



CONIFEX TIMBER INC.

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Conifex Announces Strong Fourth Quarter and Annual Results

Reports Two Consecutive Years of Record Adjusted EBITDA and Operating Income

Reports Three Consecutive Quarters of Record Adjusted EBITDA

February 16, 2018, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported that adjusted EBITDA* in the fourth quarter of 2017 increased to a record \$17.5 million from \$12.1 million in the previous quarter and \$9.3 million in the same quarter of 2016. In 2017, adjusted EBITDA was a record \$46.0 million, compared to \$33.6 million in 2016. In the fourth quarter of 2017, we had net income of \$8.0 million, or \$0.30 per diluted share, compared to net income of \$6.2 million or \$0.23 per diluted share in the previous quarter, and net income of \$5.1 million or \$0.24 per diluted share in the fourth quarter of 2016. Operating and net income in the fourth quarter of 2016 included proceeds from the settlement of our business interruption insurance claim of \$2.5 million. In 2017, our net income was \$17.0 million, or \$0.67 per diluted share, compared to net income of \$70.2 million, or \$3.32 per diluted, in 2016. Net income in 2016 included unusual or non-recurring items totaling \$63.9 million.

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

	<u>Q4</u> <u>2017</u>	<u>Q3</u> <u>2017</u>	<u>Q4</u> <u>2016</u>	<u>2017</u>	<u>2016</u>
	(in millions except share, exchange rate, pricing and electricity information)				
Financial Highlights					
Sales – lumber segment	\$ 124.5	\$ 114.2	\$ 94.4	\$ 443.9	\$ 384.1
Sales – bioenergy segment	<u>8.2</u>	<u>6.1</u>	<u>7.6</u>	<u>25.8</u>	<u>25.2</u>
	<u>\$ 132.7</u>	<u>\$ 120.3</u>	<u>\$ 102.0</u>	<u>\$ 469.7</u>	<u>\$ 409.3</u>
Adjusted EBITDA*	\$ 17.5	\$ 12.1	\$ 9.3	\$ 46.0	\$ 33.6
Operating income (loss).....	\$ 14.7	\$ 8.8	\$ 6.7	\$ 31.4	\$ 18.2
Net income (loss).....	\$ 8.0	\$ 6.2	\$ 5.1	\$ 17.0	\$ 70.2
Net income (loss) per share – basic and diluted.....	\$ 0.30	\$ 0.23	\$ 0.24	\$ 0.67	\$ 3.32
Shares outstanding – weighted average (millions)	26.4	26.4	21.3	25.4	21.2
Operating Highlights					
Lumber production (MMfbm).....	129.9	133.4	118.7	518.5	525.3
Lumber shipments – Conifex produced (MMfbm).....	138.2	135.3	124.4	512.7	522.1
Lumber shipments – wholesale (MMfbm).....	45.4	37.6	40.5	162.2	161.8
Electricity production (GWh)	55.2	55.2	53.0	207.7	200.6
Average exchange rate – US\$/Cdn\$(¹).....	0.787	0.798	0.750	0.770	0.755
Average WSPF 2x4 #2&Btr lumber price (US\$)(²)	\$ 464	\$ 406	\$ 316	\$ 401	\$ 304
Reconciliation of Adjusted EBITDA to Net Income (Loss)					
Net income (loss).....	\$ 8.0	\$ 6.2	\$ 5.1	\$ 17.0	\$ 70.2
Add: Finance costs	\$ 1.6	\$ 1.6	\$ 2.1	\$ 7.6	\$ 9.1
Amortization	\$ 4.8	\$ 4.3	\$ 4.6	\$ 18.1	\$ 18.1
Deferred income tax expense	<u>\$ 3.1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3.1</u>	<u>\$ -</u>
EBITDA(³).....	\$ 17.5	\$ 12.1	\$ 11.8	\$ 46.0	\$ 97.4
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>\$ -</u>	<u>\$ 5.8</u>
Adjusted EBITDA*	<u>\$ 17.5</u>	<u>\$ 12.1</u>	<u>\$ 9.3</u>	<u>\$ 46.0</u>	<u>\$ 33.6</u>

