



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Second Quarter 2019 Results

August 14, 2019, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the second quarter ended June 30, 2019. Adjusted EBITDA from continuing operations* was negative \$13.2 million for the quarter, which represented a decrease of \$10.5 million over the first quarter of 2019, primarily attributable to reduced operating earnings. An increase in EBITDA from continuing operations** of \$2.0 million compared to the previous quarter was primarily attributable to improved net earnings. Compared to the first quarter of 2019, adjusted EBITDA for the lumber segment declined by \$6.8 million, for the bioenergy segment declined by \$3.2 million and for corporate and other unallocated items declined by \$0.5 million. Lumber segment adjusted EBITDA included softwood lumber duties expense of \$2.5 million in the second quarter of 2019, \$3.8 million in the first quarter of 2019 and \$8.2 million in the second 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 in March 2019.

	<u>Q2</u> <u>2019</u>	<u>Q1</u> <u>2019</u>	<u>Q2</u> <u>2018</u>	<u>YTD</u> <u>2019</u>	<u>YTD</u> <u>2018</u>
(millions of dollars except share and per share amounts and as otherwise noted)					
Financial Highlights					
Sales – lumber segment	\$ 91.3	\$ 125.5	\$ 133.6	\$ 216.8	\$ 219.4
Sales – bioenergy segment	4.4	8.2	5.1	12.6	12.6
	<u>\$ 95.7</u>	<u>\$ 133.7</u>	<u>\$ 138.7</u>	<u>\$ 229.5</u>	<u>\$ 232.0</u>
Adjusted EBITDA from continuing operations*	\$ (13.2)	\$ (2.7)	\$ 19.2	\$ (15.9)	\$ 27.4
Operating earnings (loss).....	\$ (20.5)	\$ (12.4)	\$ 14.7	\$ (32.9)	\$ 21.0
Net income (loss) from continuing operations	\$ (8.3)	\$ (12.0)	\$ 7.7	\$ (20.4)	\$ 9.3
Net income (loss) from discontinued operations.....	\$ (0.8)	\$ 0.2	\$ 1.4	\$ (0.6)	\$ 2.4
Net income (loss) ⁽¹⁾	\$ (9.1)	\$ (11.9)	\$ 9.2	\$ (21.0)	\$ 11.7
Basic and diluted earnings (loss) per share...					
Continuing operations.....	\$ (0.18)	\$ (0.25)	\$ 0.30	\$ (0.44)	\$ 0.35
Discontinued operations	\$ (0.1)	\$ -	\$ 0.05	\$ 0.01)	\$ 0.09
Total basic and diluted earnings (loss) per share	\$ (0.19)	\$ (0.25)	\$ 0.35	\$ (0.45)	\$ 0.44
Shares outstanding – weighted average (millions)	46.6	46.6	26.5	46.6	26.5
Operating Highlights					
Lumber production (MMfbm).....	134.7	178.0	157.4	312.7	281.1
Lumber shipments – Conifex produced (MMfbm).....	149.2	184.0	157.6	333.1	270.3
Lumber shipments – wholesale (MMfbm).....	5.4	16.6	15.1	22.0	22.4
Electricity production (GWh)	47.2	55.6	51.5	102.8	102.0
Average exchange rate – US\$/Cdn\$ ⁽²⁾	0.748	0.752	0.775	0.750	0.783
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	\$ 333	\$ 372	\$ 598	\$ 352	\$ 556
Average SYP 2x4 #2 lumber price (US\$) ⁽³⁾	\$ 371	\$ 402	\$ 574	\$ 386	\$ 557
Reconciliation of adjusted EBITDA to Net Income (Loss)					
Net income (loss) from continuing operations	\$ (8.3)	\$ (12.0)	\$ 7.7	\$ (20.4)	\$ 9.3
Add: Finance costs	\$ 7.4	\$ 6.1	\$ 2.5	\$ 13.6	\$ 3.9
Amortization.....	\$ 7.4	\$ 9.2	\$ 5.5	\$ 16.6	\$ 10.0
Deferred income tax expense	\$ (2.7)	\$ (1.5)	\$ 3.5	\$ (4.2)	\$ 4.2

EBITDA from continuing operations ⁽⁴⁾	\$ 3.8	\$ 1.8	\$ 19.2	\$ 5.6	\$ 27.4
Add: Foreign exchange (gain) loss on long-term debt	\$ (4.4)	\$ (4.5)	\$ -	\$ (8.9)	\$ -
Gain on sale of right to duty refunds	\$ (12.6)	\$ -	\$ -	\$ (12.6)	\$ -
Adjusted EBITDA from continuing operations	\$ (13.2)	\$ (2.7)	\$ 19.2	\$ (15.9)	\$ 27.4

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.

