



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces First Quarter 2018 Results**

May 15, 2018, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the first quarter ended March 31, 2018. EBITDA in the first quarter of 2018 was \$9.3 million, compared to \$17.5 million in the fourth quarter of 2017 and \$6.1 million in the first quarter of 2017. EBITDA included countervailing ("CV") and anti-dumping ("AD") duty expense on softwood lumber shipments to the U.S. of \$6.3 million in the first quarter of 2018 and \$1.9 million in the previous quarter.

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

	<u>Q1 2018</u>	<u>Q4 2017</u>	<u>Q1 2017</u>
	(millions of dollars except share and per share amounts and as otherwise noted)		
<b>Financial Highlights</b>			
Sales – lumber segment .....	\$ 123.3	\$ 124.5	\$ 93.5
Sales – bioenergy segment.....	<u>7.5</u>	<u>8.2</u>	<u>6.8</u>
	<u>\$ 130.8</u>	<u>\$ 132.7</u>	<u>\$ 100.3</u>
EBITDA .....	\$ 9.3	\$ 17.5	\$ 6.1
Operating income.....	\$ 7.0	\$ 14.7	\$ 1.5
Net income (loss) .....	\$ 2.5	\$ 8.0	\$ (1.4)
Net income (loss) per share – basic and diluted .....	\$ 0.10	\$ 0.30	\$ (0.06)
Shares outstanding – weighted average (millions).....	26.4	26.4	22.5
<b>Operating Highlights</b>			
Lumber production (MMfbm) .....	123.7	129.9	123.7
Lumber shipments – Conifex produced (MMfbm) .....	112.7	138.2	110.7
Lumber shipments – wholesale (MMfbm) .....	55.1	45.4	41.0
Electricity production (GWh) .....	50.5	55.2	46.3
Average exchange rate – US\$/Cdn\$( <sup>1</sup> ).....	0.791	0.787	0.756
Average WSPF 2x4 #2&Btr lumber price (US\$)( <sup>2</sup> ).....	\$ 513	\$ 462	\$ 348
<b>Reconciliation of adjusted EBITDA to Net Income (Loss)</b>			
Net income (loss) .....	\$ 2.5	\$ 8.0	\$ (1.4)
Add: Finance costs.....	\$ 1.6	\$ 1.6	\$ 2.6
Amortization .....	\$ 4.5	\$ 4.8	\$ 4.9
Deferred income tax expense .....	<u>\$ 0.7</u>	<u>\$ 3.1</u>	<u>\$ -</u>
EBITDA( <sup>3</sup> ) .....	<u>\$ 9.3</u>	<u>\$ 17.5</u>	<u>\$ 6.1</u>

Notes:

(1) Source: Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca).

(2) Source: Random Lengths Publications Inc.

(3) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization. We disclose EBITDA as it is a measure used by analysts and by our management to evaluate our performance. As EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by International Financial Reporting Standards, it may not be comparable to EBITDA calculated by others and is not a substitute for net earnings or cash flows.

**Overview**

Revenues of \$130.8 million in the first quarter of 2018 were generally consistent with the previous quarter and reflected an increase of 30% over the first quarter of 2017.

First quarter lumber segment operating income of \$6.7 million represented a decline of \$7.2 million from the prior quarter and an improvement of \$4.9 million over the first quarter of 2017. Lumber segment operating results included CV and AD duties expense of \$6.3 million in the first quarter of 2018 and \$1.9 million in the previous quarter. The bioenergy segment contributed operating earnings of \$2.0 million in the current quarter compared to \$2.9 million in the previous quarter and \$1.3 million in the same quarter last year. Corporate costs of \$1.7 million were similar to the first quarter last year and reduced by \$0.4 million from the previous quarter. Operating earnings were \$7.0 million for the current quarter compared to \$14.7 million in the previous quarter and \$1.5 million in the first quarter of 2017.

Net income for the first quarter of 2018 was \$2.5 million, or \$0.10 per share, compared to net income of \$8.0 million or \$0.30 per share in the previous quarter and a net loss of \$1.4 million or \$0.06 per share in the first quarter of 2017. Net income for the first quarter of 2018 and the fourth quarter of 2017 included realized and unrealized losses on derivative financial instruments of \$2.3 million and \$1.6 million, respectively. The losses from lumber futures contracts were generally attributable to the steady rise of commodity lumber prices throughout the first quarter of 2018 and the previous quarter.

### **Update on El Dorado Mill Operations**

We commenced shipment of residual products from our recently commissioned sawmill complex in El Dorado, Arkansas (the "El Dorado Mill") in November 2017 and modest lumber shipments in late December. We offset revenues generated from the El Dorado Mill in the fourth quarter of 2017 and the first quarter of 2018 to capitalized commissioning and start-up costs and have not included such revenues in operating results.

