



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Third Quarter 2020 Results

November 10, 2020, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the third quarter ended September 30, 2020. Adjusted EBITDA* from continuing operations was \$7.6 million for the quarter, which reflected the restart and ramp-up of Mackenzie sawmill operations, significantly higher lumber prices and continued positive results from bioenergy operations.

“Benefitting from improved lumber prices and the safe restart of our sawmill complex, we are pleased to report net income of \$2.0 million during the quarter,” said Ken Shields, CEO. “Despite expectations for lower lumber prices and higher log costs, seasonally higher power prices coupled with the lumber production momentum we have underway are expected to enable us to report a further increase net income in the closing quarter of 2020.”

Selected Financial Highlights

Continuing operations for the comparative periods discussed in this MD&A primarily comprise operating results from our Mackenzie sawmill, power plant and our previously owned sawmill in Fort St. James, British Columbia, which was largely curtailed in May 2019 and sold in November 2019.

Operating and financial results in the second quarter of 2020 were materially impacted by the curtailment of our Mackenzie sawmill for most of the quarter, extending from April 6 to July 6, 2020.

Selected Financial Information⁽¹⁾

(unaudited, in millions of dollars, except share and exchange rate information)

	Q3 2020	Q2 2020	YTD 2020	Q3 2019	YTD 2019
Sales					
Lumber – Conifex produced	30.7	4.7	56.3	16.2	88.2
Lumber – wholesale	0.5	1.2	1.7	0.2	15.5
By-products	0.4	0.2	2.3	1.3	8.2
Bioenergy	6.0	4.7	18.7	5.2	17.8
	37.6	10.8	79.0	22.9	129.7
Operating income (loss)	7.0	(1.4)	(1.2)	(8.6)	(28.8)
Adjusted EBITDA from continuing operations	7.6	(1.1)	7.0	(7.0)	(20.2)
Net income (loss) from continuing operations	2.0	(2.7)	(8.9)	(11.6)	(20.2)
Net income (loss) from discontinued operations	-	(0.3)	0.2	(5.0)	(17.4)
Net income (loss)⁽²⁾	2.0	(3.0)	(8.7)	(16.6)	(37.6)
Basic and diluted earnings (loss) per share					
Continuing operations	0.04	(0.05)	(0.19)	(0.25)	(0.43)
Discontinued operations	-	(0.01)	-	(0.10)	(0.37)
Total basic and diluted earnings (loss) per share	0.04	(0.06)	(0.19)	(0.35)	(0.80)
Shares outstanding – weighted average (millions)	47.0	46.9	47.0	46.9	46.6

Statistics

Production – WSPF lumber (MMfbm) ⁽¹⁾	48.0	2.4	88.6	26.0	147.2
Shipments – WSPF lumber (MMfbm) ⁽¹⁾	39.2	8.5	85.3	34.8	173.9
Shipments – wholesale lumber (MMfbm) ⁽¹⁾	0.7	1.6	2.3	0.3	22.3
Electricity production (GWh)	54.9	51.2	160.8	53.1	155.9
Average exchange rate – US\$/\$(⁽²⁾)	0.751	0.722	0.739	0.757	0.752
Average WSPF 2x4 #2&Btr lumber price (US\$) ⁽³⁾	768	357	508	356	354
Average WSPF 2x4 #2&Btr lumber price (\$) ⁽⁴⁾	1,023	494	684	470	471

Reconciliation of Adjusted EBITDA to net income (loss)

Net income (loss) from continuing operations	2.0	(2.7)	(8.9)	(11.6)	(20.2)
Add: Finance costs	1.2	1.2	5.9	7.0	20.4
Amortization	2.9	1.1	6.9	1.8	8.4
Deferred income tax	1.5	(0.8)	(1.0)	(4.0)	(7.0)
EBITDA from continuing operations ⁽⁵⁾	7.6	(1.2)	2.9	(6.8)	1.6
Add: Foreign exchange loss (gain) on long-term debt	-	-	2.1	2.4	(6.5)
Restructuring costs	-	0.1	2.0	-	-
Gain on sale of assets	-	-	-	(2.6)	(15.3)
Adjusted EBITDA from continuing operations*	7.6	(1.1)	7.0	(7.0)	(20.2)

(1) Reflects results of continuing operations, except where otherwise noted.

(2) May not total due to rounding.

(3) Random Lengths Publications Inc.

(4) Average SPF 2x4 #2 & Btr lumber prices (US\$) divided by average exchange rate.

(5) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

* Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets.

Consolidated Net Earnings

During the third quarter of 2020, we generated net income from continuing operations of \$2.0 million, or \$0.04 per share, compared to a net loss from continuing operations of \$2.7 million or \$0.05 per share in the previous quarter and a loss of \$11.6 million or \$0.25 per share in the third quarter of 2019.

