taxes paid	(1,151)	(129)	(1,322)	(420)
	133,729	105,816	152,240	110,498
Investing activities:				
Additions to property, plant and equipment	(15,126)	(10,409)	(27,165)	(23,152)
Additions to logging roads and bridges	(8,086)	(9,429)	(14,168)	(16,531)
Additions to timber licences and other intangible assets	(63)	(531)	(50)	(1,365)
Proceeds on disposal of property, plant and equipment	76	423	185	398
Investments and other assets	(13,079)	(35)	(13,565)	(152)
	(36,278)	(19,981)	(54,763)	(40,802)
Financing activities:				
Issuance of share capital, net of expenses	-	-	143	-
Interest payments	(2,438)	(3,211)	(5,114)	(6,753)
Debt refinancing costs	(2)	(42)	(3)	(170)
Change in operating line components of long term debt (note 6)	-	(40,918)	(1)	(65)
Additions to long term debt (note 6)	-	-	-	76,107
Repayments of long term debt (note 6)	-	(18,550)	-	(116,260)
	(2,440)	(62,721)	(4,975)	(47,141)
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	3,118	(517)	4,843	(537)
Increase in cash	98,129	22,597	97,345	22,018
Cash and cash equivalents, beginning of period	130,816	18,691	131,600	19,270
Cash and cash equivalents, end of period	$ 228,945	$ 41,288	$ 228,945	$ 41,288

See accompanying notes to consolidated financial statements

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2018 and December 31, 2017 (unaudited)

(thousands of Canadian Dollars)	Jun. 30, 2018	Dec. 31, 2017
Assets		
Current assets:		
Cash and cash equivalents	$ 228,945	$ 131,600
Trade accounts receivable and other	138,804	112,470
Income taxes receivable	511	1,289
Inventories (note 5)	200,509	165,156
Prepayments	15,848	12,562
Investments and other assets	13,168	-
	597,785	423,077
Employee future benefits	2,662	502
Investments and other assets	7,053	6,404
Property, plant and equipment	672,692	670,830
Roads and bridges	25,275	24,092
Timber licences	65,402	66,589
Other intangible assets	10,677	14,170
Goodwill	153,736	147,081
Deferred income taxes	713	251
	$ 1,535,995	$ 1,352,996
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	$ 167,625	$ 152,854
Reforestation liability	12,718	12,873
Income taxes payable	332	224
	180,675	165,951
Reforestation liability	29,259	27,535
Long term debt (notes 6 and 13)	263,360	250,900
Employee future benefits	8,116	8,249
Provisions and other liabilities	26,595	26,976
Deferred income taxes	50,696	19,197
Equity:		
Share capital (note 7)	555,602	555,388
Contributed surplus	8,857	8,582
Translation reserve	64,697	40,720
Retained earnings	348,138	249,498
	977,294	854,188
	$ 1,535,995	$ 1,352,996

Contingencies (note 14); Subsequent event (note 6(b))

See accompanying notes to consolidated financial statements

Approved on behalf of the Board:

"*L. Sauder*"
Director

"*Thomas V. Milroy*"
Director

INTERFOR

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 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:	-	-	-	-	96,751	96,751
Other comprehensive earnings:						
Foreign currency translation differences for foreign operations, net of tax	-	-	23,977	-	-	23,977
Defined benefit plan actuarial gain, net of tax	-	-	-	-	1,889	1,889
Contributions:						
Stock options	-	346	-	-	-	346
Share issuance, net of share issue expenses	214	(71)	-	-	-	143
Balance at June 30, 2018	$ 555,602	$ 8,857	$ 64,697	$ -	$ 348,138	$ 977,294
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 13)	-	-	-	(11)	-	(11)
Contributions:						
Stock options	-	261	-	-	-	261
Balance at June 30, 2017	$ 555,388	$ 8,260	$ 55,012	$ -	$ 197,476	$ 816,136

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, 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 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, 2017. These financial statements were approved by Interfor's Board of Directors on August 2, 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 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, 2017 annual consolidated financial statements, which are available on www.sedar.com.

