



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces First Quarter 2017 Results

May 15, 2017, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the first quarter ended March 31, 2017. Adjusted EBITDA* in the first quarter of 2017 was \$6.1 million, compared to \$9.3 million in the fourth quarter of 2016 and \$6.8 million in the first quarter of 2016. Compared to the previous quarter, lumber segment adjusted EBITDA declined by \$1.0 million and bioenergy segment adjusted EBITDA by \$1.6 million. Compared to the first quarter of 2016, lumber segment adjusted EBITDA improved by \$0.6 million and bioenergy segment adjusted EBITDA declined by \$1.4 million.

Selected financial and operating highlights for each of the comparison periods are provided below.

	<u>Q1</u> <u>2017</u>	<u>Q4</u> <u>2016</u>	<u>Q1</u> <u>2016</u>
	(millions of dollars except share and per share amounts and as otherwise noted)		
Financial Highlights			
Sales – lumber segment	\$ 93.5	\$ 94.4	\$ 91.8
Sales – bioenergy segment.....	<u>6.8</u>	<u>7.6</u>	<u>7.7</u>
	<u>\$ 100.3</u>	<u>\$ 102.0</u>	<u>\$ 99.5</u>
Adjusted EBITDA	\$ 6.1	\$ 9.3	\$ 6.8
Operating income.....	\$ 1.5	\$ 6.7	\$ 3.0
Net income (loss)	\$ (1.4)	\$ 5.1	\$ 28.5
Net income (loss) per share – basic.....	\$ (0.06)	\$ 0.24	\$ 1.35
Net income (loss) per share – basic and diluted ⁽¹⁾	\$ (0.06)	\$ 0.24	\$ 1.24
Shares outstanding – weighted average (millions).....	22.5	21.2	21.1
Operating Highlights			
Lumber production (MMfbm)	123.7	118.7	135.8
Lumber shipments – Conifex produced (MMfbm)	110.7	124.4	127.0
Lumber shipments – wholesale (MMfbm)	41.0	40.5	40.7
Electricity production (GWh)	46.3	53.0	54.9
Average exchange rate – US\$/Cdn\$ ⁽²⁾	0.756	0.750	0.727
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 345	\$ 316	\$ 272
Reconciliation of adjusted EBITDA to Net Income (Loss)			
Net income (loss)	\$ (1.4)	\$ 5.1	\$ 28.5
Add: Finance costs.....	\$ 2.6	\$ 2.1	\$ 2.5
Amortization	<u>\$ 4.9</u>	<u>\$ 4.6</u>	<u>\$ 4.8</u>
EBITDA ⁽⁴⁾	\$ 6.1	\$ 11.8	\$ 35.8
Less: Gain on sale of asset.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (29.0)</u>
Less: Net proceeds from insurance settlement	<u>\$ -</u>	<u>\$ (2.5)</u>	<u>\$ -</u>
Adjusted EBITDA*	<u>\$ 6.1</u>	<u>\$ 9.3</u>	<u>\$ 6.8</u>

Notes:

- (1) Diluted net income per share excludes the assumed conversion of convertible notes and/or the exercise of warrants if the effect on net income per share is anti-dilutive.
- (2) Source: Bank of Canada, www.bankofcanada.ca.
- (3) Source: Random Lengths Publications Inc.
- (4) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

*Adjusted EBITDA is calculated to exclude unusual items or items that are not ongoing and do not reflect ongoing operations of the Company. The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and gains or losses from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance claim settlement. The Company discloses EBITDA, adjusted EBITDA and adjusted EBITDA margin as they are measures used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA, adjusted EBITDA and adjusted EBITDA margin are non-GAAP measures, it may not be comparable to EBITDA, adjusted EBITDA and adjusted EBITDA margin calculated by others and is not a substitute for net earnings.

Overview

Revenues of \$100.3 million in the first quarter of 2017 were generally consistent with the comparative quarters.

First quarter lumber segment operating income of \$1.8 million represented a decline of \$1.1 million from the prior quarter and an improvement of \$0.6 million over the first quarter of 2016. The bioenergy segment contributed operating earnings of \$1.3 million in the current quarter compared to \$5.2 million in the previous quarter and \$2.6 million in the same quarter last year. Bioenergy segment operating income for the previous quarter included net proceeds of \$2.5 million from the settlement of a business interruption insurance claim. Corporate costs of \$1.6 million were similar to the prior quarter and increased by \$0.8 million over the first quarter of 2016, during which we recorded a positive adjustment related to compensation related provisions. Excluding the gain from the net proceeds of the insurance settlement in 2016, operating earnings were \$1.5 million for the current quarter compared to \$4.2 million in the previous quarter and \$3.0 million in the first quarter of 2016.

