



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces 2016 Fourth Quarter and Annual Results

Reports Record Adjusted EBITDA and Net Income

February 15, 2017, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported that adjusted EBITDA* in the fourth quarter of 2016 increased to a record \$9.3 million from \$8.5 million in the previous quarter and \$7.3 million in the same quarter of 2015. In 2016, adjusted EBITDA was a record \$33.6 million, compared to \$7.7 million in 2015. In the fourth quarter of 2016, we had net income of \$5.1 million, or \$0.24 per diluted share, compared to net income of \$1.4 million or \$0.07 per diluted share in the previous quarter, and a net loss of \$0.3 million or \$0.01 per share in the fourth quarter of 2015. Current quarter operating and net income included proceeds from the settlement of our business interruption insurance claim of \$2.5 million. In 2016, our net income was a record \$70.2 million, or \$3.32 per diluted share, compared to a net loss of \$17.3 million, or \$0.82 per share, in 2015. Net income in 2016 included unusual or non-recurring items totaling \$63.8 million.

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

	<u>Q4</u> <u>2016</u>	<u>Q3</u> <u>2016</u>	<u>Q4</u> <u>2015</u>	<u>YTD</u> <u>2016</u>	<u>YTD</u> <u>2015</u>
	(millions of dollars except share and per share amounts and as otherwise noted)				
Financial Highlights					
Sales – lumber segment	\$ 94.4	\$ 99.2	\$ 92.7	\$ 384.1	\$ 337.2
Sales – bioenergy segment	<u>7.6</u>	<u>4.9</u>	<u>7.8</u>	<u>25.2</u>	<u>16.3</u>
	<u>\$ 102.0</u>	<u>\$ 104.1</u>	<u>\$ 100.5</u>	<u>\$ 409.3</u>	<u>\$ 353.5</u>
Adjusted EBITDA*	\$ 9.3	\$ 8.5	\$ 7.3	\$ 33.6	\$ 7.7
Operating income (loss).....	\$ 6.7	\$ 3.3	\$ 1.6	\$ 18.2	\$ (11.6)
Net income (loss).....	\$ 5.1	\$ 1.4	\$ (0.3)	\$ 70.2	\$ (17.3)
Net income (loss) per share – basic and diluted ⁽¹⁾	\$ 0.24	\$ 0.07	\$ (0.01)	\$ 3.32	\$ (0.82)
Shares outstanding – weighted average (millions)	21.2	21.2	21.1	21.2	21.0
Operating Highlights					
Lumber production (MMfbm).....	118.7	136.2	131.1	525.3	481.0
Lumber shipments – Conifex produced (MMfbm).....	124.4	132.3	139.4	522.1	475.8
Lumber shipments – wholesale (MMfbm).....	40.5	39.6	38.6	161.8	155.6
Electricity production (GWh)	53.0	37.6	54.5	200.6	125.0
Average exchange rate – US\$/Cdn\$ ⁽²⁾	0.750	0.766	0.749	0.755	0.783
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 316	\$ 321	\$ 264	\$ 304	\$ 277
Reconciliation of adjusted EBITDA to Net Income (Loss)					
Net income (loss).....	\$ 5.1	\$ 1.4	\$ (0.3)	\$ 70.2	\$ (17.3)
Add: Finance costs	\$ 2.1	\$ 2.3	\$ 2.6	\$ 9.1	\$ 8.6
Amortization	<u>\$ 4.6</u>	<u>\$ 4.8</u>	<u>\$ 5.0</u>	<u>\$ 18.1</u>	<u>\$ 16.5</u>
EBITDA ⁽⁴⁾	\$ 11.8	\$ 8.5	\$ 7.3	\$ 97.4	\$ 7.7
Less: Gain on sale of asset.....	\$ -	\$ -	\$ -	\$ (48.0)	\$ -
Less: Gain on revaluation	\$ -	\$ -	\$ -	\$ (19.2)	\$ -
Less: Proceeds from business interruption insurance claim	\$ (2.5)	\$ -	\$ -	\$ (2.5)	\$ -
Add: Impairment of property, plant and equipment.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.8</u>	<u>\$ -</u>
Adjusted EBITDA*	<u>\$ 9.3</u>	<u>\$ 8.5</u>	<u>\$ 7.3</u>	<u>\$ 33.6</u>	<u>\$ 7.7</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, gains or losses from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance settlement. The Company discloses EBITDA and adjusted EBITDA as they are measures used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, it may not be comparable to EBITDA and adjusted EBITDA calculated by others and is not a substitute for net earnings.

