



CONIFEX TIMBER INC.

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CONIFEX REPORTS 2018 YEAR END AND FOURTH QUARTER RESULTS

March 27, 2019, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported 2018 year end and fourth quarter results.

Selected Highlights

- Record revenues of approximately \$670 million in 2018, up approximately \$200 million, or 43%, from 2017.
- Strong 2018 Adjusted EBITDA of approximately \$40 million.
- Significantly expanded U.S. South footprint with commencement of commercial operations at El Dorado mill and acquisition of two additional mills adding 370 million board feet of high-value Southern Yellow Pine lumber capacity.
- Lumber production capacity increased approximately 50% to 1.1 billion board feet; 550 million board feet capacity in U.S. South.
- Overall lumber shipments totaled 875 million board feet, up approximately 30% from 2017.

Year-End Financial Results

Our revenues increased to a record \$669.9 million in 2018 from \$469.7 million in 2017, representing a year-over-year increase of 43%. The increase was aided by significant contributions from our U.S. South mills, which included production from El Dorado from April 2018 and from Cross City and Glenwood from July 2018, as well as higher average lumber prices and improved contributions from wholesale lumber shipments. Bioenergy segment revenues of \$26.8 million in 2018 were moderately higher than revenues of \$25.8 million in 2017.

Our lumber shipments totaled 875 million board feet in 2018 representing a 30% increase over 2017, while lumber production increased by 27% year-over-year and totaled 656 million board feet in 2018. Overall, our U.S. mills contributed about 200 million board feet of lumber in 2018, which more than offset an approximate 13% decline in production from our B.C. mills, where major challenges existed due to log costs increases, continued imposition of softwood lumber duty deposits, significant seasonal transportation limitations and an exceptionally difficult forest fire season. In the third quarter of 2018, we limited operations at our Fort St. James mill for several weeks due to forest fires, and in the fourth quarter we curtailed sawmill operations for about four weeks due to market conditions. The resultant lower operating rates at our Fort St. James mill resulted in over 40 million board feet of reduced production. Production from our B.C. mills totaled 454 million board feet in 2018. Shipments from our U.S. mills totalled 194 million board feet in 2018, while shipments from our B.C. mills during the year totalled 458 million board feet.

We recorded operating income of \$17.9 million in 2018 compared to \$31.4 million in 2017. Our lumber segment operating earnings included “countervailing” and “antidumping” duties on our U.S. shipments of \$24.7 million in 2018 compared to \$9.9 million in 2017. Bioenergy segment operating income increased approximately 20% year-over-year to \$9.1 million in 2018 from \$7.5 million in 2017, reflecting improved operating rates and lower operating costs.

Our lumber segment operating income of \$16.6 million in 2018 was adversely impacted by lower lumber shipments and operating rates and higher unit operating and log costs at our B.C. mills, higher operating costs at our Arkansas mills due to the addition of second shifts, negative year-over-year variances in our

countervailing and antidumping duties of \$14.8 million and inventory valuation adjustments of \$3.2 million. These factors outweighed the benefits of our significant revenue growth in 2018. Our lumber segment operating income in 2017 was \$31.4 million.

Adjusted EBITDA was \$40.4 million for 2018 and \$46 million for 2017. Lumber segment EBITDA was \$36.5 million in 2018 compared to \$43.3 million in 2017. Bioenergy segment EBITDA improved to \$14.2 million in 2018 from \$12.5 million in 2017.

We recorded a net loss for 2018 of \$7.1 million, or \$0.19 per diluted share, compared to net income of \$17 million, or \$0.67 per diluted share, for 2017. The 2018 net loss included a foreign exchange translation loss on long-term debt of \$8.8 million, loss on derivative financial instruments of \$1.1 million and one-time acquisition costs of our two new U.S. mills of \$2.2 million. Finance costs and accretion in 2018 increased by \$9.8 million over the previous year, primarily related to the accelerated amortization of financing costs of \$2.9 million for the early extinguishment of our previous credit facilities, financing costs for our new credit facilities and loans and higher interest from increased borrowings related to the acquisition of our new U.S. mills.

