



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces First Quarter 2016 Results

May 5, 2016, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the first quarter ended March 31, 2016. Adjusted EBITDA* in the first quarter of 2016 was \$6.8 million, compared to \$7.3 million in the fourth quarter of 2015 and \$5.7 million in the first quarter of 2015. In the first quarter of 2016, adjusted EBITDA was negatively affected by a foreign exchange translation loss of \$1.1 million compared to foreign exchange translation gains of \$0.4 million in the previous quarter and \$1.9 million in the first quarter of 2015.

In the first quarter of 2016, we recorded a net gain on sale of assets of approximately \$29.0 million resulting from the conversion of a \$30 million payment-in-kind note (the "PIK Note"). Our net income for the first quarter of 2016 was \$28.5 million, or \$1.35 per basic and \$1.24 per diluted share, compared to net loss of \$0.3 million or \$0.01 per share in the previous quarter and net income of \$1.6 million or \$0.08 per basic and diluted share in the first quarter of 2015.

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

	Q1 2016	Q4 2015	Q1 2015
	<small>(millions of dollars except share and per share amounts and as otherwise noted)</small>		
Financial Highlights			
Sales – lumber segment	\$ 91.8	\$ 92.7	\$ 85.3
Sales – bioenergy segment.....	<u>7.7</u>	<u>7.8</u>	<u>-</u>
	<u>\$ 99.5</u>	<u>\$ 100.5</u>	<u>\$ 85.3</u>
Adjusted EBITDA	\$ 6.8	\$ 7.3	\$ 5.7
Operating income.....	\$ 3.0	\$ 1.6	\$ 1.1
Net income (loss)	\$ 28.5	\$ (0.3)	\$ 1.6
Net income (loss) per share – basic.....	\$ 1.35	\$ (0.01)	\$ 0.08
Net income (loss) per share – basic and diluted ⁽¹⁾	\$ 1.24	\$ (0.01)	\$ 0.08
Shares outstanding – weighted average (millions).....	21.1	21.1	21.0
Operating Highlights			
Lumber production (MMfbm)	135.8	131.1	119.4
Lumber shipments – Conifex produced (MMfbm)	127.0	139.4	112.8
Lumber shipments – wholesale (MMfbm)	40.7	38.6	34.8
Electricity production (GWh)	54.9	54.5	-
Average exchange rate – US\$/Cdn\$(²).....	0.727	0.749	0.806
Average WSPF 2x4 #2&Btr lumber price (US\$)(³).....	\$ 272	\$ 262	\$ 309
Reconciliation of adjusted EBITDA to Net Income (Loss)			
Net income (loss)	\$ 28.5	\$ (0.3)	\$ 1.6
Add: Finance costs.....	\$ 2.5	\$ 2.6	\$ 1.3
Amortization	<u>\$ 4.8</u>	<u>\$ 5.0</u>	<u>\$ 2.8</u>
EBITDA ⁽⁴⁾	<u>\$ 35.8</u>	<u>\$ 7.3</u>	<u>\$ 5.7</u>
Less: Gain on sale of asset.....	<u>\$ (29.0)</u>	<u>\$ -</u>	<u>\$ -</u>
Adjusted EBITDA*	<u><u>\$ 6.8</u></u>	<u><u>\$ 7.3</u></u>	<u><u>\$ 5.7</u></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 or disposals. 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 margins are non-GAAP measures, it may not be comparable to EBITDA, adjusted EBITDA or adjusted EBITDA margins calculated by others and is not a substitute for net earnings.

Overview

Revenues totalling \$99.5 million in the first quarter of 2016 were generally consistent with the previous quarter and an improvement of 17% over the same quarter last year. The revenue growth over the first quarter of 2015 was attributable to an 8% increase in lumber segment revenues and the contribution from electricity sales which commenced in May 2015.

Operating income improved to \$3.0 million compared to \$1.6 million in the previous quarter and \$1.1 million in the same quarter last year. The bioenergy segment contributed operating earnings of \$2.6 million in the current quarter and \$2.4 million in the previous quarter.

