CONIFEX

CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE FOR IMMEDIATE RELEASE

Conifex Announces Strong Third Quarter Results

Record Adjusted EBITDA of $28.5 million for Year-to-Date Period

Record Operating Income of $16.7 million for Year-to-Date Period

Completes Construction and Commences Start-up of El Dorado Mill

November 9, 2017, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the third quarter ended September 30, 2017. Adjusted EBITDA*, including countervailing ("CVD") and anti-dumping duty ("ADD") deposits of $3.4 million, was $12.1 million, compared to $10.2 million in the second quarter of 2017 and $8.5 million in the third quarter of 2016.

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

	Q3 2017	Q2 2017	Q3 2016	YTD 2017	YTD 2016
	(millions of dollars except share and per share amounts and as otherwise noted)				
Financial Highlights					
Sales – lumber segment	$ 114.2	$ 111.7	$ 99.2	$ 319.4	$ 289.7
Sales – bioenergy segment	6.1	4.7	4.9	17.7	17.6
	$ 120.3	$ 116.4	$ 104.1	$ 337.1	$ 307.3
Adjusted EBITDA*	$ 12.1	$ 10.2	$ 8.5	$ 28.5	$ 24.3
Operating income (loss)	$ 8.8	$ 6.4	$ 3.3	$ 16.7	$ 11.5
Net income (loss)	$ 6.2	$ 4.2	$ 1.4	$ 9.0	$ 65.1
Net income (loss) per share – basic	$ 0.23	$ 0.16	$ 0.07	$ 0.36	$ 3.08
Net income (loss) per share – diluted[1]	$ 0.23	$ 0.16	$ 0.07	$ 0.36	$ 2.85
Shares outstanding – weighted average (millions)	26.4	26.3	21.2	24.4	21.1
Operating Highlights					
Lumber production (MMfbm)	133.4	131.6	136.2	388.6	406.7
Lumber shipments – Conifex produced (MMfbm)	135.3	128.5	132.3	374.5	397.6
Lumber shipments – wholesale (MMfbm)	37.6	38.4	39.6	116.9	121.3
Electricity production (GWh)	55.2	51.0	55.1	152.5	147.6
Average exchange rate – US$/Cdn$[2]	0.798	0.744	0.766	0.766	0.756
Average WSPF 2x4 #2&Btr lumber price (US$)[3]	$ 406	$ 388	$ 321	$ 380	$ 301
Reconciliation of adjusted EBITDA* to Net Income (Loss)					
Net income (loss)	$ 6.2	$ 4.2	$ 1.4	$ 9.0	$ 65.1
Add: Finance costs	$ 1.6	$ 1.7	$ 2.3	$ 6.0	$ 7.1
Amortization	$ 4.3	$ 4.3	$ 4.8	$ 13.5	$ 13.5
EBITDA[4]*	$ 12.1	$ 10.2	$ 8.5	$ 28.5	$ 85.7
Less: Gain on sale of asset	$ -	$ -	$ -	$ -	$ (48.0)
Less: Gain on revaluation	$ -	$ -	$ -	$ -	$ (19.2)
Add: Impairment of property, plant and equipment	$ -	$ -	$ -	$ -	$ 5.8
Add: Lumber export duty deposits	$ -	$ -	$ -	$ -	$ -
Adjusted EBITDA*	$ 12.1	$ 10.2	$ 8.5	$ 28.5	$ 24.3

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) 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 our ongoing operations. Our adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and gains or losses from asset sales, disposals or revaluations. Adjusted EBITDA for the second quarter of 2017 previously included $4.6 million representing CVD deposit expense based upon the USDOC preliminary rates. As the USDOC recently made its final determination of CVD and ADD rates, we are no longer including an adjustment for duty deposits in adjusted EBITDA. We disclose EBITDA, adjusted EBITDA and adjusted EBITDA margin as they are measures used by analysts and by our management to evaluate our performance. As EBITDA, adjusted EBITDA and adjusted EBITDA margin are non-GAAP measures that do not have any standardized meaning prescribed by International Financial Reporting Standards, they may not be comparable to EBITDA, adjusted EBITDA and adjusted EBITDA margin calculated by others and are not a substitute for net earnings or cash flows.