Net loss for the first quarter of 2017 was \$1.4 million, or \$0.06 per basic share, compared to net income of \$5.1 million or \$0.24 per basic and diluted share in the previous quarter and net income of \$28.5 million or \$1.35 per basic and \$1.24 diluted share in the first quarter of 2016. Net income for the first quarter of 2016 included a net gain on the sale of assets of \$29.0 million resulting from the redemption of our outstanding payment-in-kind note. Excluding this unusual item and the aforementioned gain on settlement of the insurance claim, normalized net income was \$2.6 million in the previous quarter and net loss was \$0.5 million in the first quarter of 2016.

Lumber Segment

Lumber segment adjusted EBITDA was \$5.1 million in the first quarter of 2017 compared to \$6.1 million in the previous quarter and \$4.5 million in the first quarter of 2016.

Prices for the bell-weather WSPF #2 & Btr product averaged US\$345 during the first quarter of 2017, an improvement of 9% over the previous quarter and 27% over the first quarter of 2016.¹ The Canadian dollar strengthened against the U.S. dollar during the first quarter of 2017 and averaged US\$0.756, an appreciation of 1% over the previous quarter and 4% over the same quarter last year.²

Revenue from Conifex produced lumber was \$56.7 million in the first quarter of 2017. The decline of 8% from the previous quarter was mostly attributable to 11% lower shipment volumes which were somewhat offset by an improvement in sales realizations. Lumber shipments were hampered by lower production volumes and challenging weather conditions which constrained availability of railcars and trucks in Western Canada. The gain in sales realizations generally reflected stronger benchmark lumber prices. Lumber revenues were relatively flat compared to the same quarter last year as an improvement in sales realizations of 14% was largely offset by lower shipment volumes. The higher sales realizations in the most recent quarter were due primarily to stronger benchmark prices which were somewhat offset by a stronger Canadian currency.

The increase in wholesale lumber revenues of approximately 14% over the comparative quarters was largely attributable to gains in sales realizations as shipment volumes were similar in each quarter. The

¹ As quoted in Random Lengths Publications Inc.

² Source: Bank of Canada, www.bankofcanada.ca

improvement in sales realization is attributable to higher lumber prices and favorable variation in product mix.

Lumber production totalled 124 million board feet during the first quarter of 2017 and represented an annualized operating rate of 94% compared to 90% in the previous quarter and 103% in the same quarter last year. Production in the first quarter of 2017 and the previous quarter was reduced by planned downtime taken in late December at the Mackenzie sawmill for an upgrade of the log line, and the completion and ramp up of the new log line in the current quarter and to a lesser extent, was hampered by inclement weather conditions.

Unit log costs increased by 4% over the previous quarter and 15% over the same quarter last year. The higher log costs were mainly attributable to higher market based stumpage and purchased log costs.

Unit cash conversion costs increased by 6% from the previous quarter as the benefits of an improved operating rate were more than offset by higher energy, labour and weather related maintenance costs. An increase in unit cash conversion costs of 17% over the first quarter of 2016 was due primarily to lower operating rates and higher energy costs.

The lumber segment recorded operating income of \$1.8 million in the first quarter of 2017 compared to \$2.9 million in the previous quarter and \$1.2 million in the first quarter of 2016.

Compared to the previous quarter, lumber segment operating results were impeded by lower shipment volumes and higher unit manufacturing costs which outweighed the benefit of improved sales realizations from higher benchmark lumber prices. Compared to the first quarter of 2016, current quarter operating results were adversely impacted by higher unit manufacturing costs and lower revenues from residual sales. The impact of revenues from Conifex produced lumber were neutral as improved sales realizations largely offset the impact of lower shipment volumes.

Bioenergy Segment

Our power generation plant (the "Mackenzie Plant") sold 46.3 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro ("EPA") and operated at approximately 85% of targeted operating rates in the first quarter of 2017, compared to 97% in the previous quarter and 100% in the first quarter of 2016. Electricity sales and plant operating costs in the first quarter of 2017 were adversely impacted by several unplanned outages and challenging weather conditions earlier in the quarter, which impacted feedstock quality and deliverability. The unplanned outages contributed to increased maintenance related expenses, including the use of outside service contractors.

