



CONIFEX TIMBER INC.

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Conifex Announces Record Second Quarter Results

Reports record Adjusted EBITDA and Net Income

August 4, 2016, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the second quarter ended June 30, 2016. Adjusted EBITDA* in the second quarter of 2016 was a record \$9.0 million, compared to \$6.8 million in the first quarter of 2016 and negative \$6.8 million in the second quarter of 2015. Compared to the previous quarter, an improvement in lumber segment adjusted EBITDA of \$4.2 million or 93% was partially offset by seasonally lower bioenergy segment adjusted EBITDA and sequentially higher corporate and other costs. Compared to the second quarter of 2015, lumber segment adjusted EBITDA improved by \$13.7 million and bioenergy adjusted EBITDA by \$1.9 million.

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

	<u>Q2</u> <u>2016</u>	<u>Q1</u> <u>2016</u>	<u>Q2</u> <u>2015</u>	<u>YTD</u> <u>2016</u>	<u>YTD</u> <u>2015</u>
Financial Highlights					
(millions of dollars except share and per share amounts and as otherwise noted)					
Sales – lumber segment	\$ 98.7	\$ 91.8	\$ 79.2	\$ 190.5	\$ 164.5
Sales – bioenergy segment	<u>5.0</u>	<u>7.7</u>	<u>2.6</u>	<u>12.7</u>	<u>2.6</u>
	<u>\$ 103.7</u>	<u>\$ 99.5</u>	<u>\$ 81.8</u>	<u>\$ 203.2</u>	<u>\$ 167.1</u>
Adjusted EBITDA.....	\$ 9.0	\$ 6.8	\$ (6.8)	\$ 15.9	\$ (1.1)
Operating income (loss).....	\$ 5.1	\$ 3.0	\$ (9.8)	\$ 8.1	\$ (8.7)
Net income (loss).....	\$ 35.2	\$ 28.5	\$ (13.0)	\$ 63.7	\$ (11.4)
Net income (loss) per share – basic.....	\$ 1.67	\$ 1.35	\$ (0.62)	\$ 3.01	\$ (0.55)
Net income (loss) per share – diluted ⁽¹⁾	\$ 1.54	\$ 1.24	\$ (0.62)	\$ 2.78	\$ (0.55)
Shares outstanding – weighted average (millions)	21.1	21.1	21.0	21.1	21.0
Operating Highlights					
Lumber production (MMfbm).....	134.7	135.8	118.1	270.5	237.5
Lumber shipments – Conifex produced (MMfbm).....	138.4	127.0	116.0	265.4	228.8
Lumber shipments – wholesale (MMfbm).....	41.0	40.7	39.7	81.7	74.5
Electricity production (GWh).....	55.1	54.9	24.3	110.0	24.3
Average exchange rate – US\$/Cdn\$ ⁽²⁾	0.776	0.727	0.813	0.752	0.810
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 310	\$ 272	\$ 269	\$ 291	\$ 289
Reconciliation of adjusted EBITDA to Net Income (Loss)					
Net income (loss).....	\$ 35.2	\$ 28.5	\$ (13.0)	\$ 63.7	\$ (11.4)
Add: Finance costs	\$ 2.3	\$ 2.5	\$ 2.1	\$ 4.8	\$ 3.4
Amortization	<u>\$ 3.9</u>	<u>\$ 4.8</u>	<u>\$ 4.1</u>	<u>\$ 8.7</u>	<u>\$ 6.9</u>
EBITDA ⁽⁴⁾	\$ 41.4	\$ 35.8	\$ (6.8)	\$ 77.2	\$ (1.1)
Less: Gain on sale of asset.....	\$ (19.0)	\$ (29.0)	\$ -	\$ (48.0)	\$ -
Less: Gain on revaluation	\$ (19.2)	\$ -	\$ -	\$ (19.2)	\$ -
Add: Impairment of property, plant and equipment.....	<u>\$ 5.8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5.8</u>	<u>\$ -</u>
Adjusted EBITDA*	<u>\$ 9.0</u>	<u>\$ 6.8</u>	<u>\$ (6.8)</u>	<u>\$ 15.9</u>	<u>\$ (1.1)</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 revaluations. 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.

Our net income for the second quarter of 2016 was a record \$35.2 million, or \$1.67 per basic and \$1.54 per diluted share, compared to net income of \$28.5 million or \$1.35 per basic share and \$1.24 per diluted share in the previous quarter and net loss of \$13.0 million or \$0.55 per basic and diluted share in the second quarter of 2015. Net gains from non-operational and non-recurring items totaling \$32.4 million and \$29.0 million, respectively, were included in the net income of the second and first quarters of 2016. Excluding these non-operational and non-operating items, we recorded a profit of \$2.8 million or \$0.13 per diluted share in the second quarter of 2016 and a loss of \$0.5 million or \$0.02 per share per basic and diluted share in the first quarter of 2016.