Our lumber segment operating results include CVD and ADD deposits on exports to the U.S. of $3.4 million in the third quarter of 2017 and $4.6 million in the second quarter of 2017. On November 2, 2017, the U.S. Department of Commerce ("USDOC") announced that the final CVD and ADD rates would be reduced from the preliminary rates by a total of 5.92%. In the third quarter of 2017, we recorded an adjustment to reflect the reduction in CVD rates on shipments made during the second quarter of 2017. Approximately $1.3 million of the $4.6 million in CVD deposits expensed in the second quarter of 2017 was reversed, which led to reduced CVD and ADD deposit expenses of $3.4 million in the third quarter of 2017.

Compared to the previous quarter, the improvement in lumber segment adjusted EBITDA of $1.2 million and bioenergy segment adjusted EBITDA of $1.5 million was partially offset by an increase in corporate costs and a variance in foreign exchange translation loss. Compared to the third quarter of 2016, lumber segment adjusted EBITDA improved by $3.0 million and bioenergy segment adjusted EBITDA improved by $2.2 million.

Adjusted EBITDA for the nine month period ended September 30, 2017, which included CVD and ADD deposits of $8.0 million, was a record $28.5 million. Adjusted EBITDA was $24.3 million for the first nine months of 2016.

Start-Up of El Dorado Mill

In October 2017, we completed construction of our sawmill, two continuous dry kilns, and planer mill in El Dorado, Arkansas (the "ED Mill") on schedule and on budget. We are operating the sawmill and conducting evaluations as the sawmill goes through a customary "ramp-up" period. We expect to begin testing and commissioning of our planer mill this month and commence commercial operations in December. We will initially operate the ED Mill on a one-shift basis and expect to ramp-up production to approximately 90% of capacity by December 2018.

The ED 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 believe our planned expansion into the U.S. South will provide an important new source of revenue diversification not subject to punitive trade actions on Canadian softwood lumber recently initiated by the U.S.

Overview

Our revenues totaled $120.3 million in the third quarter of 2017, an improvement of 3% over the prior quarter and 16% over the same quarter last year. Our revenue growth over the previous quarter was mainly attributable to a slight increase in our lumber segment revenues, and a 30% increase in revenues from electricity sales. Compared to the third quarter of 2016, our lumber segment revenues increased by 15% and our bioenergy segment revenues by 24%.

Our operating income for the third quarter of 2017, which includes the CVD and ADD deposits, was $8.8 million compared to $6.4 million in the previous quarter and $3.3 million in the same quarter last year. Compared to the prior quarter, an increase in lumber segment operating earnings of $1.4 million and bioenergy segment operating earnings of $1.6 million was partially offset by an increase in corporate costs of $0.6 million. Lumber segment operating earnings increased by $2.9 million and bioenergy segment operating earnings by $3.0 million compared to the third quarter of 2016.

Net income for the third quarter of 2017 was $6.2 million, or $0.23 per diluted share, compared to $4.2 million or $0.16 per diluted share in the previous quarter and $1.4 million or $0.07 per diluted share in the third quarter of 2016. Year to date net income was $9.0 million, or $0.36 per diluted share, compared to a normalized net income of $3.7 million or $0.18 per diluted share for the same period last year. Unusual items totaling $61.4 million were included in net income in the first six months of 2016. Including these unusual items, net income was $65.1 million, or $3.08 per basic and $2.85 per diluted share for the first nine months of 2016.

Lumber Segment

Lumber segment adjusted EBITDA, which includes CVD and ADD deposits, was $12.0 million in the third quarter of 2017, compared to $10.8 million in the second quarter of 2017 and $9.0 million in the third quarter of 2016. Lumber segment adjusted EBITDA was $27.9 million for the nine months ended September 30, 2017 and $22.2 million for the nine months ended September 30, 2016.