2018 Fourth Quarter Results

Slowing North American demand and excess supply placed significant downward pressure on lumber prices in the fourth quarter of 2018. Compared to the previous quarter, a 32% decline in U.S. dollar-denominated WSPF 2x4 #2 & Btr prices, nominally offset with a slightly weaker Canadian currency, resulted in a 31% or \$198 per thousand board feet fall in average Canadian dollar-denominated benchmark lumber prices in the fourth quarter of 2018. Benchmark SYP prices weakened by 10% or \$60 per thousand board feet measured in Canadian dollars.

Revenues were \$156.6 million in the fourth quarter of 2018, \$182.1 million in the previous quarter and \$132.7 million in the fourth quarter of 2017. Lumber segment revenues were \$148.6 million in the current quarter, \$176 million in the last quarter and \$124.5 million in the fourth quarter of last year. Electricity revenues in the current quarter were \$8.0 million, an increase of 31% over the previous quarter, which was mostly attributable to higher seasonal rates.

Quarter-over-quarter revenues from Conifex produced lumber decreased by 17% due primarily to lower sales realizations as overall shipments improved by 4% to 195 million board feet. Growth in shipments from our U.S. mills, which totaled 95 million board feet and represented a quarter-over quarter increase of 25%, more than offset an 11% reduction in shipments from our B.C. mills. The variance in shipment volumes generally reflected variability in production volumes and reduction of lumber inventories at our U.S. mills. A decline in unit sales realizations of 20% was mostly due to lower commodity lumber and decking prices. Wholesale lumber revenues fell by 19% due largely to lower sales realizations as shipments remained steady at approximately 41 million board feet. Compared to the fourth quarter of 2017, shipments from our B.C. mills mirrored lower production volumes and fell by 28%. The addition of shipments from our U.S. mills accounted for the overall higher shipment volumes. A decrease in wholesale lumber revenues of 7% was generally attributable to a 2% improvement in unit sales realizations outweighed by a 9% reduction in shipment volumes.

Production volumes of approximately 189 million board feet during the fourth quarter of 2018 represented a modest improvement from the previous quarter due to a 15% production increase from our U.S. mills which was partially offset by a 10% reduction at our B.C. mills. Our B.C. mills' results reflect reduced annualized operating rates of 69% in the fourth quarter of 2018 and 77% in the previous quarter due primarily to the temporary curtailments at the Fort St. James mill and seasonal holiday downtime. Annualized operating rates at our U.S. mills approached 70% in the fourth quarter of 2018 compared to 60% in the prior quarter as second shift production, added in August 2018, continued to ramp up at our Arkansas mills. The improvement in production volumes of 45% from the fourth quarter of 2017 reflected the addition of operations at the U.S. mills which more than offset lower operating rates at our B.C. mills which were due mostly to the curtailments at the Fort St. James mill.

We recorded an operating loss of \$15.2 million in the fourth quarter of 2018 compared to operating earnings of \$10.1 million in the previous quarter and \$14.7 million in the same quarter last year. Compared to the previous quarter, the variance in lumber segment operating results was mostly

attributable to lower sales realizations due to a steep decline in quarter-over-quarter lumber prices which outweighed the benefits of higher shipment volumes. Compared to the fourth quarter of 2017, lumber segment operating results were adversely impacted by lower sales realizations, higher softwood lumber duty deposits expense, higher log costs and lower operating rates at our B.C. mills, and higher amortization expense primarily related to the addition of our new U.S. mills.

Adjusted EBITDA was negative \$6.0 million for the fourth quarter of 2018 compared to adjusted EBITDA of \$16.3 million in the previous quarter and \$17.5 million for the fourth quarter of 2017. Lumber segment EBITDA was negative \$7.7 million in the fourth quarter of 2018, compared to \$17.7 million in the previous quarter and \$15.5 million in the same quarter last year. Bioenergy segment EBITDA was \$4.7 million in the fourth quarter of 2018, which represented improvements of 34% over the previous quarter and 4% over the fourth quarter of 2017.

We recorded a net loss for the current quarter of \$23.1 million or \$0.49 per diluted share, which included a foreign exchange loss on long-term debt of \$11.3 million compared to a gain of \$2.5 million in the previous quarter. We recorded net income of \$4.3 million or \$0.09 per diluted share in the previous quarter and \$8.0 million or \$0.30 per diluted share in the fourth quarter of 2017. Lumber segment operating loss was \$15.6 million in the fourth quarter of 2018 compared to operating earnings of \$9.3 million in the previous quarter and \$13.9 million in the same quarter last year. Bioenergy segment operating income of \$3.0 million in the fourth quarter of 2018 was generally consistent with each of the comparative quarters.