Excluding the net gain on the sale of assets and foreign exchange translation gains and loss, net income improved by \$1.3 million over the previous quarter and by \$0.9 million over the first quarter of 2015.

The current quarter increase of finance costs of \$1.2 million and depreciation and amortization expense of \$2.0 million over the first quarter of 2015 is primarily attributable to the commencement of operations of the Mackenzie power generation plant.

Current quarter adjusted EBITDA of \$6.8 million included a foreign exchange translation loss of \$1.1 million compared to foreign exchange translation gains of \$0.4 million and \$1.9 million in the prior and comparative quarters. In the current quarter adjusted EBITDA benefited from slightly improved lumber segment results and lower corporate costs compared to the prior quarter and the contribution of bioenergy segment adjusted EBITDA of \$4.2 million compared to the first quarter of 2015.

As lumber, our principal product, is primarily priced and sold in U.S. dollars, a stronger U.S. dollar versus the dollar generally increases our revenues and our operating margins. However, a strengthening U.S. dollar generally puts downward pressure on lumber prices, which adversely impacts our revenues. Our electricity sales are largely unaffected by changes in currency rates.

Lumber Segment

Lumber segment adjusted EBITDA was \$4.5 million in the first quarter of 2016 compared to \$4.1 million in the previous quarter and \$4.7 million in the first quarter of 2015.

Prices for the bell-weather WSPF #2 & Btr 2x4 product averaged \$272 during the first quarter of 2016, an improvement of 4% over the previous quarter and a decline of 12% from the first quarter of 2015. The U.S. dollar strengthened against the Canadian dollar during the first quarter of 2016 and averaged US\$0.727, an appreciation of 3% over the previous quarter and 10% over the same quarter last year.

Revenue from Conifex produced lumber was \$57.0 million in the first quarter of 2016, a decline of 3% from the previous quarter. The sequential decline was attributable to 9% lower shipment volumes and were somewhat offset by an improvement in sales realizations reflecting stronger benchmark lumber prices and the benefit of a weaker Canadian dollar. The growth in revenue of 6% over the first quarter of 2015 was largely due to a 13% increase of in shipment volumes partially offset by a decline in sales realizations.

Wholesale lumber revenues were \$25.1 million, an increase of 5% over the previous quarter and 14% over the same quarter last year.

Lumber production totalled 136 million board feet during the first quarter of 2016 and represented an annualized operating rate of 103% compared to 100% in the previous quarter and 91% in the same quarter last year. Hourly productivity improved by 6% over the previous quarter and 13% over the first quarter last year.

Unit log costs were consistent in the first quarter of 2016 and the previous quarter and 11% lower than the first quarter of last year. Unit cash conversion costs improved by 2% over the previous quarter as improved productivity more than offset higher energy, labour and maintenance costs. Unit cash conversion costs improved by 3% over the first quarter of 2015 as improved productivity offset generally higher operating costs.

Our Mackenzie mill delivers feedstock to the Mackenzie power generation plant at a fixed price. Current quarter lumber segment operating results were hampered by costs related to the supply of incremental feedstock from third parties due to the sustained performance of the plant at above target operating rates.

The lumber segment recorded operating income of \$1.2 million in the first quarter of 2016 compared to \$0.5 million in the previous quarter and \$2.0 million in the first quarter of 2015.

Compared to the previous quarter, current quarter lumber segment operating results benefited from higher sales realizations due to higher benchmark lumber prices, a slightly weaker Canadian dollar and modestly lower unit cash conversion costs, partially offset by lower shipments of Conifex produced lumber, a negative variance in inventory valuation, and extra costs related to the purchase of incremental feedstock to supply the power plant. Compared to the first quarter of 2015, current quarter operating results benefited from higher lumber shipments, lower unit log costs and, to a lesser degree, improved unit cash conversion costs, partially offset by lower lumber sales realizations and higher feedstock costs for the power plant.

Bioenergy Segment

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

Segment operating results were similar to the prior quarter. In the first quarter of 2016, revenues from electricity sales were \$7.7 million, while operating costs, including depreciation expense of \$1.6 million, were \$5.1 million and resulted in bioenergy segment operating income of \$2.6 million. In the previous quarter, revenues were \$7.8 million, while operating costs, including depreciation expense of \$1.7 million, were \$5.4 million and resulted in bioenergy segment operating income of \$2.4 million.

