



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces First Quarter 2019 Results

May 14, 2019, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the first quarter ended March 31, 2019. Adjusted EBITDA* was negative \$2.7 million for the quarter, which represented an improvement of \$4.5 million over the fourth quarter of 2018, attributable to an improvement in lumber segment EBITDA of \$1.9 million and in corporate and unallocated items EBITDA of \$2.6 million. Compared to the first quarter of 2018, bioenergy segment EBITDA** improved by \$1.1 million and lumber segment EBITDA declined by \$12.6 million. Lumber segment EBITDA included softwood lumber duties expense of \$3.8 million in the first quarter of 2019, \$3.7 million in the fourth quarter of 2018 and \$6.2 million in the first quarter of 2018.

Selected Financial Highlights

The following table summarizes our selected financial information for the comparative periods. Unless otherwise noted, financial information reflects results of continuing operations. Discontinued operations comprise the previously announced sale of Lignum Forest Products LLP ("Lignum") in March 2019.

	<u>Q1</u> <u>2019</u>	<u>Q4</u> <u>2018</u>	<u>Q1</u> <u>2018</u>
	(millions of dollars except share and per share amounts and as otherwise noted)		
Financial Highlights			
Sales – lumber segment	\$ 125.5	\$ 128.2	\$ 85.8
Sales – bioenergy segment.....	<u>8.2</u>	<u>8.0</u>	<u>7.5</u>
	<u>\$ 133.7</u>	<u>\$ 136.2</u>	<u>\$ 93.3</u>
Adjusted EBITDA*	\$ (2.7)	\$ (7.2)	\$ 8.2
Operating income (loss)	\$ (12.4)	\$ (15.3)	\$ 6.3
Net income (loss) from continuing operations	\$ (12.0)	\$ (24.0)	\$ 1.6
Net income (loss) from discontinued operations	\$ 0.2	\$ 1.0	\$ 1.0
Net income (loss) ⁽¹⁾	\$ (11.9)	\$ (23.0)	\$ 2.5
Basic and diluted earnings (loss) per share			
Continuing operations	\$ (0.25)	\$ (0.51)	\$ 0.06
Discontinued operations.....	\$ -	\$ 0.02	\$ 0.04
Total basic and diluted earnings (loss) per share.....	\$ (0.25)	\$ (0.49)	\$ 0.10
Shares outstanding – weighted average (millions).....	46.6	46.6	26.4
Operating Highlights			
Lumber production (MMfbm)	178.0	188.6	123.7
Lumber shipments – Conifex produced (MMfbm)	184.0	194.6	112.7
Lumber shipments – wholesale (MMfbm)	16.6	12.8	7.4
Electricity production (GWh)	55.6	54.6	50.5
Average exchange rate – US\$/Cdn\$ ⁽²⁾	0.752	0.757	0.791
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 372	\$ 327	\$ 514
Average SYP 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 402	\$ 419	\$ 540
Reconciliation of Adjusted EBITDA to Net Income (Loss)			
Net income (loss) from continuing operations	\$ (12.0)	\$ (24.0)	\$ 1.6
Add: Finance costs.....	\$ 6.1	\$ 6.5	\$ 1.5
Amortization	\$ 9.2	\$ 9.2	\$ 4.4
Deferred income tax expense	<u>\$ (1.5)</u>	<u>\$ (10.2)</u>	<u>\$ 0.7</u>

EBITDA ⁽⁴⁾	\$ 1.8	\$ (18.5)	\$ 8.2
Add: Foreign exchange (gain) loss on long-term debt	\$ (4.5)	\$ 11.3	\$ -
Adjusted EBITDA from continuing operations	\$ (2.7)	\$ (7.2)	\$ 8.2

Notes:

- (1) May not total due to rounding.
- (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. 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.

*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.

Consolidated Net Earnings

During the first quarter of 2019, we incurred a net loss of \$11.9 million, or \$0.25 per share, compared to a net loss of \$23.0 million or \$0.49 per share in the previous quarter and net income of \$2.5 million or \$0.10 per share in the first quarter of 2018.

Continuing Operations

Our revenues totaled \$133.7 million in the first quarter of 2019, a 2% decline from the prior quarter and an improvement of 43% over the same quarter last year. Compared to the first quarter of 2018, revenue growth was largely derived from the addition of our US mills and partially offset by lower shipments and unit sales realizations from our BC mills. Bioenergy segment revenues were generally consistent with the previous quarter and improved by 9% over the first quarter of 2018.

We recorded operating losses of \$13.5 million in the lumber segment in the first quarter of 2019 and \$15.8 million in the previous quarter and operating earnings of \$6.0 million in the first quarter of 2018. Lumber segment operating results included countervailing and anti-dumping duty expense of \$3.8 million in the first quarter of 2019, \$3.7 million in the fourth quarter of 2018 and \$6.2 million in the first quarter of 2018. The bioenergy segment contributed operating earnings of \$3.0 million in the first quarter of 2019 and in the previous quarter, an improvement of 50% over the first quarter of 2018. Corporate costs of \$1.9 million represented a reduction of \$0.6 million from the previous quarter and an increase of \$0.2 million over first quarter of 2018.