Notes:

- (1) Source: Bank of Canada, www.bankofcanada.ca.
- (2) Source: Random Lengths Publications Inc.
- (3) Conifex'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 Conifex. Conifex's adjusted EBITDA calculation excludes gains or losses resulting from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance settlement. Conifex discloses EBITDA and adjusted EBITDA as they are measures used by analysts and by Conifex's management to evaluate Conifex's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, they may not be comparable to EBITDA and adjusted EBITDA calculated by others and are not a substitute for net earnings.

Commencement of El Dorado Mill Operations

In 2017, we completed our capital project to modernize and restart our sawmill complex in El Dorado, Arkansas (the "El Dorado Mill"). The capital project was designed to optimize lumber recovery and grade outturns, as well as provide operating flexibility to orient production to those dimensions with superior selling price realizations. We spent the last few months of 2017 commissioning the El Dorado Mill, training and developing new personnel, and conducting evaluations through a customary "ramp-up" period. We commenced shipment of residual products in November and modest lumber shipments in late December. We offset revenues generated from the El Dorado Mill in the fourth quarter of 2017 to capitalized commissioning and start-up costs and have not included such revenues in operating results. We currently anticipate start-up costs will continue to be capitalized in January 2018 and commercial operations will be recorded in our operating results commencing midway through the first quarter of 2018.

We spent \$70.8 million on the upgrade and modernization of the El Dorado Mill in 2017, which was generally in line with management's estimates for construction and equipment plus ancillary items such as project management, commissioning and start-up, capitalized interest and other holding costs.

The El Dorado Mill is designed to have annual production capacity of 180 million board feet on a two-shift basis, representing approximately 25% of total lumber capacity of our mills at this level. We plan to initially operate the El Dorado Mill on a one-shift basis and expect to ramp-up production to approximately 90% of capacity by December 2018.

Fourth Quarter 2017

Overview

Revenues were \$132.7 million in the fourth quarter of 2017, \$120.3 million in the previous quarter and \$102.0 million in the fourth quarter of 2016. Compared to the prior quarter, lumber segment revenues increased by 9% and revenues from electricity sales increased by 34%.

We recorded operating earnings of \$14.7 million in the fourth quarter of 2017 compared to \$8.8 million in the previous quarter and \$6.7 million in the same quarter last year. Compared to the previous quarter, lumber segment operating results improved by 64% due mainly to higher sales realizations and shipments partially offset by a modest decline in operating rates. Bioenergy segment operating earnings increased by 16% largely due to higher revenues. Bioenergy segment operating income for the fourth quarter of 2016 included income from the settlement of our business interruption insurance claim of \$2.5 million.

We recognized deferred income tax expense of \$3.1 million through net income in the fourth quarter of 2017. There were no income tax expenses recorded in the third quarter of 2017 or the fourth quarter of 2016.

Net income for the current quarter was \$8.0 million or \$0.30 per diluted share. We recorded net income of \$6.2 million or \$0.23 per diluted share in the previous quarter and \$5.1 million or \$0.24 per diluted share in the fourth quarter of 2016.

Adjusted EBITDA was \$17.5 million for the fourth quarter of 2017, \$12.1 million in the previous quarter and \$9.3 million for the fourth quarter of 2016.

Lumber Segment

Compared to the previous quarter, a 14% increase in U.S. dollar-denominated WSPF #2 and Btr prices coupled with a slightly weaker Canadian currency resulted in a 16% or \$81 per thousand board feet

improvement in average Canadian dollar-denominated benchmark lumber prices in the fourth quarter of 2017.

Quarter-over-quarter revenues from Conifex produced lumber were 11% higher and largely reflected an improvement in unit sales realizations of 8% due to higher lumber prices and an increase in shipment volumes of 2%. Wholesale lumber revenues increased by 16% and wholesale lumber shipments increased by 21%.