Interest on the power project term loan was approximately \$1.3 million for each quarter resulting in bioenergy segment adjusted EBITDA of \$4.2 million in the current quarter and \$4.1 million in the previous quarter. Adjusted EBITDA margin, defined as adjusted EBITDA as a percentage of sales, was approximately 54%.

Operating costs were higher than budgeted due primarily to costs related to outside service contractors, recruitment and training of additional personnel as we transition from third party service providers, enhanced workplace safety standards and additional regulatory work. Some of these extra costs are non-recurring and we continue to focus on normalizing costs.

The EPA with BC Hydro provides for a one-time option to increase our electricity deliveries by 10% for the duration of the contract term. Subsequent to the current quarter end, in April 2016, we notified BC Hydro that we would be exercising the option with increased deliveries to commence 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. The “turn down” most commonly occurs during the spring freshet when the abundance of water in rivers and reservoirs makes less expensive electricity available from other sources. 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 will only produce electricity to fulfill volume commitments under the Load Displacement Agreement. We will continue to be paid revenues based upon a reduced rate and on volumes that are generally reflective of recent average hourly megawatt production. As the reduced rate is intended to compensate for a large portion, but not all, of our fixed costs, we expect operating results to be somewhat lower than projected in the second quarter of 2016. The application of a time of delivery factor generally produces the lowest quarterly revenues of the year in the second quarter. We are working on modifying our operating plan to regain some of the revenue shortfall over the second half of 2016.

Liquidity and Capital Resources

Our net debt to capitalization ratio was 49% as at March 31, 2016 compared to 60% at December 31, 2015. Net debt at March 31, 2016 was \$27.0 million lower than at December 31, 2015 due primarily to the redemption of the PIK Note of \$30.0 million.

Our net debt to capitalization ratio, excluding borrowings for our power subsidiary that are non-recourse to our other operations, was 28% at March 31, 2016 compared to 42% at December 31, 2015.

At March 31, 2016, we had total liquidity of \$18.7 million, compared to \$22.6 million at December 31, 2015. Our investment in operating working capital of \$59.7 million was at a seasonal peak at March 31, 2016 due to the build in log inventories. Liquidity is expected to improve considerably in the second quarter of 2016 as log inventories are drawn to seasonal lows. The receipt of proceeds of \$20.0 million from the previously announced completion of the timber harvesting cooperation agreement in April 2016, which was applied to repay \$5.7 million of senior secured notes and our revolving credit facility, also provides additional liquidity.

Market Outlook

We currently expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors in 2016. We agree with forecasts calling for an approximate 6% increase in North American lumber consumption, and expect Canadian dollar denominated benchmark prices will average at least 5% higher than in 2015. The extent to which the anticipated increase in U.S. housing demand translates into higher selling prices will be influenced by potential increased supply from higher shipment volumes from Canadian and other suppliers into the U.S. market. The uncertainty related to the recent expiry of the Softwood Lumber Agreement may increase market volatility.

Although Chinese demand for lumber is forecast to decline in 2016, we currently expect our sales volume to China will remain similar to first quarter 2016 levels and anticipate a slight improvement in pricing in the second quarter. We expect steady demand but limited growth in the Japanese lumber market through the balance of the year.

Strategic Capital Expenditures

In the short-term, we expect modest capital expenditure outlays on maintenance of business types of projects for our lumber and bioenergy segments as well as a number of small high return projects in our lumber segment in 2016. Beyond the short-term, we are evaluating a number of larger scale capital projects including consideration of certain capital expenditures to modify and strengthen our fibre procurement operations at Mackenzie, partly to provide additional affordable feedstock for the Mackenzie power generation plant.

Conference Call

There will be a conference call held by the Company on Thursday, May 5, 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 18, 2016 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 1922599#.

The Company's management's discussion and analysis and financial statements for the quarter ended March 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.

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; 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 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.