Net income from continuing operations included a foreign exchange gain on long-term debt of \$4.5 million in the first quarter of 2019 and a loss of \$11.3 million in the previous quarter. Finance costs were \$6.1 million in the first quarter of 2019, \$6.5 million in the previous quarter and \$1.5 million in the first quarter of 2018. We recognized deferred income tax recovery of \$1.5 million in the first quarter of 2019 and \$10.2 million in the previous quarter and deferred income tax expense of \$0.7 million in the same quarter last year.

Lumber Segment – Continuing Operations

Reduced Operating Rates at our BC and US Mills

Our lumber segment operating results were hampered by lower operating rates which resulted in higher unit cash conversion costs at our Fort St. James, BC mill (the "FSJ Mill") and our El Dorado and Glenwood, Arkansas mills in the first quarter of 2019 and the fourth quarter of 2018.

In the fourth quarter of 2018, we curtailed sawmill operations at the FSJ Mill for a total of approximately four weeks due primarily to market conditions reflecting lower lumber prices and elevated log costs, exacerbated by the ongoing imposition of softwood lumber duties. The lower operating rates at the FSJ Mill resulted in approximately 23 million board feet of reduced production in the fourth quarter of 2018.

The previously announced temporary reduction of operating capacity at the FSJ Mill commenced on January 1, 2019, with the reduced operating format expected to continue until about mid-2019. In addition, sawmill operations at the FSJ Mill were temporarily curtailed for three weeks in February. We

expect the curtailments to result in an estimated 28% reduction in lumber production from our BC mills for the first six months of 2019. Lumber production at our BC mills totalled approximately 74 million board feet during the first quarter of 2019 which represented an annualized operating rate of 54% compared to 69% in the previous quarter and 92% in the first quarter of 2018.

Our US mills produced Southern Yellow Pine (“SYP”) lumber at an annualized run rate of approximately 418 million board feet in the first quarter of 2019 and 380 million board feet in the fourth quarter of 2018. Production levels in the first quarter of 2019, on an annualized basis, represented approximately 89% of targeted levels for 2019 and 76% of two-shift dimension lumber production capacity of 550 million board feet. Production at our US mills of approximately 105 million board feet represented growth of 10% over the previous quarter and contributed 60% of overall production.

Overall operating results from our Arkansas mills continue to be hampered by higher operating costs related to the additional costs and ramp up of second shifts, which commenced in August 2018, without the attendant benefit of full two-shift productivity. We expect unit cash conversion costs to normalize in the second half of 2019 as operating rates approach targeted levels.

Lumber Segment Operating Results

Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$372 during the first quarter of 2019, an improvement of 14% over the previous quarter and a decline of 28% over the first quarter of 2018. Benchmark prices for SYP Westside averaged US\$402 during the first quarter of 2019, a decline of 4% from the previous quarter and 26% from the first quarter of 2018.¹

The US dollar averaged US\$0.752 for each Canadian dollar during the first quarter of 2019, which represented a modest weakening of the Canadian dollar compared to the previous quarter and weakening of 5% compared to the same quarter last year². Canadian dollar-denominated benchmark WSPF prices, which averaged \$495 in the first quarter of 2019, improved by 15% or \$63 from the previous quarter and declined by 24% or \$155 from the first quarter of 2018.³

Revenues from Conifex produced lumber were \$96.5 million in the first quarter of 2019 and represented a 2% decline from the previous quarter. Compared to the previous quarter, a decline in shipment volumes of 5% outweighed an improvement in sales realization of 4%. Shipments from our BC mills declined by 21% and mirrored lower production levels resulting from the change in operating format and temporary curtailment at the FSJ Mill. Shipments from the US mills increased by 11% and reflected similar improvements in production volumes. Compared to the first quarter of 2018, revenue growth of 37% was primarily attributable to the addition of shipments from the US mills, partially offset by 30% lower shipment volumes from our BC mills and a decline in sales realizations due to weaker lumber prices.

Wholesale lumber revenues increased by 15% over the previous quarter and more than doubled compared to the same quarter last year.

Unit log costs were relatively flat quarter-over quarter and increased by 14% over the same quarter last year at our BC mills. The higher log costs were mainly attributable to higher market-based stumpage and purchased log costs. Unit log costs at our El Dorado and Cross City mills were generally consistent with the prior quarter. We experienced higher unit log costs and periodic production disruptions at our Glenwood mill due to extreme wet weather conditions which constrained log availability and heightened local competition for logs in the first quarter of 2019 and the previous quarter.

An increase in depreciation and amortization expense of \$4.7 million over the first quarter of 2018 was largely attributable to our expanded operations in the US South.