Overview

Revenues totaled \$103.7 million in the second quarter of 2016, an improvement of 4% over the prior quarter and 27% over the same quarter last year. The revenue growth over the previous quarter was attributable to an 8% increase in lumber segment revenues partially offset by seasonally lower revenues from electricity sales. Lumber segment revenues increased by 25% and bioenergy segment revenues increased by 92% over the second quarter of 2015. Electricity sales from the Mackenzie power generation plant commenced in May 2015.

Operating income improved to \$5.1 million compared to \$3.0 million in the previous quarter and an operating loss of \$9.8 million in the same quarter last year. Compared to the prior quarter, an increase in lumber segment operating earnings of \$4.2 million was somewhat offset by a decline in bioenergy segment operating earnings and higher corporate and other costs. Lumber segment operating earnings increased by \$13.5 million, and bioenergy segment operating earnings by \$2.1 million, over the second quarter of 2015.

Net income for the second quarter of 2016 included a net gain on sale of assets of \$19.0 million related to the completion of the previously announced timber harvesting cooperation agreement, with some of the ancillary costs related to the transaction included in corporate costs. Current quarter net income also included a gain on revaluation of our investment in the resulting joint venture of \$19.2 million. Net income for the first quarter of 2016 included a net gain on sale of assets of \$29.0 million resulting from the redemption of the payment in kind note ("PIK Note").

During the second quarter of 2016, we determined that a change in circumstances arising from entry into the joint venture agreement, combined with increased uncertainty around the successful completion of a negotiated softwood lumber trade agreement with the U.S. prior to the expiry of the one-year standstill period in October 2016, required assessment of impairment for certain idled assets in the lumber segment. As a result, we reviewed the property, plant and equipment for impairment and recorded a \$5.8 million impairment charge in the current quarter.

The non-recurring items contributed \$32.4 million or approximately \$1.54 per basic and diluted share and \$29.0 million or approximately \$1.37 per basic and diluted share to net income in the second and first quarters of 2016, respectively. Excluding the non-recurring items, net income for the second quarter of 2016 improved by \$3.3 million from the previous quarter and \$13.8 million from the second quarter of 2015. Normalized net income for the first six months of 2016 was \$2.3 million, or \$0.12 per basic and \$0.11 per diluted share compared to a net loss of \$11.4 million, or \$0.55 per basic and diluted share over the same period last year.

Lumber Segment

Lumber segment adjusted EBITDA was \$8.7 million in the second quarter of 2016 compared to \$4.5 million in the previous quarter and negative adjusted EBITDA of \$5.0 million in the second quarter of 2015.

Prices for the bell-weather WSPF #2 & Btr 2x4 product averaged US\$310 during the second quarter of 2016, an improvement of over 14% over the previous quarter and the second quarter of 2015. The U.S. dollar weakened against the Canadian dollar during the second quarter of 2016 and averaged US\$0.776, a depreciation of 6% over the previous quarter and an appreciation of 5% over the same quarter last year.

Revenue from Conifex produced lumber was \$63.8 million in the second quarter of 2016, an increase of 12% over previous quarter. The revenue growth was attributable to 9% higher shipment volumes and a 3% improvement in sales realizations reflecting higher benchmark lumber prices partially offset by a stronger Canadian dollar. The growth in revenue of 34% over the second quarter of 2015 was largely due to a 19% increase in shipment volumes and a 13% improvement in sales realizations.

Wholesale lumber revenues were \$26.0 million, an increase of 4% over the previous quarter and 10% over the same quarter last year.

Lumber production totalled 135 million board feet during the second quarter of 2016 and the first quarter of 2016 and represented an annualized operating rate of 103% compared to 90% in the same quarter last year. Hourly productivity improved by 14% over the second quarter last year.

Unit log costs were consistent in the second quarter of 2016 and the previous quarter and 10% lower than the second quarter of last year. An improvement of 2% in unit cash conversion costs over the previous quarter was mainly due to lower energy costs. Unit cash conversion costs improved by 10% over the second quarter of 2015 as improved productivity more than offset generally higher operating costs.

The lumber segment recorded operating income of \$5.4 million in the second quarter of 2016 compared to \$1.2 million in the previous quarter and an operating loss of \$8.1 million in the second quarter of 2015.

Compared to the previous quarter, current quarter lumber segment operating results benefited from higher lumber prices, increased shipments of Conifex produced lumber and a modest improvement in unit cash conversion which were partially offset by a stronger Canadian dollar. Compared to the second quarter of 2015, current quarter operating results benefited from higher lumber shipments and lumber prices, a weaker Canadian currency, and lower unit log and cash conversion costs.

Year-to-date lumber segment operating earnings were \$6.6 million, an improvement of \$12.7 million over the same period last year.

Bioenergy Segment

Our power generation plant commenced commercial operations in May 2015 and its results are reported in our bioenergy segment.

The 20-year Electricity Purchase Agreement (“EPA”) with BC Hydro provides for a one-time option to increase our electricity deliveries by 10% for the duration of the contract term. In April 2016, we notified BC Hydro that we would be exercising the option with increased volume commitments commencing in May 2016.