Fourth Quarter 2016

Overview

Revenues were \$102.0 million in the fourth quarter of 2016, \$104.1 million in the previous quarter and \$100.5 million in the fourth quarter of 2015. Compared to the previous quarter, a decline in lumber segment revenues of 5% was partially offset by increased revenues from electricity sales, which accounted for 7% of total revenues for the quarter.

We recorded operating earnings of \$6.7 million in the fourth quarter of 2016 compared to \$3.3 million in the previous quarter and \$1.6 million in the same quarter last year. Compared to the previous quarter, lumber segment operating results were adversely impacted by lower shipment and production volumes and higher unit log costs and cash conversion costs. Bioenergy segment operating earnings increased by \$5.7 million and included income from the settlement of our business interruption insurance claim of \$2.5 million.

Net income for the current quarter was \$5.1 million or \$0.24 per diluted share. We recorded net income of \$1.4 million or \$0.07 per diluted share in the previous quarter and a net loss of \$0.3 million or \$0.01 per share in the fourth quarter of 2015.

Adjusted EBITDA was \$9.3 million for the fourth quarter of 2016, \$8.5 million in the previous quarter and \$7.3 million for the fourth quarter of 2015.

Lumber Segment

Compared to the previous quarter, a modest decline in U.S. dollar-denominated WSPF #2 and Btr prices was more than offset by a weaker Canadian currency and resulted in a 1% or \$3 per thousand board feet increase in average Canadian dollar-denominated benchmark lumber prices.

Quarter-over-quarter revenues from Conifex produced lumber were 3% lower and largely reflected a reduction in shipment volumes of 6% offset by a 3% increase in unit sales realizations. Although wholesale lumber shipments increased by 4%, wholesale lumber revenues declined by 6% due to shipments of a lower value product mix.

Production volumes of approximately 119 million board feet during the fourth quarter of 2016 were 13% lower than the previous quarter. The lower operating rates were mainly attributable to a reduction in operating hours during the holiday season and additional planned downtime taken at the Mackenzie sawmill for capital upgrades.

An increase in unit log costs of 7% during the current quarter was primarily attributable to higher market based stumpage and purchased log costs.

An increase in unit cash conversion costs of 12% in the current quarter largely reflected lower operating rates.

Compared to the fourth quarter of 2015, U.S. dollar-denominated WSPF #2 and Btr prices increased by 20%, while the Canadian currency was relatively flat. Average Canadian dollar-denominated benchmark lumber prices increased by 19%, or \$68 per thousand board feet.

Quarter-over-quarter revenues from Conifex produced lumber were 5% higher, and mostly reflected a 17% increase in unit sales realizations, partially offset by an 11% reduction in shipment volumes. An increase in wholesale lumber revenues of 3% was generally attributable to higher shipment volumes.

Due to our fiscal accounting periods, there were five less operating days in the fourth quarter of 2016 than in the fourth quarter of 2015. Operating rates in the current quarter were lower by 9% as production was further hampered by downtime taken at the Mackenzie sawmill for capital upgrades and, to a lesser extent, weather related production inefficiencies.

Unit log costs increased by 11% and cash conversion costs increased by 9% quarter over quarter.

Lumber segment operating income was \$2.9 million in the fourth quarter of 2016 compared to \$5.6 million in the previous quarter and \$0.5 million in the same quarter last year.

Bioenergy Segment

Our power generation plant at Mackenzie, B.C. (the "Mackenzie Plant") commenced commercial operations in May 2015 and its results are reported in our bioenergy segment.

The Mackenzie Plant sold 53.0 GWh of electricity under the EPA in the fourth quarter of 2016, which represented an increase of 41% over the previous quarter and a modest decline from the fourth quarter of 2015. The plant achieved 97% of targeted operating rates in the current quarter compared to 70% and 98%, respectively, in the previous quarter and the fourth quarter of 2015. Production in the third quarter of 2016 was hampered by maintenance downtime taken to effect certain operating improvements. The fourth quarter of 2016 had five fewer operating days than the same quarter last year.

The effective power rate is the highest during the first and fourth quarters of each year. Revenues from electricity sales were \$7.6 million in the fourth quarter of 2016, \$4.9 million in the previous quarter and \$7.8 million in the fourth quarter of 2015. Operating costs in the fourth quarter of 2016 were \$4.9 million, including depreciation expense of \$1.6 million. Unit cash operating costs improved by approximately 8% compared to the same quarter last year.

Normalized bioenergy segment operating income was \$2.7 million in the fourth quarter of 2016 and \$2.4 million in the fourth quarter of 2015. Interest on the power project term loan was \$1.2 million. Adjusted EBITDA was \$4.4 million and the adjusted EBITDA margin was 57%, compared to \$4.1 million and 52%, respectively, in the fourth quarter of 2015.