Production volumes of approximately 130 million board feet during the fourth quarter of 2017 were 3% lower than the previous quarter. The lower operating rates were mainly attributable to a reduction in operating hours during the holiday season.

Unit log costs and cash conversion costs were generally consistent in the third and fourth quarters of 2017.

Based on the final rates published by the United States International Trade Commission, the combined countervailing (“CV”) and antidumping (“AD”) duty rates averaged approximately 6.7% in the fourth quarter of 2017 and 12.8% in the previous quarter. We expensed CV and AD duty deposits of \$1.9 million in the fourth quarter of 2017 compared to \$3.4 million in the previous quarter.

Compared to the fourth quarter of 2016, U.S. dollar-denominated WSPF #2 and Btr prices increased by 47% and the Canadian currency appreciated by 5% in the fourth quarter of 2017. Average Canadian dollar-denominated benchmark lumber prices increased by 40% or \$169 per thousand board feet.

Quarter-over-quarter revenues from Conifex produced lumber were 31% higher and mostly reflected an 18% improvement in unit sales realizations and 11% increase in shipment volumes. An increase in wholesale lumber revenues of 34% was generally attributable to a 22% improvement in unit sales realizations and 12% increase in shipment volumes.

Production volumes were 9% higher in the fourth quarter of 2017 than the same quarter last year. Operating rates in fourth quarter of 2016 were hampered by downtime taken at the Mackenzie sawmill for capital upgrades and, to a lesser extent, adverse weather conditions.

Compared to the fourth quarter of 2016, unit log costs increased by 2% and unit cash conversion costs improved by 10% due primarily to improved productivity.

Lumber segment operating income was \$13.9 million in the fourth quarter of 2017 compared to \$8.5 million in the previous quarter and \$2.9 million in the same quarter last year.

Bioenergy Segment

Our power generation plant at Mackenzie, B.C. (the “Mackenzie Power Plant”) sold 55.2 GWh hours of electricity under our EPA with BC Hydro in the third and fourth quarters of 2017, which represents approximately 100% of targeted operating rates, compared to 97% in the fourth quarter of 2016.

The effective power rate is highest during the first and fourth quarters of each year. Electricity revenues in the current quarter were \$8.2 million, an increase of 34% over the previous quarter, which was mostly attributable to higher seasonal rates. The improvement in electricity revenues of 8% compared to the fourth quarter of 2016 was largely due to higher production volumes. Compared to the current quarter, cash operating costs and amortization expense were lower in the previous quarter as the Mackenzie Power Plant was dispatched for 62 days. Normalized bioenergy segment operating income, excluding income from the settlement of our insurance claim, was \$2.7 million in the fourth quarter of 2016.

Bioenergy segment adjusted EBITDA was \$4.5 million in the fourth quarter of 2017, compared to \$3.3 million in the previous quarter and \$4.4 million in the fourth quarter of 2016, and reflected an adjusted EBITDA margin of 55%, which was generally consistent with each of the comparative periods.

Year Ended December 31, 2017

Our revenues totaled \$469.7 million in 2017 compared to \$409.3 million in 2016. The 16% growth in lumber segment revenues reflected higher sales realizations from stronger lumber prices partially offset

by a modest decline in Conifex produced lumber shipments and a 2% appreciation of the Canadian dollar. Bioenergy segment revenues were generally consistent year-over-year.

We recorded operating income of \$31.4 million in 2017 compared to \$18.2 million in 2016. Lumber segment operating earnings, which included CV and AD duty deposits on exports to the U.S. of \$9.9 million, more than doubled year-over-year to \$31.4 million. The improvement was primarily due to stronger sales realizations on higher lumber prices. Bioenergy segment operating earnings improved by \$1.0 million in 2017, excluding income from the settlement of our business interruption insurance claim of \$2.5 million recorded in 2016.

We recognized deferred income tax expense of \$3.1 million through net income in 2017. No income tax expense was recorded in 2016 due to the offset of previously unrecognized deferred income tax assets.