Continuing Operations

Our revenues totaled \$37.6 million in the third quarter of 2020, an increase of 248% from the prior quarter and an increase of 64% from the third quarter of 2019. The higher revenues were attributable to the restart and ramp-up of operations at our Mackenzie sawmill during the third quarter of 2020, following a 13-week curtailment in the prior quarter and significantly higher lumber prices. Revenues from the third quarter of 2019 included sales from our previously owned Fort St. James sawmill, which we sold in November 2019.

We recorded operating income of \$7.0 million in the third quarter of 2020, operating losses of \$1.4 million in the previous quarter and operating losses of \$8.6 million in the third quarter of 2019. Operating results included countervailing ("CV") and anti-dumping ("AD") duties expense of \$3.7 million in the third quarter of 2020, \$0.2 million in the second quarter of 2020 and \$1.3 million in the third quarter of 2019.

Selling, general and administrative ("SG&A") costs of \$1.8 million in the third quarter of 2020 reflected a decrease of 4% from the prior quarter and a decrease of 39% from the third quarter of last year. Compared to the third quarter of 2019, we significantly reduced SG&A costs by reducing management personnel and overhead costs to better align our corporate support functions with our operating footprint. We incurred restructuring costs of \$2.0 million in the first half of 2020 in relation to these cost reduction initiatives.

Finance costs were \$1.2 million in the third quarter of 2020, \$1.2 million in the previous quarter and \$7.0 million in the third quarter of 2019. Interest and finance costs were lower than in the third quarter of 2019 due to the repayment of the Lumber Credit Facility on February 1, 2020. Finance and interest costs subsequent to February 1, 2020 relate primarily to the Power Term Loan.

Adjusted EBITDA was \$7.6 million in the third quarter of 2020, negative \$1.1 million in the previous quarter and negative \$7.0 million in the third quarter of 2019. Adjusted EBITDA in the third quarter of 2020 benefited from the restart and ramp-up of Mackenzie sawmill operations, significantly higher lumber prices, continued positive results from bioenergy operations, offset partially by derivative losses of \$2.6 million.

Lumber Operations

Following the initial adverse economic impacts of the COVID-19 pandemic, North American lumber markets improved significantly during the third quarter of 2020. US housing starts on a seasonally adjusted annual basis averaged 1,430,000 in the third quarter of 2020, up 37% from the previous quarter and 12% from the third quarter of 2019. The increase in lumber demand, coupled with the impact of supply disruptions caused by the COVID-19 pandemic earlier in 2020, resulted in a significant increase to the benchmark Western SPF lumber price during the quarter to a record price of US\$955 per thousand board feet in September 2020.

The US dollar averaged US\$0.751 for each Canadian dollar during the third quarter of 2020, a level which represented a strengthening of the Canadian dollar over the previous quarter.¹ Canadian dollar-denominated benchmark Western SPF prices, which averaged \$1,023 in the third quarter of 2020, increased by 107% or \$529 from the previous quarter and by 117% or \$553 from the third quarter of 2019.

Our lumber operating results in the third quarter of 2020 reflect the restart of operations at our Mackenzie sawmill on July 6, 2020, followed by the gradual ramp-up to normalized operating levels during the quarter. Lumber production for the current quarter totalled 48.0 million board feet, representing an annualized operating rate of 80% of capacity. In the previous quarter, 2.4 million board feet of lumber was produced during the single-week of operations prior to the 13-week curtailment period from April 6 to July 6, 2020. In the third quarter of 2019, 26.0 million board feet of lumber was produced as a result of reduced daily operating configuration and the incurrence of a five-week curtailment during the quarter.

Shipments of Conifex produced lumber totaled 39.2 million board feet in the third quarter of 2020. Shipments of lumber increased by 361% from the previous quarter and by 13% from the third quarter of 2019 as a result of increased production volumes, offset partially by an increase in inventory from the previous quarter. Our wholesale lumber program shipped 0.7 million board feet in the third quarter of 2020.

Revenues from lumber products were \$31.2 million in the third quarter of 2020 and represented an increase of 429% from the previous quarter and an increase of 90% from the third quarter of 2019. Increased revenues were driven by higher shipment volumes and higher mill net realizations in the current quarter. Our lumber is typically sold 2-4 weeks in advance of its shipment date, resulting in a lag in our realized lumber prices when compared to concurrent reported lumber prices. As a result, a portion of the significant lumber price increase during September 2020 will be realized in the fourth quarter of 2020.

Overall operating costs in the third quarter of 2020 increased from prior quarters, driven by the restart of full operations at our Mackenzie sawmill. Cost of goods sold in the third quarter of 2019 included costs from previously owned sawmill in Fort St. James. We accessed the Canada Emergency Wage Subsidy established by the federal government for approximately \$1.6 million of employee wage cost subsidies during the third quarter of 2020.

We recorded a positive inventory valuation adjustment of \$1.6 million in the third quarter of 2020 compared to \$0.4 million in the previous quarter and \$0.5 million in the third quarter of 2019.

¹ Bank of Canada, www.bankofcanada.ca.