Electricity revenues were lower by \$0.8 million compared to the previous quarter and \$0.9 million compared to the first quarter of 2016, and cash operating costs were higher by \$0.8 million and \$0.5 million, respectively. Bioenergy segment adjusted EBITDA was lower by \$1.6 million compared to the previous quarter and \$1.4 million compared to the same quarter last year and reflected adjusted EBITDA margin of 41% compared to approximately 56% in the comparative quarters. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of sales.

Dispatch Notice

The EPA, similar to other electricity purchase agreements, provides BC Hydro with the option to "turn down" electricity purchased from independent power producers during periods of low demand by issuing a "dispatch order" outlining the requested dispatch period. In April 2017, BC Hydro issued a dispatch order with respect to, among others, the Plant advising of a dispatch period of 122 days, encompassing the months of April, June, July and August. Last year, the Mackenzie Plant, among others, was dispatched for 61 days in the second quarter. During the dispatch period, we will only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We will continue to be paid revenues based upon a reduced rate and on volumes that are generally reflective of contracted amounts. Although the dispatch period is similar to the dispatch period in the same quarter of 2016, we expect year-over-year operating results to be somewhat lower in the second quarter of 2017 due to planned maintenance days. We expect an improvement in year-over-year operating results in the third quarter of 2017, as operating results in the third quarter of last year were hampered by maintenance downtime.

The Mackenzie Plant achieved average hourly production of 105% of our operating target over the first twelve months of commercial operations. We expect the improvements to be made during the planned maintenance days in June 2017 will result in operating rates approaching historic levels.

Commenting on our first quarter results, Conifex's President and Chief Executive Officer, Ken Shields, said, "Our first quarter of 2017 results do not reflect normal ongoing operations. Our results were held back by a major capital project installation and ramp up which reduced lumber production and shipments, and reduced the availability of quality feedstock for our power generation business. Power generation and lumber production targets are being achieved in the second quarter."

Liquidity and Capital Resources

Our net debt to capitalization ratio was 41% at March 31, 2017 compared to 38% at December 31, 2016. Net debt at March 31, 2017 was \$131.6 million, an increase of \$22.8 million from December 31, 2016. The quarter over quarter increase was due primarily to a seasonal increase in non-cash working capital of \$14.4 million and capital expenditures related to the El Dorado Mill, partially offset by net proceeds from our early financings completed in the quarter.

Excluding the effects of borrowings by our subsidiary, Conifex Power Limited Partnership, which are non-recourse to our other operations, the net debt to capitalization ratio was 24% compared to 16% at December 31, 2016.

In January, 2017, we completed the \$130 million secured revolving credit facility (the "Credit Facility") with a syndicate of institutional lenders. The Credit Facility is available for a term of 5 years and is secured by substantially all of our assets, other than our bioenergy segment assets. The Credit Facility bears interest at CDOR or LIBOR plus a margin of between 2.5% and 3.0%, depending upon our leverage ratio.

The Credit Facility provides for calculation of availability on an expanded borrowing base, relative to our previous lumber segment revolving credit facilities, which enhances liquidity. Total liquidity was \$61.6 million at March 31, 2017 compared to \$22.2 million at December 31, 2016.

Market Outlook

Through the remainder of 2017, we expect benchmark lumber prices for Western SPF to average approximately 10% higher than the levels achieved in the first quarter of 2017. We expect the imposition of duties on U.S. lumber shipments will lead to greater volatility in pricing and erode a portion of the increase in mill nets resulting from higher prices. We expect prices on the premium grade and lower grade products shipped to Japan and China, respectively, will be primarily determined by traditional supply and demand factors and will not be materially impacted by duties imposed by the U.S. We expect demand and pricing to continue to remain solid in the Japanese and Chinese markets through the balance of the year. We expect our mill net price realizations from the sale of construction grade lumber to the Canadian and other non-U.S. markets will be somewhat discounted as a result of the duty impositions on U.S. exports.

In the lumber segment, we expect a sequential improvement in lumber shipments as weather related transportation delays are largely alleviated and lumber inventories return to normalized levels. We expect higher operating rates for the balance of the year due to the completion in the current quarter of the ramp up phase of the new log line at Mackenzie and improved weather conditions. We expect productivity gains to result in lower quarter-over-quarter unit conversion costs. Overall in 2017, we expect higher log costs and modest improvements in unit cash conversion costs and grade outturns.