We had previously expected to commence recording of commercial operations midway through the first quarter of 2018. We have experienced lower operating rates in the sawmill and planer mill than anticipated due to continued training for new personnel, customary ramp-up issues related to integrating brownfield and greenfield equipment, and to some degree, periodic inclement weather conditions.

Shipments of Southern Yellow Pine were at an approximate annualized run rate of 70 million board feet in March 2018, equivalent to approximately 40% of two-shift capacity of 180 million board feet. In April, hourly productivity improved and we extended operating hours. Commercial operations will be recorded in our operating results commencing in April 2018.

### **Lumber Segment**

Lumber segment EBITDA was \$7.3 million in the first quarter of 2018 compared to \$15.5 million in the previous quarter and \$5.1 million in the first quarter of 2017. Lumber segment EBITDA in the first quarter of 2018 and the previous quarter included the aforementioned realized and unrealized losses on derivative financial instruments.

Prices for the bell-weather WSPF #2 & Btr product averaged US\$513 during the first quarter of 2018, an improvement of 11% over the previous quarter and 47% over the first quarter of 2017.<sup>1</sup> Combined CV and AD duty rates of 20.23% for most Canadian exporters of softwood lumber to the U.S. were in effect for the first quarter of 2018 and are expected to remain in effect for the balance of the year. The Canadian dollar strengthened against the U.S. dollar during the first quarter of 2018 and averaged US\$0.791, which represented a modest appreciation over the previous quarter and a 5% increase over the same quarter last year.<sup>2</sup>

Revenues from Conifex produced lumber were \$70.2 million in the first quarter of 2018. The decline of 13% from the previous quarter was mostly attributable to 18% lower shipment volumes which were somewhat offset by a 6% improvement in sales realizations. Lumber shipments were primarily impacted by constrained availability of railcars and trucks in Western Canada partly due to challenging weather conditions. The gain in sales realizations generally reflected stronger benchmark lumber prices. We shipped approximately 91% of production volumes in the first quarter of 2018. An increase in lumber

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<sup>1</sup> As quoted in Random Lengths Publications Inc.

<sup>2</sup> Source: Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca)

revenues of 24% over the same quarter last year was mainly attributable to improved sales realizations from higher benchmark prices which were somewhat offset by a stronger Canadian currency.

The increase in wholesale lumber revenues of approximately 28% over the previous quarter and 48% over the first quarter of 2017 was largely attributable to growth in shipment volumes of 21% and 34%, respectively.

Lumber production totalled approximately 124 million board feet in the first quarter of 2018 and the same quarter last year and represented an annualized operating rate of 94%, compared to 99% in the previous quarter. Productivity in the first quarter of 2018 was hampered by severe winter weather conditions at our BC mills. In the first quarter of 2017, production was reduced by the completion and ramp up of the new log line at our Mackenzie mill, and to a lesser extent, by inclement weather conditions.

Unit log costs increased by 9% over the previous quarter and 15% over the same quarter last year. The higher log costs were mainly attributable to higher market based stumpage and purchased log costs.

An increase in unit cash conversion costs of 11% from the previous quarter was mainly due to lower operating rates and seasonally elevated energy, labour and weather related maintenance costs. Year-over-year unit cash conversion costs were generally consistent.

We expensed CV and AD duty deposits of \$6.3 million, or \$56 per thousand board feet, in the first quarter of 2018 compared to \$1.9 million, or \$14 per thousand board feet, in the previous quarter. There were no softwood lumber duties applicable during the first quarter of 2017.

We recorded realized and unrealized losses on lumber futures contracts of \$2.3 million in the first quarter of 2018 and \$1.6 million in the previous quarter. The loss on derivative financial instruments in the first quarter of 2017 was minimal.

The lumber segment recorded operating income of \$6.7 million in the first quarter of 2018 compared to \$13.9 million in the previous quarter and \$1.8 million in the first quarter of 2017. Compared to the previous quarter, lumber segment operating results were impeded by higher CV and AD duty deposits expense, lower shipment volumes and operating rates and higher unit manufacturing costs which outweighed the benefit of improved sales realizations from higher benchmark lumber prices. Compared to the first quarter of 2017, an improvement in gross sales realizations was somewhat offset by softwood lumber duties expense and higher unit log costs.

Commenting on the Company's first quarter results, Conifex's CEO, Ken Shields, said, "We caution you against annualizing our first quarter results as a guide to our full year results. Our analysis indicates that the pattern of quarterly results we compiled last year – where only 13% of full year 2017 EBITDA was achieved in the first quarter – will likely be repeated in 2018. At our BC mills, EBITDA is highly sensitive to production and shipment volumes. For the 2018 calendar year, we expect lumber production and shipments will exceed 2017 volumes by about 15 million board feet."