*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 and a gain on the sale of our interest in any duty refunds related to entries of softwood lumber shipments during 2017 and 2018 of \$12.6 million (the "Duties Sale"). 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 or cash flows.

Consolidated Net Earnings

During the second quarter of 2019, we incurred a net loss of \$9.1 million, or \$0.19 per share, compared to a net loss of \$11.9 million or \$0.25 per share in the previous quarter and net income of \$9.2 million or \$0.35 per share in the second quarter of 2018.

Continuing Operations

Our revenues totaled \$95.7 million in the second quarter of 2019, a 28% decline from the prior quarter and 31% from the same quarter last year. The lower revenues were largely attributable to the lumber segment, which recorded reduced shipments reflecting lower operating rates at our BC and Arkansas mills and a decline in sales realizations due to weaker lumber prices, particularly compared to the second quarter of 2018. Bioenergy segment revenues were generally consistent with seasonal patterns, reflecting plant dispatch periods in the second quarters of 2019 and 2018.

We recorded operating losses of \$19.1 million in the lumber segment in the second quarter of 2019 and \$13.5 million in the previous quarter compared to operating earnings of \$14.9 million in the second quarter of 2018. Lumber segment operating results included CV and AD duties expense of \$2.5 million in the second quarter of 2019, \$3.8 million in the first quarter of 2019 and \$8.2 million in the second quarter of 2018. Bioenergy segment operating earnings were generally consistent year-over-year and contributed operating earnings of \$3.6 million in the first six months of 2019 and \$3.4 million in the same period last year. Corporate costs of \$2.0 million were consistent with the previous quarter and represented an increase of \$0.5 million over second quarter of 2018 due mainly to the expansion of our US South operations.

Net income from continuing operations included foreign exchange gains on long-term debt of \$4.4 million in the second quarter of 2019 and \$4.5 million in the previous quarter. Finance costs were \$7.4 million in the second quarter of 2019, \$6.1 million in the previous quarter and \$2.4 million in the second quarter of 2018. We recorded a gain on the Duties Sale of \$12.6 million as other income in the second quarter of 2019.

Lumber Segment – Continuing Operations

Operating Rates at our 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 sawmill complex (the "FSJ Mill") and our El Dorado and Glenwood, Arkansas mills in the first half of 2019 and our Mackenzie, BC mill (the "Mackenzie Mill") in the second quarter of 2019.

In response to market conditions characterized by lower lumber prices, continued imposition of softwood lumber duties, and elevated log costs in the northern interior of BC, we implemented a temporary change in operating format at our FSJ Mill in January 2019 which reduced investment in working capital and overall operating costs. Additionally, similar to a number of other BC interior lumber producers, we undertook temporary production curtailments at our BC mills. Production at the FSJ Mill was curtailed for a three-week period in February 2019 and has been largely curtailed since May 2019. Production at the Mackenzie Mill was curtailed for four weeks in May 2019 and resumed in early June on a modified four-

day, two-shift configuration. Subsequent to quarter end, we announced further temporary curtailments of the Mackenzie Mill for a five-week period.

Our US mills produced Southern Yellow Pine (“SYP”) lumber at an annualized run rate of approximately 348 million board feet in the second quarter of 2019, 418 million board feet in the first quarter of 2019 and 100 million board feet in the second quarter of 2018. Production levels in the first half of 2019, on an annualized basis, represented approximately 82% of targeted levels for 2019 and 70% of two-shift dimension lumber production capacity of 550 million board feet.

The El Dorado and Glenwood mills were converted to single-shift operating configurations on June 4 and June 17, 2019, respectively. We plan to extend operating hours at the Glenwood mill over the next several months. The lower operating rates at our Arkansas mills are expected to improve hourly productivity and reduce overall operating costs and investment in working capital. Our Cross City mill continues to contribute positively to operating results.

Lumber Segment Operating Results

Prices for the bell-weather WSPF #2 & Btr product averaged US\$333 during the second quarter of 2019, a decline of 10% from the previous quarter and 44% from the second quarter of 2018. Benchmark prices for SYP Westside averaged US\$371 during the second quarter of 2019, a decline of 8% from the previous quarter and 35% from the second quarter of 2018.¹

The U.S. dollar averaged US\$0.748 for each Canadian dollar during the second quarter of 2019, a level generally consistent with the previous quarter and represented a weakening of the Canadian dollar of 3% compared to the same quarter last year.² Canadian dollar-denominated benchmark WSPF prices, which averaged \$445 in the second quarter of 2019, declined by 10% or \$50 from the previous quarter and 42% or \$327 from the second quarter of 2018.³

Shipments of Conifex produced lumber, which totaled approximately 149 million board feet in the second quarter of 2019, outpaced total production by over 14 million board feet in the current quarter and by 20 million board feet in the first half of 2019. Shipments of Conifex produced lumber declined by 19% from the previous quarter and by 5% from the second quarter of 2018.