Prices for the bell-weather WSPF #2 & Btr product averaged US$406 during the third quarter of 2017, an improvement of 5% over the previous quarter and 26% over the third quarter of 2016.[1] The U.S. dollar, which averaged US$0.798 for each Canadian dollar during the third quarter of 2017, appreciated by 7% over the previous quarter and 4% over the same quarter last year.[2]

Revenue from Conifex produced lumber was $73.3 million in the third quarter of 2017. The 4% increase over the previous quarter was generally attributable to 5% higher shipment volumes offset by a modest decline in unit sales realizations. The slightly lower sales realizations reflected stronger lumber prices which were more than offset by the appreciation in Canadian currency. The growth in revenue of 15% over the third quarter of 2016 was mainly due to improved sales realizations from higher lumber prices. Our wholesale lumber revenues were largely consistent in the second and third quarters of 2017 and increased by 8% over the third quarter of 2016. The growth in revenue from the third quarter of 2016 was primarily attributable to improved sales realizations due to higher lumber prices.

Our lumber production totalled approximately 133 million board feet during the third quarter of 2017 representing an annualized operating rate of 102%. Year to date production was 4% lower compared to the same period last year, largely as a result of the implementation of a capital project at the Mackenzie sawmill and, to a lesser extent, inclement weather conditions in Western Canada which led to lower productivity in the first quarter of this year.

Unit log costs declined by 3% compared to the previous quarter and increased by 9% over the same quarter last year. Compared to the third quarter of 2016, the higher log costs were mainly attributable to higher market based stumpage and purchased log costs.

Higher operating rates contributed to an improvement in unit cash conversion costs of 3% over the previous quarter. Unit cash conversion costs were in line with the same quarter last year, although production volumes modestly declined.

We expensed CVD and ADD deposits of $3.4 million in the third quarter of 2017, and $4.6 million in the second quarter of 2017, on lumber shipments to the U.S. As previously noted, approximately $1.3 million of the adjustment made to reflect lower final CVD and ADD rates in the third quarter of 2017 was attributable to shipments made during the second quarter of 2017.

Including the CVD and ADD deposits expense, the lumber segment recorded operating income of $8.5 million in the third quarter of 2017 compared to $7.1 million in the previous quarter and $5.6 million in the

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[1] As quoted in Random Lengths Publications Inc.

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

third quarter of 2016. Compared to the previous quarter, the benefits of stronger lumber prices, increased shipments of Conifex produced lumber, improved productivity, lower unit log and cash conversion costs, and lower softwood lumber duties, partially due to an adjustment related to previous quarter shipments, outweighed the impact of appreciation of the Canadian currency.

Compared to the third quarter of 2016, the benefit of higher lumber prices and shipments of Conifex produced lumber in the current quarter was partially offset by the expensing of CVD and ADD deposits, stronger Canadian currency, lower production volumes, and higher unit log costs. Year-to-date lumber segment operating earnings were $17.4 million, an improvement of $5.2 million over the same period last year.

Bioenergy Segment

<u>Operating Results</u>
The Mackenzie Plant sold 55.2 gigawatt hours of electricity under our Electricity Purchase Agreement ("EPA") with BC Hydro in the third quarter of 2017, which represents approximately 100% of targeted operating rates, compared to 95% in the prior quarter and 70% in the third quarter of 2016. The reduced production in the third quarter of 2016 was mostly attributable to maintenance downtime taken to effect certain operating improvements. On a year to date basis, electricity sales were 3% higher than over the same period last year. 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.

Electricity revenues in the current quarter were $6.1 million, an increase of 30% over the previous quarter, which was mostly attributable to higher seasonal rates and, to a lesser extent, an 8% increase in production. The improvement in electricity revenues of 24% compared to the third quarter of 2016 was largely due to higher production volume, somewhat offset by lower seasonal rates and discounted prices earned during the dispatch period. Cash operating costs were consistent in the third and second quarters of 2017 and improved by 21% over the third quarter of last year. Amortization expense was lower compared to the third quarter of 2016 as idled components were not depreciated during dispatch periods.