### **Bioenergy Segment**

Our Mackenzie power generation plant (the "Mackenzie Power Plant") sold 50.5 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro ("EPA") in the first quarter of 2018, which represented approximately 92% of targeted operating rates. Unplanned outages during the quarter resulted in a reduction in electricity sales of 9% from the previous quarter. Current quarter electricity sales improved by 9% over the first quarter of 2017. Electricity sales and plant operating costs in the first quarter of 2017 were adversely impacted by several unplanned outages and challenging weather conditions, which impacted feedstock quality and deliverability. The unplanned outages contributed to increased maintenance related expenses including the use of outside service contractors.

Operating earnings in the bioenergy segment were \$2.0 million in the first quarter of 2018 compared to \$2.9 million in the previous quarter and \$1.3 million in the first quarter of 2017. The variability in operating income in the comparative quarters is primarily attributable to fluctuations in revenues as cash operating costs and amortization expense were generally consistent in each period. Bioenergy segment EBITDA

was \$3.6 million in the first quarter of 2018 compared to \$4.5 million in the previous quarter and \$2.8 million in the first quarter of 2017.

#### Dispatch Notice

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”. In January 2018, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of 112 days, encompassing the mid-May to early September 2018 period. Last year, the Mackenzie Power Plant, among others, was dispatched for 122 days encompassing the months of April, June, July and August. 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 44% at March 31, 2018 compared to 41% at December 31, 2017. We expect this ratio will improve from the reduction of operating working capital levels in the second quarter and contribution of cash flow from the El Dorado Mill in subsequent quarters.

Excluding the effects of borrowings by our subsidiary, Conifex Power Limited Partnership, which are non-recourse to our other operations, the net debt to capitalization ratio was 32% compared to 29% at December 31, 2017.

At March 31, 2018, we had total liquidity of \$37.3 million, compared to \$49.2 million at December 31, 2017 and \$61.6 million at March 31, 2017. The year-over-year reduction is generally due to capital expenditures related to the El Dorado Mill and increased levels of operating working capital.

#### **Operations and Market Outlook**

We expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We 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.

We expect to return to more typical operating rates at our BC mills in the second quarter of 2018 and a year-over-year gain in production levels from completed and planned capital upgrades. We expect a sequential improvement in lumber shipments as weather related transportation delays are largely alleviated over the next two quarters and lumber inventories return to normalized levels. We expect continued log cost inflation in our operating areas in the interior region of B.C. due to forecast heightened lumber prices which will contribute to higher market based stumpage and purchased log costs. We expect unit cash conversion costs to remain relatively consistent.

We expect to make sustained progress in productivity levels at the El Dorado Mill and continue to target annualized operating rates of approximately 90% by December 2018.

## Conference Call

We will hold a conference call on Wednesday, May 16, 2018 at 7:00 AM Pacific time/ 10:00 AM Eastern time to discuss the first 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 June 12, 2018 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 8706936#.

The Company's management's discussion and analysis and financial statements for the quarter ended March 31, 2018 are available under the Company's profile on SEDAR at [www.sedar.com](http://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](http://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.

## Reconciliation of Operating Income to EBITDA

	<u>Q1</u> <u>2018</u>	<u>Q4</u> <u>2017</u>	<u>Q1</u> <u>2017</u>
	(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)		
<b>Lumber Segment</b>			
Sales - Lumber - Conifex produced.....	70.2	81.0	56.7
- Lumber - wholesale.....	42.1	33.0	28.4
- By-products.....	6.3	6.5	5.4
- Logistics services.....	<u>4.7</u>	<u>4.0</u>	<u>3.0</u>
Total Sales	<u>123.3</u>	<u>124.5</u>	<u>93.5</u>
EBITDA .....	7.3	15.5	5.1
Amortization and other .....	2.9	3.2	3.3
Loss on derivative financial instruments.....	<u>(2.3)</u>	<u>(1.6)</u>	<u>-</u>
Operating income.....	<u>6.7</u>	<u>13.9</u>	<u>1.8</u>
	<u>Q1</u> <u>2018</u>	<u>Q4</u> <u>2017</u>	<u>Q1</u> <u>2017</u>
	(millions of dollars, other than statistical information, unaudited)		
<b>Bioenergy Segment</b>			
Electricity sales under EPA - GWh.....	50.5	55.2	46.3
Electricity revenues.....	7.5	8.2	6.8
EBITDA .....	3.6	4.5	2.8
Amortization .....	<u>1.6</u>	<u>1.6</u>	<u>1.5</u>
Operating income.....	<u>2.0</u>	<u>2.9</u>	<u>1.3</u>