(a) Change in accounting policy:

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 June 30, 2018, and have not been applied in preparing these financial statements. Of these pronouncements, IFRS 16, *Leases*, is considered to be the most significant to Interfor.

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 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.

5. Inventories:

	June 30, 2018	Dec. 31, 2017
Lumber	$ 110,412	$ 82,850
Logs	72,792	67,815
Other	17,305	14,491
	$ 200,509	$ 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 June 30, 2018 was $7,072,000 (December 31, 2017 - $9,292,000).

6. Borrowings:

June 30, 2018	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	$ 65,000	$ 200,000	$ 263,360	$ 65,840	$ 594,200
Maximum borrowing available	65,000	200,000	263,360	65,840	594,200
Drawings	-	-	263,360	-	263,360
Outstanding letters of credit included in line utilization	13,899	-	-	3,239	17,138
Unused portion of line	$ 51,101	$ 200,000	$ -	$ 62,601	$ 313,702

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	
June 30, 2019	$ -
June 30, 2020	-
June 30, 2021	43,893
June 30, 2022	43,893
June 30, 2023	43,894
Thereafter	131,680
	$ 263,360

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

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Drawings at opening	$ 257,880	$ 325,367	$ 250,900	$ 308,821
Operating line net drawings	-	(40,918)	(1)	(65)
Additions to long term debt	-	-	-	76,107
Repayments of long term debt	-	(18,550)	-	(116,260)
Effects of changes in foreign exchange rates	5,480	(6,359)	12,461	(9,063)
Drawings at June 30	$ 263,360	$ 259,540	$ 263,360	$ 259,540

(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].

[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. Borrowings (continued):

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

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 September 15, 2021.

As at June 30, 2018, including outstanding letters of credit, the Lines were drawn by $13,815,000 (December 31, 2017 - $12,333,000) and US$64,000 (December 31, 2017 - US$145,000) revalued at the quarter-end exchange rate to $84,000 (December 31, 2017 - $182,000) for total borrowings of $13,899,000 (December 31, 2017 - $12,515,000).

As at June 30, 2018, $251,101,000 of the Lines were unused (December 31, 2017 - $252,485,000). U.S. Dollar drawings under the Lines are designated as a hedge against the Company's investment in its U.S. operations, with foreign exchange gains and losses recognized in Foreign currency translation difference in Other comprehensive income. The Company had no unrealized foreign exchange gains or losses in the first six months, 2018 (first six months, 2017 - $128,000 gain) or in the second quarter, 2018 (Quarter 2, 2017 - $241,000 loss).

(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, 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 $263,360,000 (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 $12,460,000 in the first six months, 2018 (first six months, 2017 - $9,000,000 gain) and $5,480,000 in the second quarter, 2018 (Quarter 2, 2017 - $6,900,000 gain) arising on their revaluation were recognized in Foreign currency translation differences in Other comprehensive income.

The Company has entered into an agreement to repay US$45,550,000 and US$38,200,000 of its Series A and Series B Senior Secured Notes, respectively, and issue Series D and Series E Senior Secured Notes in the amounts of US$45,550,000 and US$38,200,000, respectively. The Series D and Series E Senior Secured Notes will bear interest at 4.95% and 4.82%, respectively, with payments of US$27,917,000 required in each of August, 2027 and 2028, and the balance in August, 2029. The repayment of Series A and Series B Senior Secured Notes will reduce the payments required on each of June 26, 2021, 2022 and 2023 to US$5,417,000 from US$33,333,000. Interfor's weighted average interest rate on its Senior Secured Notes will be 4.47%. This agreement is expected to close by August 14, 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. On June 15, 2018 the Company extended the maturity of its U.S. Operating line from May 1, 2019 to June 15, 2021, with no other significant changes.

As at June 30, 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 $3,239,000 (December 31, 2017 - US$2,100,000 revalued at the quarter-end exchange rate to $2,634,000).