We recorded a positive inventory valuation adjustment of \$1.6 million in the first quarter of 2019 and inventory write downs of \$1.4 million in the previous quarter and \$0.6 million in the first quarter of 2018.

¹ As quoted in Random Lengths Publications Inc.

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

³ Represents average WSPF 2x4 #2&Btr lumber price (US\$) divided by average exchange rate.

We expensed countervailing and anti-dumping duty deposits of \$3.8 million in the first quarter of 2019, \$3.7 million in the previous quarter and \$6.2 million in the first quarter of 2018. The duty deposits were based on a combined rate of 20.23%.

The lumber segment recorded operating losses of \$13.5 million in the first quarter of 2019 and \$15.8 million in the previous quarter and operating income of \$6.0 million in the first quarter of 2018. Compared to the previous quarter, lumber segment operating results were hampered by lower overall lumber shipments and operating rates, and higher unit operating costs at our BC mills, which outweighed the benefits of improved sales realization and a positive quarter-over-quarter variance in inventory valuation adjustments. Compared to the first quarter of 2018, lumber segment operating results were challenged by lower operating rates and higher unit operating and log costs at our BC mills, elevated operating costs at our Arkansas mills due to the ongoing ramp up of production, higher depreciation expense and lower sales realizations from our BC mills due to weaker lumber prices. These factors were partially offset by overall revenue growth from increased lumber and residual shipments, lower duty deposit expense and a positive inventory valuation adjustment.

Lumber segment EBITDA was negative \$6.0 million in the first quarter of 2019, an improvement of \$1.9 million over the previous quarter. Lumber segment EBITDA was \$6.6 million in the first quarter of 2018.

Liquidity

We ended the first quarter of 2019 with liquidity of \$11.1 million, compared to \$17.8 million at the end of 2018. The decreased level of liquidity over the recent past six months 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 certain assets that are not central to our mid- and long-term development as a North American lumber producer.

Subsequent to the end of our reporting quarter, we enhanced our liquidity with the completion of the sale of Lignum on April 1, 2019 and utilized the proceeds of approximately US\$11.5 million to partially repay a portion of the revolving credit facility.

Our net debt to capitalization ratio was 49% at March 31, 2019 compared to 47% at December 31, 2018. Net debt at March 31, 2019 was \$309.8 million compared to \$307.0 million at December 31, 2018. Our net debt to capitalization ratio, excluding borrowings for our power segment that are largely non-recourse to our other operations, was 43% at March 31, 2019 compared to 42% at December 31, 2018.

Outlook

We continue to believe that 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.

Regarding lumber supply, the interior region of BC is the second largest source of softwood lumber supply to the North American market. Permitted sawtimber harvest levels in the region are in the process of being reduced to long term sustainable levels to adjust for the mountain pine beetle ("MPB") epidemic. In terms of lumber demand, 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 the growth in lumber demand will outpace the growth in net new supply, capacity utilization rates will remain elevated, and lumber prices, while remaining volatile, will improve.

Conference Call

We will hold a conference call on Tuesday, May 14, 2019 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 647-484-0475 or toll free 888-220-8474. The call will also be available on instant replay access until June 14, 2019 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 6192133#.

The Company's management's discussion and analysis and financial statements for the quarter ended March 31, 2019 are 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; expected adjustments to sawtimber harvest levels; planned capital expenditures and benefits that may accrue to the Company as a result of capital expenditure programs; U.S. benchmark lumber prices; operating rates; operating capacity changes and curtailments; unit cash conversion costs; the Company's net debt to capitalization ratio; 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 2018 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 – Continuing Operations

	<u>Q1</u> <u>2019</u>	<u>Q4</u> <u>2018</u>	<u>Q1</u> <u>2018</u>
	(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)		
Lumber Segment			
Sales - Lumber - Conifex produced.....	96.5	98.5	70.2
- Lumber - wholesale.....	11.7	10.2	4.6
- By-products.....	14.1	15.7	6.3
- Logistics services.....	<u>3.2</u>	<u>3.8</u>	<u>4.7</u>
Total Sales	<u>125.5</u>	<u>128.2</u>	<u>85.8</u>
EBITDA	(6.0)	(7.9)	6.6
Amortization and other	7.5	7.5	2.8
Loss on derivative financial instruments.....	<u>-</u>	<u>0.4</u>	<u>(2.2)</u>
Operating income.....	<u>(13.5)</u>	<u>(15.8)</u>	<u>6.0</u>
	<u>Q1</u> <u>2019</u>	<u>Q4</u> <u>2018</u>	<u>Q1</u> <u>2018</u>
	(millions of dollars, other than statistical information, unaudited)		
Bioenergy Segment			
Electricity sales under EPA - GWh.....	55.6	54.6	50.5
Electricity revenues.....	8.2	8.0	7.5
EBITDA	4.7	4.7	3.6
Amortization	<u>1.7</u>	<u>1.7</u>	<u>1.6</u>
Operating income.....	<u>3.0</u>	<u>3.0</u>	<u>2.0</u>