Year Ended December 31, 2016

Revenues were \$409.3 million in 2016 compared to \$353.5 million in 2015. The 14% growth in lumber segment revenues reflected increased shipment volumes of Conifex produced and wholesale lumber, stronger benchmark lumber prices and a weaker Canadian currency. Bioenergy segment revenues, which commenced in May 2015, increased by 55% and accounted for 6% of our total revenues for the year.

We recorded operating income of \$18.2 million in 2016 compared to an operating loss of \$11.6 million in 2015. An improvement in year-over-year lumber segment operating results of \$23.8 million was primarily due to higher sales realizations, operating rates and shipment volumes, and to a lesser extent, reductions in unit log costs and cash conversion costs. Bioenergy segment operating earnings were \$9.0 million in 2016 and included income from settlement of our business interruption insurance claim of \$2.5 million. The bioenergy segment contributed operating earnings of \$2.1 million last year.

Net income for the year ended December 31, 2016 was a record \$70.2 million or \$3.32 per diluted share compared to a net loss of \$17.3 million or \$0.82 per share for the prior year. Unusual or non-recurring items recorded in the current year totaled \$63.8 million and were comprised of a gain on sale of assets of \$48.0 million, a net gain on revaluation of certain assets of \$13.3 million, and income from settlement of our business interruption insurance claim of \$2.5 million. Net income was adversely impacted by a negative variance in foreign exchange translation loss of \$3.8 million.

There was no income tax expense recorded in 2016 due to the utilization of operating loss carry forwards from prior years.

Adjusted EBITDA, which excludes the unusual or non-recurring items, was \$33.6 million for 2016 and \$7.7 million in 2015.

Liquidity and Capital Resources

In addition to our continued focus on operational improvements and targeted capital expenditures, we completed a number of initiatives in 2016 to strengthen our balance sheet, lower borrowing costs and improve liquidity.

Our net debt to capitalization ratio was 38% at December 31, 2016 compared to 60% at the end of 2015. Net debt at December 31, 2016 was \$49.4 million lower than at December 31, 2015 due primarily to improved cash flow generated from operations and proceeds received from asset disposals and the settlement of our insurance claim.

Our net debt to capitalization ratio, excluding borrowings for our power subsidiary that are non-recourse to our other operations, was 16% at December 31, 2016 compared to 26% at December 31, 2015.

Total liquidity comprised unrestricted cash and available credit under our revolving credit facilities. At December 31, 2016, we had total liquidity of \$22.3 million, compared to \$22.6 million at the end of 2015.

Subsequent to the year end, in January 2017, we completed our previously announced \$130 million secured revolving credit facility (the "Facility") with a syndicate of institutional lenders. The Facility is available for a term of 5 years and is secured by substantially all of Conifex's assets (excluding the bioenergy segment assets). After giving effect to the financing, our total liquidity was approximately \$84.5 million.

Market Outlook

Looking ahead in 2017, we expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We agree with forecasts calling for an approximate 7% increase in North American lumber consumption, and expect benchmark prices to increase to reflect strengthening softwood lumber demand and to somewhat correlate with the imposition of any countervailing and / or anti-dumping duties or other trade sanctions. The extent to which the anticipated increase in U.S. housing demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. The uncertainty related to the timing and magnitude of anticipated trade sanctions may increase market volatility.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets.

In the lumber segment, we continue to remain focused on a number of initiatives to enhance operations and cash flow, including cost management and productivity improvements from affordable, high-return capital projects. We expect operating rates to remain somewhat muted in the first quarter of 2017 due to the expected ramp up period associated with the installation of a significant capital upgrade at Mackenzie in December 2016. Accordingly, we also expect shipment volumes to be somewhat hampered by lower production volumes and potential constraints on the external supply chain. Overall in 2017, we expect higher log costs and modest improvements in unit cash conversion costs and grade outturns.

We will continue to work towards optimizing performance of the Mackenzie Plant and expect improved operating results from higher electricity deliveries and further unit cost reductions.

Strategic Capital Expenditures

We expect modest capital expenditure outlays on maintenance for our two Canadian lumber mills and the Mackenzie Plant in 2017.

Modernization and Re-Start of the El Dorado Mill

We intend to utilize a portion of the Facility to modernize and re-start our currently idled El Dorado Mill (the "Project"). The Project involves significant capital upgrades, and is 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 commence the Project early in the first quarter of 2017 and expect completion 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.

Conference Call

There will be a conference call held by the Company on Wednesday, February 15, 2017 at 8:00 AM Pacific time/ 11:00 AM Eastern time to discuss the fourth 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 February 28, 2017 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 8627905#.

The Company's management's discussion and analysis and financial statements for the year ended December 31, 2016 will be available under the Company's profile on SEDAR at www.sedar.com.

For further information, please contact:

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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; 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.