El Dorado Mill Capital Project

Upon completion of the Credit Facility in January 2017, we commenced the construction phase of our capital project to modernize and re-start our El Dorado Mill (the "Project"). Upon completion, the Project is planned to incorporate significant capital upgrades to the log processing yard and sawmill and planer and add two continuous dry kilns. The Project has been designed to maximize both log recovery and lumber grade yield and quality. Upon completion, the El Dorado Mill is expected to have approximately

180 million board feet of annual lumber capacity on a two-shift basis. We expect to complete the Project by or about the end of the third quarter or early in the fourth quarter of this year.

We currently estimate that the Project will require capital expenditures of approximately US\$50 million, consisting of approximately US\$27 million for equipment and materials, US\$16 million in subcontract costs and US\$7 million for indirect costs, including engineering, construction management, freight and project contingency. At March 31, 2017, approximately 57% of budgeted expenditures had been committed. The Project is currently within management's budgeted amounts and progressing as scheduled.

Conference Call

We will hold a conference call on Monday, May 15, 2016 at 8:00 AM Pacific time/ 11:00 AM Eastern time to discuss the first quarter financial and operating results. To participate in the call, please dial 416-340-8527 or toll free 800-396-7098. The call will also be available on instant replay access until May 28, 2017 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 9013291#.

The Company's management's discussion and analysis and financial statements for the quarter ended March 31, 2017 will be available under the Company's profile on SEDAR at www.sedar.com.

For further information, please contact:

Yuri Lewis
Chief Financial Officer
(778) 331-8687

About Conifex Timber Inc.

Conifex and its subsidiaries' primary business currently includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing and distribution. Conifex's lumber products are sold in the United States, Chinese, Canadian and Japanese markets. Conifex has expanded its operations to include bioenergy production following the commencement of commercial operations of its power generation facility at Mackenzie, British Columbia.

Forward-Looking Statements

Certain statements in this news release may constitute "forward-looking statements". Forward-looking statements are statements that address or discuss activities, events or developments that the Company expects or anticipates may occur in the future. When used in this news release, words such as "estimates", "expects", "plans", "anticipates", "projects", "will", "believes", "intends" "should", "could", "may" and other similar terminology are intended to identify such forward-looking statements. Forward-looking statements reflect the current expectations and beliefs of the Company's management. Because forward-looking statements involve known and unknown risks, uncertainties and other factors, actual results, performance or achievements of the Company or industry may be materially different from those implied by such forward-looking statements. Examples of such forward-looking information that may be contained in this news release include statements regarding: growth and future prospects of our business; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; planned capital expenditures and benefits that may accrue to the Company as a result of capital expenditure programs; U.S. benchmark lumber prices; our expectation for market volatility and the impact of duties associated with the softwood lumber dispute with the U.S.; unit cash conversion costs; the Company's net debt to capitalization ratio; the Company's expectations regarding the operation of the Mackenzie Plant; the Company's expectations regarding improvements in bioenergy segment revenues; and the anticipated benefits, cost, timing and completion dates for projects, including the Project and the recording of any revenues therefrom. Assumptions underlying the Company's expectations regarding forward-looking information contained in this news release include, among others: that the Company will be able to effectively market its products; that the U.S. housing market will continue to improve; that there will be no disruptions affecting the operations of the power generation project at the Company's Mackenzie facility and that the Company will be able to achieve timely delivery of power therefrom; that softwood lumber will experience sustained demand in the marketplace; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; the ability of the Company to obtain financing (if necessary) on acceptable terms or at all, including with respect to the El Dorado sawmill complex; that interest and foreign exchange rates will not vary materially from current levels; that the equipment at our mills and power generation facility will operate at expected levels; the El Dorado sawmill complex can be completed on our planned budget and time; and that management will effectively execute the Company's strategy to grow and add value to its business. Forward-looking statements involve significant uncertainties, should not be read as a guarantee of future performance or results, and will not necessarily be an accurate indication of whether or not such results will be achieved. A number of factors could cause actual results to differ materially from the results discussed in the forward-looking statements, including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price

and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); shipping or logging disruptions; and other risk factors described in the Company's 2015 annual information form, available on SEDAR at www.sedar.com. These risks, as well as others, could cause actual results and events to vary significantly. Accordingly, readers should exercise caution in relying upon forward-looking statements and the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law