Revenues from Conifex produced lumber were \$73.6 million in the second quarter of 2019 and represented declines of 24% from the previous quarter and 31% from the second quarter of 2018. Compared to the prior quarter, lower revenues were mainly attributable to reductions in shipment volumes of Conifex produced lumber of 19% and in unit sales realizations of 6%. Compared to the second quarter of 2018, the lower revenues were primarily due to decreases in unit sales realization of 27% and in shipment volumes of 5%.

Wholesale lumber revenues and shipments varied in the comparative quarters but were generally consistent on a year-to-date basis. Our wholesale lumber shipments and revenues can fluctuate widely from time to time depending on market conditions and opportunities for profitable trades.

Unit log costs increased by 6% over the previous quarter and 19% 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 extremely wet weather conditions, particularly in the first quarter of 2019, which constrained log availability and heightened local competition for logs.

An increase in depreciation and amortization expense of \$6.5 million in the first six months of 2019 compared to the same period last year was largely attributable to our expanded operations in the US South.

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 recorded an inventory write-down of \$0.4 million in the second quarter of 2019 compared to positive valuation adjustments of \$1.6 million in the previous quarter and \$0.6 million in the second quarter of 2018.

We expensed countervailing and anti-dumping duty deposits of \$2.5 million in the second quarter of 2019, \$3.8 million in the previous quarter and \$8.2 million in the second quarter of 2018. The duty deposits were based on a combined rate of 20.23%.

The lumber segment recorded operating losses of \$19.1 million in the second quarter of 2019 and \$13.5 million in the previous quarter and operating income of \$14.9 million in the second quarter of 2018. Compared to the previous quarter, lumber segment operating results were hampered by lower shipment volumes, sales realizations and operating rates, higher unit log and cash conversion costs and unfavorable quarter-over-quarter variance in inventory valuations. Compared to the second quarter of 2018, lumber segment operating results were challenged by significantly weaker lumber prices resulting in lower sales realizations, reduced shipment volumes and operating rates, and higher unit log and cash conversion costs. These factors were partially offset by a lower duty deposit expense.

Lumber segment EBITDA was negative \$12.8 million in the second quarter of 2019 compared to negative \$6.0 million in the previous quarter and \$18.1 million in the second quarter of 2018. Lumber segment EBITDA was negative \$18.9 million for the six months ended June 30, 2019 and \$24.7 million for the six months ended June 30, 2018.

Bioenergy Segment

Bioenergy segment EBITDA was \$6.2 million for the first six months of 2019 and represented a modest improvement over the same period last year.

Our power generation plant at Mackenzie, BC (the "Mackenzie Power Plant") sold 47.2 gigawatt hours of electricity under our Electricity Purchase Agreement (the "EPA") with BC Hydro and Power Authority ("BC Hydro") in the second quarter of 2019, which represented approximately 86% of targeted operating rates. The Mackenzie Power Plant took planned major maintenance shutdown days in May 2019 which resulted in lower billable gigawatt hours during the dispatch period. Current quarter electricity revenues were 46% lower than the first quarter of 2019 due to lower operating and seasonal rates, coupled with slightly reduced rates during the dispatch period. Electricity revenues decreased by 14% compared to the same quarter last year due primarily to lower operating rates and a slightly longer dispatch period during the current quarter. Year-to-date revenues and operating rates were consistent, at \$12.6 million and approximately 94%, respectively.

The adverse impact on our cash flow from weaker lumber prices, payments of duty deposits and increased log costs in BC, together with increased debt levels related to our US expansion, have constrained liquidity. As a result, we are actively reviewing options to increase liquidity and meet scheduled commitments, including reviewing the possible sale of the Mackenzie Power Plant in whole or in part. We believe that any monetization of our investment in the Mackenzie Power Plant to reduce debt and augment liquidity would enhance our business. However, there can be no assurance that we will be able to monetize our Mackenzie Power Plant on terms acceptable to us or at all.

Liquidity

The adverse impact on our operating cash flow from significantly weaker lumber prices over about the last three quarters, continued imposition of duty deposits on US shipments and rapidly escalating log costs at our BC mills (with resultant production curtailments and higher operating costs), coupled with increased debt levels to fund our strategic expansion in the US South, have constrained our liquidity over the first six months of 2019.

At June 30, 2019, we had total liquidity of \$4.3 million, compared to \$17.8 million at December 31, 2018 and \$61.9 million at June 30, 2018. Liquidity at June 30, 2019 was comprised of unrestricted cash of \$2.4 million and unused availability under our revolving lumber segment credit facility (the "Credit Facility") of \$1.9 million.