Selected Financial Highlights

The following table summarizes our selected financial information for the comparative periods:

	Q4 2018	Q3 2018	Q4 2017	2018	2017
	(in millions except share, exchange rate, pricing and electricity information)				
Financial Highlights					
Sales – lumber segment	\$ 148.6	\$ 176.0	\$ 124.5	\$ 643.1	\$ 443.9
Sales – bioenergy segment	8.0	6.1	8.2	26.8	25.8
	<u>\$ 156.6</u>	<u>\$ 182.1</u>	<u>\$ 132.7</u>	<u>\$ 669.9</u>	<u>\$ 469.7</u>
Adjusted EBITDA*	\$ (6.0)	\$ 16.3	\$ 17.5	\$ 40.4	\$ 46.0
Operating income (loss).....	\$ (15.2)	\$ 10.1	\$ 14.7	\$ 17.9	\$ 31.4
Net income (loss).....	\$ (23.1)	\$ 4.3	\$ 8.0	\$ (7.1)	\$ 17.0
Net income (loss) per share – basic and diluted.....	\$ (0.49)	\$ 0.09	\$ 0.30	\$ (0.19)	\$ 0.67
Shares outstanding – weighted average (millions)	46.6	45.3	26.4	36.3	25.4
Operating Highlights					
Lumber production (MMfbm).....	188.6	186.6	129.9	656.2	518.5
Lumber shipments – Conifex produced (MMfbm).....	194.6	187.6	138.2	652.6	512.7
Lumber shipments – wholesale (MMfbm).....	41.2	40.4	45.4	222.9	162.2
Electricity production (GWh)	54.6	54.7	55.2	211.3	207.7
Average exchange rate – US\$/Cdn\$(¹).....	0.757	0.765	0.787	0.772	0.771
Average WSPF 2x4 #2&Btr lumber price (US\$)(²)	\$ 327	\$ 482	\$ 462	\$ 480	\$ 401
Reconciliation of Adjusted EBITDA to Net Income (Loss)					
Net income (loss).....	\$ (23.1)	\$ 4.3	\$ 8.0	\$ (7.1)	\$ 17.0
Add: Finance costs	\$ 6.7	\$ 6.5	\$ 1.6	\$ 17.4	\$ 7.6
Amortization	\$ 9.3	\$ 7.0	\$ 4.8	\$ 26.3	\$ 18.3
Deferred income tax expense (recovery)	<u>\$ (10.2)</u>	<u>\$ 1.0</u>	<u>\$ 3.1</u>	<u>\$ (5.0)</u>	<u>\$ 3.1</u>
EBITDA(³).....	\$ (17.3)	\$ 18.8	\$ 17.5	\$ 31.6	\$ 46.0
Add: Foreign exchange (gain) loss on long-term debt.....	<u>\$ 11.3</u>	<u>\$ (2.5)</u>	<u>\$ -</u>	<u>\$ 8.8</u>	<u>\$ -</u>
Adjusted EBITDA*	<u>\$ (6.0)</u>	<u>\$ 16.3</u>	<u>\$ 17.5</u>	<u>\$ 40.4</u>	<u>\$ 46.0</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 foreign exchange translation on long-term debt. 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.

Liquidity

We ended the year with liquidity of \$17.8 million, compared to \$49.2 million at the end of 2017. The decreased liquidity was due mostly to declines in lumber prices in the second half of the year, duty deposits on US shipments, escalating log costs at our BC mills and increased debt to fund the acquisition of our new U.S. mills. We have taken a number of actions to reduce cash outflows at our BC mills, increase cash inflows at our US mills, and more actively manage debt and working capital levels. We are also prioritizing operational enhancements and cost controls as our two Arkansas mills ramp up two-shift production to targeted operating rates. We expect our US mills to provide additional reliable sources of cash flow as productivity and other operational improvements continue to progress throughout 2019. We are also reviewing other options to increase liquidity, such as reducing discretionary capital expenditures and monetizing non-core assets.

During the fourth quarter of 2018, we and our lenders amended certain terms under our secured credit facility to eliminate certain financial covenants for the measurement date ending December 31, 2018. Subsequently, in 2019, we entered into further amendments, which included the elimination of measurement of the financial covenants until the quarter ended March 31, 2020; an increase ranging from 1% to 2.25% in the applicable margin rate depending on the maximum total leverage ratio; revisions to availability under the revolving credit facility and a periodic reduction of the revolving credit facility. The reduction in the revolving credit facility is not expected to materially impact on forecasted borrowing base availability.