Net income for the year ended December 31, 2017 was \$17.0 million or \$0.67 per diluted share compared to normalized net income of \$6.3 million or \$0.30 per diluted share for the prior year. In 2016, we recorded unusual or non-recurring items which totaled \$63.9 million comprised of a gain on sale of assets of \$48.0 million, a net gain on revaluation of certain assets of \$13.4 million, and income from settlement of our business interruption insurance claim of \$2.5 million. Including these unusual items, net income was \$70.2 million, or \$3.32 per diluted share for 2016. Current year net income was adversely impacted by negative year-over-year variances in foreign exchange translation loss of \$0.9 million and loss from lumber derivative instruments of \$2.1 million.

Adjusted EBITDA was \$46.0 million for 2017, an improvement of 37% from \$33.6 million reported for 2016.

Liquidity and Capital Resources

In 2017, we completed a refinancing of our lumber segment credit facilities and completed other financing initiatives to further strengthen our balance sheet, reduce borrowing costs and improve liquidity. With the capital spend related to the El Dorado project largely completed, we ended the year with liquidity of \$49.2 million, compared to \$22.3 million at the end of 2016. Total liquidity comprised unrestricted cash and available credit under our revolving credit facilities.

Our net debt to capitalization ratio was 41% at December 31, 2017 compared to 38% at the end of 2016.

Our net debt to capitalization ratio, excluding borrowings for our power subsidiary that are non-recourse to our other operations, was 29% at December 31, 2017 compared to 21% at December 31, 2016.

Outlook

Looking ahead in 2018, 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 6% increase in U.S. lumber consumption, and expect benchmark prices for WSPF and Southern Yellow Pine to remain at elevated levels to reflect solid softwood lumber demand and the continued imposition of trade sanctions on Canadian softwood lumber exports to the U.S. The extent to which the anticipated increase in U.S. softwood lumber demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. We expect the uncertainty created by the softwood lumber trade dispute and possible supply chain disruptions from potential equipment and labor shortages will contribute to price volatility in the North American market.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets. We expect to sustain the year-over-year gains in sales realizations achieved in 2017 in our key export markets.

Our key priorities in 2018 will be the continued ramp-up of production at the El Dorado Mill and to continue to strengthen operational consistency at our Canadian mills and the Mackenzie Power Plant.

At the El Dorado Mill, we expect to commence recording commercial operations in our operating results midway through the first quarter of 2018 and ramp-up production to approximately 90% of capacity by about the end of year. We do not expect any significant increases in our unit delivered log costs over the

next several years, which have met our forecasted expectations to date. We expect unit cash conversion costs to normalize as operating rates approach capacity levels.

At our Fort St. James and Mackenzie mills, we 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 seasonally muted in the first quarter of 2018 due primarily to weather related challenges, and to improve year-over-year in the remaining three quarters from planned capital upgrades. We expect shipment volumes may be somewhat hampered by lower production volumes and potential constraints on the external supply chain in the first quarter of 2018 and normalize thereafter. We expect continued log cost inflation in our operating areas in the interior region of B.C. due to forecast heightened lumber prices which would contribute to higher market based stumpage and purchased log costs. We expect unit cash conversion costs to remain relatively consistent.

Electricity sales and plant operating costs in the first quarter of 2017 were impacted by some unplanned outages and challenging weather conditions, which impacted feedstock quality and deliverability. Management expects an improvement in bioenergy segment operating results in 2018 due to more consistent feedstock quality, major maintenance work undertaken, and recent operational improvements.

Conference Call

There will be a conference call held by the Company on Friday, February 16, 2018 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 416-340-2216 or toll free 800-273-9672. The call will also be available on instant replay access until March 16, 2018 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 9090107#.

The Company's management's discussion and analysis and financial statements for the year ended December 31, 2017 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 Power Plant; the Company's expectations regarding improvements in bioenergy segment revenues; and the anticipated benefits, cost and timing of operations at our El Dorado mill 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 Mackenzie Power Plant 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; 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; 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 2017 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.