As at June 30, 2018, $62,601,000 (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	$ 553,388
Exercise of stock options in first quarter, 2018	7,707	214
Balance, June 30, 2018	70,038,162	$ 555,602

On March 1, 2018, the Company renewed a 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 six months of 2018, Interfor did not purchase any of its common shares.

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

8. Depreciation, depletion and amortization:

Depreciation, depletion and amortization by function are as follows:

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Production	$ 27,321	$ 28,053	$ 54,949	$ 51,978
Selling and administration	1,880	1,938	3,737	3,913
	$ 29,201	$ 29,991	$ 58,686	$ 55,891

9. Restructuring costs:

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Write-down of plant, equipment and intangibles	$ 4,645	$ -	$ 4,864	$ -
Severance and legal	24	1,449	41	1,785
Site closure costs	-	8	-	17
	$ 4,669	$ 1,457	$ 4,905	$ 1,802

10. Finance costs:

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Interest on borrowings	$ 3,046	$ 3,145	$ 5,984	$ 6,814
Interest revenue	(732)	(42)	(1,192)	(66)
Interest on defined benefit obligations	588	582	1,151	1,160
Interest revenue on defined benefit assets	(452)	(488)	(906)	(976)
Unwind of discount on provisions	181	134	344	266
Amortization of deferred finance costs	155	204	310	399
	$ 2,786	$ 3,535	$ 5,691	$ 7,597

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, 2018			3 Months June 30, 2017		
	Net earnings	Weighted Average Number of Shares	Per share	Net Earnings	Weighted Average Number of Shares	Per share
Issued shares at March 31		70,038,162			70,030,455	
Effect of shares issued in quarter		-			-	
Basic earnings per share	$ 63,775	70,038,162	$ 0.91	$ 24,512	70,030,455	$ 0.35
Effect of dilutive securities:						
Stock options	-	103,735		-	39,478	
Diluted earnings per share	$ 63,775	70,141,897	$ 0.91	$ 24,512	70,069,933	$ 0.35

	6 Months June 30, 2018			6 Months June 30, 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 six months		5,202			-	
Basic earnings per share	$ 96,751	70,035,657	$ 1.38	$ 44,179	70,030,455	$ 0.63
Effect of dilutive securities:						
Stock options	-	98,234		-	33,829	
Diluted earnings per share	$ 96,751	70,133,891	$ 1.38	$ 44,179	70,064,284	$ 0.63

(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, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
United States	$ 454,578	$ 361,635	$ 832,397	$ 681,869
Canada	78,201	59,709	149,347	109,776
Japan	31,972	36,725	61,931	69,068
China/Taiwan	29,779	31,095	53,871	60,922
Other export	25,363	22,212	49,991	46,521
	$ 619,893	$ 511,376	$ 1,147,537	$ 968,156

Sales by product line are as follows:

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Lumber	$ 527,012	$ 433,676	$ 972,903	$ 823,300
Logs	48,689	38,425	88,488	67,701
Wood chips and other by-products	42,950	37,362	83,126	73,567
Freight and other	1,242	1,913	3,020	3,588
	$ 619,893	$ 511,376	$ 1,147,537	$ 968,156

13. 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, 2018, the fair value of the Company's long term debt is below its carrying value by $2,108,000 (December 31, 2017 – exceeded carrying value by $6,937,000) 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.

The Company had no outstanding obligations under derivative financial instruments as at June 30, 2018.

The following table summarizes the gain (loss) on derivative financial instruments for the three and six months ended June 30, 2018 and 2017:

	3 Months June 30, 2018	3 Months June 30, 2017	6 Months June 30, 2018	6 Months June 30, 2017
Interest rate swaps[1]	-	-	-	(11)
Lumber futures[2]	(5)	621	(26)	621
Total gain (loss), net	$ (5)	$ 621	$ (26)	$ 610

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

14. 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 at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, and subsequently 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.

14. Contingencies:

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

The long term U.S. duty deposit receivable was revalued at the quarter-end exchange rate to $3,956,000 (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 June 30, 2018.

INTERFOR

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