Bioenergy segment adjusted EBITDA was $8.0 million for the first nine months of 2017 compared to $7.7 million for the first nine months of 2016 and reflected an adjusted EBITDA margin of 45%, which was consistent with the comparative period last year. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of sales.

The Mackenzie Plant achieved hourly production of 105% of our operating target over the first 12 months of commercial operations. The Mackenzie Plant resumed operations in September 2017 (after the dispatch period, discussed below) and operating rates approached historic levels during the first month of operations.

<u>Dispatch Notice</u>
Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to "turn down" electricity purchased from us 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 Mackenzie 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 only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Liquidity and Capital Resources

Our net debt to capitalization ratio was 42% at September 30, 2017 compared to 38% at December 31, 2016. Excluding the effects of borrowings for our wholly-owned power subsidiary that are non-recourse to our other operations, our net debt to capitalization ratio was 27% at September 30, 2017 compared to 16% at December 31, 2016.

At September 30, 2017, we had total liquidity of $55.7 million, compared to $22.3 million at December 31, 2016 and $43.6 million at September 30, 2016.

Lumber Market and Operations Outlook

Through the closing months of 2017, we expect sustained steady demand in the U.S. and Canadian lumber markets will result in average benchmark Western SPF prices that are somewhat higher than average levels achieved in the first nine months of this year. We expect that continued uncertainty around the softwood lumber dispute will contribute to further volatility in U.S. market conditions and pricing. We expect demand and pricing to continue to remain solid in the Chinese and Japanese markets through the balance of the year.

We expect the further strengthening of WSPF prices early in the fourth quarter of 2017, the continued suspension of CVD, a solid order file, and relatively flat unit log costs will contribute to a sequential improvement in cash flow generation in our lumber segment. We expect the ED Mill to begin production in the fourth quarter of 2017 and lumber shipments to commence in December.

In our bioenergy segment, we expect higher seasonal electricity rates and operating rates at the Mackenzie Plant near targeted levels will lead to a quarter over quarter improvement in operating results.

Subsequent Event

On November 2, 2017, the USDOC announced final determinations in its CVD and ADD investigations. As a result of its findings, the USDOC lowered the final CVD rate from 19.88% to 14.25% and the final ADD rate from 6.87% to 6.58% for “all other” Canadian lumber producers, including Conifex. The final CVD will not be collected until final injury determination by the United States International Trade Commission (“USITC”), which is expected to occur in December 2017.

On November 2, 2017, the USDOC also made a final determination that critical circumstances did not exist for CVD, but did exist for ADD. We have not accrued any retroactive ADD, which could total approximately US$1.5 million, in the current or previous quarters. Management believes that the critical circumstances finding for ADD by the USDOC will not be upheld by the USITC in its final determination, consistent with the result of past softwood lumber disputes.

Conference Call

We will hold a conference call on Thursday, November 9, 2017 at 8:00 AM Pacific time/11:00 AM Eastern time to discuss the third 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 November 21, 2017 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 2886237#.

Our management's discussion and analysis and financial statements for the quarter ended September 30, 2017 will be available under our 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 Conifex 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 our management. Because forward-looking statements involve known and unknown risks, uncertainties and other factors, actual results, performance or achievements of Conifex 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 Conifex 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.; our expectations regarding the effects of the British Columbia forest fires on our business; unit cash conversion costs; Conifex’s net debt to capitalization ratio; Conifex expectations regarding the operation of the Mackenzie Plant and ED Mill; Conifex’s expectations regarding improvements in bioenergy segment revenues; and the anticipated benefits, cost, timing and completion dates for projects and the recording of any revenues therefrom. Assumptions underlying Conifex’s expectations regarding forward-looking information contained in this news release include, among others: that Conifex 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 our Mackenzie facility and we will be able to continue 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 Conifex conducts operations; the ability of Conifex to obtain financing (if necessary) on acceptable terms or at all; 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 ED Mill will operate as planned and in the timelines contemplated; and that management will effectively execute our 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 Conifex’s 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.