We expensed CV and AD duty deposits of \$3.7 million in the third quarter of 2020, \$0.2 million in the previous quarter and \$1.3 million in the third quarter of 2019. The duty deposits were based on a combined rate of 20.23%.

Bioenergy Operations

Our Mackenzie power plant sold 54.9 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro and Power Authority ("**BC Hydro**") in the third quarter of 2020, representing approximately 99% of targeted operating rates.

The effective power rate is highest during the first and fourth quarters of each year. Electricity production contributed revenues of \$6.0 million in the third quarter of 2020, an increase of 27% from the previous quarter and an increase of 16% over the comparable quarter of 2019. In comparison to the third quarter of 2019, revenues were higher in the current quarter primarily due to a 3% increase in electricity production in the period and a higher electricity rate received for the dispatch period of 2020.

Our EPA with BC Hydro, similar to other electricity purchase agreements, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order". BC Hydro issued a dispatch order for a period of approximately 117 days, from April 24 to August 19, 2020. In 2019, our power plant was dispatched for 114 days, commencing in early May to August 31, 2019. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts. During any dispatch period, we continue to produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro.

Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period. Conifex does not presently use derivatives for trading or speculative purposes. In the previous quarter, we entered into lumber futures contracts for downside price protection purposes on a small percentage of our estimated second-half 2020 production. Due to lumber market conditions characterized by rapidly rising prices from June to September of 2020, we recorded a loss from lumber derivative instruments of \$2.6 million in the third quarter of 2020 and \$0.7 million in the previous quarter. These futures contracts have been closed and there were no outstanding futures contracts in place as at September 30, 2020.

Financial Position and Liquidity

Overall debt was \$64.8 million at September 30, 2020 compared to \$257.2 million at December 31, 2019. The net reduction of \$192.4 million in debt comprised repayment in full of our previous Lumber Credit Facility of \$189.4 million, lease repayments of \$1.1 million and Power Term Loan payments of \$1.9 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At September 30, 2020, we had \$61.4 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$3.4 million.

At September 30, 2020, we had total liquidity of \$6.4 million, compared to \$5.2 million at December 31, 2019 and \$8.0 million at September 30, 2019. Liquidity at September 30, 2020 was comprised of unrestricted cash of \$6.4 million.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$6.8 million paid by the Company, net of sales of the right to refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits to the extent additional costs on US destined shipments are not mitigated by higher lumber prices.

On October 13, 2020, we completed a \$10.0 million secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "Revolving Credit Facility"). The Revolving Credit Facility is available for

a term of 3 years and is substantially secured by Conifex's lumber inventory, equipment and accounts receivable. Assuming the availability of our Revolving Credit Facility, as of September 30, 2020, our liquidity would have been \$16.4 million.

Outlook

Following the restart and ramp-up of our Mackenzie sawmill operations in the third quarter, we expect that we will achieve annualized operating rates of approximately 90% in the fourth quarter of 2020. We expect lumber markets to remain strong, despite recent volatility, supported by robust demand from US housing starts and continued strength in the repair and remodeling sector. Our Mackenzie power plant is forecasted to operate at full capacity in the fourth quarter and continue to generate a steady and diversified source of cash flow in the upcoming seasonal high period of revenue under the EPA.

Our liquidity has been strengthened with the addition of the new Revolving Credit Facility and we are positioned to manage further market volatility that may arise in the coming months.

Normal Course Issuer Bid ("NCIB")

On November 10, 2020, the Board of Directors of Conifex approved a NCIB for the purchase of up to such number of Common Shares equal to 10% of our public float. Subject to approval from the Toronto Stock Exchange, we expect to be permitted to make purchases under the NCIB commencing December 1, 2020.

Conference Call

We have scheduled a conference call on Tuesday, November 10, 2020 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the third quarter financial and operating results. To participate in the call, please dial 416-340-2217 or toll free 1-800-806-5484. The call will also be available on instant replay access until December 10, 2020 by dialling 905-694-9451 or 1-800-408-3053 and entering participant pass code 2901277#.

Management's discussion and analysis and financial statements for the quarter ended September 30, 2020 are available under the Company's profile on SEDAR at www.sedar.com.

For further information, please contact:

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About Conifex Timber Inc.

Conifex and its subsidiaries' primary business currently includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing and distribution. Conifex's lumber products are sold in the United States, Chinese, Canadian and Japanese markets. Conifex also produces bioenergy at its power generation facility at Mackenzie, BC.

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 Conifex 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 Conifex's management. Because forward-looking statements involve known and unknown risks, uncertainties and other factors, actual results, performance or achievements of Conifex or the 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, including the impact of COVID-19 thereon; our planned operating format and expected operating rates; 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 Conifex as a result of capital expenditure programs; U.S. benchmark lumber prices; Conifex's expectations regarding the operation of the Mackenzie power plant; and our expectations for U.S. dollar benchmark prices. 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 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 Conifex's 2019 annual information form and management's discussion and analysis for the quarter ended September 30, 2020, each of which is 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 Conifex undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.