The EPA 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 2016, BC Hydro issued a dispatch order to, among others, our power plant advising us of a dispatch period of 61 days from May 1, 2016 to June 30, 2016. During the dispatch period, we only produced electricity to fulfill volume commitments under the Load Displacement Agreement. We continued to earn revenues based upon a reduced base rate and on volumes that are generally reflective of recent average hourly megawatt production.

The Mackenzie Plant sold approximately 55 gigawatt hours of electricity under the EPA in the first and second quarters of 2016, and approximately 24 gigawatt hours during the second quarter of 2015.

Revenues from electricity sales were \$5.0 million in the second quarter of 2016 compared to \$7.7 million in the previous quarter and \$2.6 million in the second quarter of 2015. Revenues for the current quarter were impacted by the plant dispatch, and revenues for the second quarter of 2015 represented two

months of start-up operations. The application of a “time of delivery factor” to the fixed based price per megawatt hour, which generally produces the lowest quarterly revenues of the year during the second quarter, further contributed to reduced bioenergy segment revenues in the second quarters of 2016 and 2015 as compared to other periods.

Bioenergy segment operating costs were \$3.4 million and segment operating earnings were \$1.6 million in the second quarter of 2016 compared to operating costs of \$5.1 million and segment operating earnings of \$2.6 million in the previous quarter, and operating costs of \$3.1 million and operating loss of \$0.5 million in the second quarter of 2015. Operating costs included depreciation expense of \$0.8 million, \$1.6 million and \$1.0 million, respectively. Idled components were not depreciated during the dispatch period in the second quarter of 2016.

Interest on the power project term loan was \$1.3 million for the second quarter of 2016 and the previous quarter and \$0.8 million for the second quarter of 2015. Adjusted bioenergy segment EBITDA was \$2.4 million in the second quarter of 2016, \$4.2 million in the previous quarter and \$0.5 million in the second quarter of 2015.

The Mackenzie Plant has operated at approximately 70% of targeted rates since production resumed in July 2016 following the dispatch period. Four days of downtime was taken in July to effect certain operating improvements, and we may take additional limited downtime at the plant in August 2016 to effect other improvements. We expect revenues in the bioenergy segment to be sequentially lower and operating costs to be relatively higher in the third quarter of 2016.

Liquidity and Capital Resources

Our net debt to capitalization ratio was 36% as at June 30, 2016 compared to 60% at December 31, 2015. Net debt at June 30, 2016 was \$61.9 million lower than at December 31, 2015 due primarily to the redemption of the PIK Note of \$30.0 million, proceeds from the completion of the timber harvesting cooperation agreement of \$20.0 million and the seasonal reduction of operating working capital levels.

Our net debt to capitalization ratio, excluding borrowings for our power subsidiary that are non-recourse to our other operations, was 10% at June 30, 2016 compared to 42% at December 31, 2015.

At June 30, 2016, we had total liquidity of \$44.4 million, compared to \$22.6 million at December 31, 2015 and \$22.6 million at June 30, 2015.

Market Outlook

For the balance of 2016, in the U.S., we expect modest improvements in U.S. dollar benchmark prices and Canadian dollar exchange premiums compared to the first half of 2016. Offshore demand is less robust and competition from currency advantaged alternate suppliers is more intense. Despite these market conditions, we expect receipts from lumber shipments to China and Japan to be relatively unchanged from the first half of 2016. We expect the uncertainty related to the recent expiry of the Softwood Lumber Agreement will contribute to increased market volatility.

Strategic Capital Expenditures

Capital expenditure commitments for further optimization of our two B.C. sawmill complexes are expected to aggregate approximately \$10 million, of which approximately \$7 million is expected to be spent in 2016 and the balance in early 2017.

Additionally, we are working towards finalizing capital plans to reconstruct and modernize our currently idled El Dorado, Arkansas sawmill complex. We believe the planned expansion into the U.S. South will provide an important source of revenue diversification and reduce cash flow volatility in our lumber segment. We expect to settle on a construction schedule and budget, and subsequently the financing plan, upon completion of further engineering work and customary due diligence.

Conference Call

There will be a conference call held by the Company on Thursday, August 4, 2016 at 8:00 AM Pacific time/ 11:00 AM Eastern time to discuss the second 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 August 17, 2016 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 1517839#.

The Company's management's discussion and analysis and financial statements for the quarter ended June 30, 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.

Conifex and other member companies of the Forest Products Association of Canada, as well as a number of environmental organizations, are partners in the Canadian Boreal Forest Agreement. The group works to identify solutions to conservation issues that meet the goal of balancing equally the three pillars of sustainability linked to human activities: environmental, social and economic.

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; benefits that may accrue to the Company as a result of certain capital expenditure programs; U.S. benchmark lumber prices; unit cash conversion costs; the Company's net debt to capitalization ratio; and the anticipated benefits, cost, timing and completion dates for projects 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.