The amendments also provide for accelerated repayment of the term loan from additional scheduled repayments and an increase in the annual non-scheduled principal repayments from 50% to 80% of excess cash flow commencing in the second quarter of 2020. Additionally, the term of the credit facility was revised to mature on June 30, 2021. We were in compliance with our covenants under our credit facilities for the year ended December 31, 2018.

Our net debt to capitalization ratio was 47% at December 31, 2018 compared to 41% at December 31, 2017. Net debt at December 31, 2018 was \$307.0 million compared to \$143.7 million at December 31, 2017. The change in net debt was primarily due to borrowings under our credit facility to help finance the purchase of our Glenwood and Cross City mills. Our net debt to capitalization ratio, excluding borrowings for our power segment that are non-recourse to our other operations, was 42% at December 31, 2018 compared to 29% at December 31, 2017.

Outlook

We believe current lumber prices do not properly reflect fundamental supply and demand factors that are expected to drive lumber pricing through the remainder of 2019 and 2020.

The BC interior is the second largest softwood lumber supplier to the North American market. Permitted sawtimber harvest levels in the region are expected to be reduced to long-term sustainable levels to adjust for the mountain pine beetle epidemic. We expect lumber consumption will continue to grow over the next two years, driven by a continuation of gradual increases in new residential construction and more substantial increases in repair and remodeling demand. We expect growth in lumber demand will outpace the growth in new supply, capacity utilization rates will remain elevated and lumber prices, while volatile, will improve.

We expect sequential quarterly improvements in our lumber production and shipment volumes in 2019 as operating rates at our BC mills normalize and we continue to ramp up production at our Arkansas mills.

Conference Call

There will be a conference call held by the Company on Wednesday, March 27, 2019 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 647-484-0475 or toll free 888-220-8451. The call will also be available on instant replay access until April 27, 2019 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 6068453#.

The Company's management's discussion and analysis and financial statements for the year ended December 31, 2018 will be available under the Company's profile on SEDAR at www.sedar.com.

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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 and Glenwood mills. Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management that the US housing market will continue to improve; that there will be no unforeseen disruptions affecting the operation of our power generation plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do 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.

*Reconciliation of Operating Income to EBITDA

	<u>Q4</u> <u>2018</u>	<u>Q3</u> <u>2018</u>	<u>Q4</u> <u>2017</u>	<u>2018</u>	<u>2017</u>
Lumber Segment					
(millions of dollars)					
Sales – Lumber – Conifex produced segment.....	98.5	118.3	81.0	392.9	281.8
– Lumber – wholesale.....	30.6	37.8	33.0	182.7	118.5
– By-products.....	15.7	14.8	6.5	48.1	26.1
– Logistics services.....	<u>3.8</u>	<u>5.1</u>	<u>4.0</u>	<u>19.4</u>	<u>17.5</u>
Total Sales	<u>148.6</u>	<u>176.0</u>	<u>124.5</u>	<u>643.1</u>	<u>443.9</u>
EBITDA	(7.7)	17.7	15.5	36.5	43.3
Amortization	7.4	6.4	3.2	21.0	13.8
Gain (loss) on derivative financial instruments	<u>0.5</u>	<u>2.0</u>	<u>(1.6)</u>	<u>(1.1)</u>	<u>(1.9)</u>
Operating income	<u>(15.6)</u>	<u>9.3</u>	<u>13.9</u>	<u>16.6</u>	<u>31.4</u>
	<u>Q4</u> <u>2018</u>	<u>Q3</u> <u>2018</u>	<u>Q4</u> <u>2017</u>	<u>2018</u>	<u>2017</u>
Bioenergy Segment					
(millions of dollars)					
Electricity sales under EPA - GWh.....	54.6	54.7	55.2	211.3	207.7
Electricity revenues.....	8.0	6.1	8.2	26.8	25.8
EBITDA	4.7	3.5	4.5	14.2	12.5
Amortization	<u>1.7</u>	<u>0.7</u>	<u>1.6</u>	<u>5.1</u>	<u>5.0</u>
Operating income	<u>3.0</u>	<u>2.8</u>	<u>2.9</u>	<u>9.1</u>	<u>7.5</u>