We are implementing various options to help increase liquidity and meet scheduled commitments. We have taken a number of actions to reduce cash outflows at our BC and Arkansas mills, and continue to actively manage debt and working capital levels. This included, during the first half of 2019, implementing various temporary changes in operating formats and temporary production curtailments to optimize cash flows and reduce investments in working capital. We continue to manage controllable expenses to optimize liquidity. Subsequent to quarter end, liquidity was further enhanced by approximately \$13.0 million from increased availability of US\$5 million related to an amendment under the Credit Facility and a portion of the net proceeds from the Duties Sale.

We completed the sale of Lignum on April 1, 2019 and utilized the proceeds of approximately US\$11.5 million to partially repay a portion of our revolving Credit Facility.

In June 2019, we entered into a definitive sale agreement with a major North American lumber producer for the sale of the FSJ Mill and associated forest licence. The purchase price is approximately \$39 million plus the market value of finished lumber and log inventory at closing. We currently expect to close the sale in or about October 2019. The proceeds of the transaction are planned to be primarily used to retire debt and to provide additional liquidity to better optimize performance and value at certain of our other mills. We are also working to potentially monetize certain other assets that are not core to our mid- and long-term development as a North American lumber producer.

Based on the current level of operations and our present expectations for future periods in light of the existing economic environment, coupled with the actions already taken and the alternatives available to us, we believe that cash flow from operations, available cash and the expected net proceeds of assets dispositions, together with available borrowings under our revolving Credit Facility, will be adequate to meet our obligations through 2019. We expect our Cross City mill to continue to provide a reliable source of cash flow.

While we were in compliance with our debt covenants under the Credit Facility for the period ended June 30, 2019, we are actively working with our lenders to amend certain requirements under the Credit Facility, which we expect to complete in or about the third quarter. However, because discussions have not been finalized and the lenders' decision is out of our control, the outcome cannot be considered probable and no assurance can be given regarding the likelihood, certainty or timing of consummating any such amendment. We continue to also actively assess a number of additional initiatives underway to enhance liquidity and reduce debt, in addition to continuing to manage working capital levels.

Outlook

We expect the reduction in lumber shipments to follow from the recent announcements of production curtailments from a number of BC lumber producers, coupled with more normal demand will result in better balanced lumber markets and higher prices. We expect lumber prices to gradually increase through the remainder of this year and 2020, and for pricing to stabilize in the mid-term at levels that are reasonably high by historic standards. We continue to believe that the factors that shape mid-term demand for lumber are solid.

Conference Call

We have scheduled a conference call on Wednesday, August 14, 2019 at 7:00 AM Pacific time/10:00 AM Eastern time to discuss the second quarter financial and operating results. To participate in the call, please dial 416-204-1547 or toll free 866-215-0058 and quote confirmation code 5043127. The call will also be available on instant replay access until September 14, 2019 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 5825111#.

The Company's management's discussion and analysis and financial statements for the quarter ended June 30, 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

	Q2 2019	Q1 2019	Q2 2018	YTD 2019	YTD 2018
Lumber Segment					
(millions of dollars, unaudited)					
Sales – Lumber – Conifex produced	73.6	96.5	106.0	170.1	176.2
– Lumber – wholesale	3.6	11.7	10.6	15.3	15.2
– By-products.....	10.7	14.1	11.2	24.8	17.5
– Logistics services.....	<u>3.4</u>	<u>3.2</u>	<u>5.8</u>	<u>6.6</u>	<u>10.5</u>
Total Sales	<u>91.3</u>	<u>125.5</u>	<u>133.6</u>	<u>216.8</u>	<u>219.4</u>
EBITDA	(12.8)	(6.0)	18.1	(18.9)	24.8
Amortization	6.4	7.5	4.5	14.0	7.3
Gain (loss) on derivative financial instruments	<u>(0.2)</u>	<u>(0.1)</u>	<u>(1.2)</u>	<u>(0.3)</u>	<u>(3.4)</u>
Operating income	<u>(19.1)</u>	<u>(13.5)</u>	<u>14.9</u>	<u>(32.6)</u>	<u>20.9</u>
	Q2 2019	Q1 2019	Q2 2018	YTD 2019	YTD 2018
(millions of dollars, other than statistical information, unaudited)					
Bioenergy Segment					
Electricity sales under EPA - GWh.....	47.2	55.6	51.5	102.8	102.0
Electricity revenues.....	4.4	8.2	5.1	12.6	12.6
EBITDA	1.5	4.7	2.4	6.2	6.0
Amortization	<u>0.9</u>	<u>1.7</u>	<u>1.0</u>	<u>2.6</u>	<u>2.6</u>
Operating income	<u>0.6</u>	<u>3.0</u>	<u>1.4</u>	<u>3.6</u>	<u>3.4</u>