



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**CONIFEX REPORTS 2020 YEAR-END AND FOURTH QUARTER RESULTS AND RESUMPTION OF POWER OPERATIONS**

March 2, 2021, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the fourth quarter and year ended December 31, 2020. Adjusted EBITDA\* from continuing operations was \$6.8 million for the quarter, which reflected continued positive results from lumber operations, offset partially by the power plant disruption in early December. Power plant operations resumed at full capacity in late February following a concerted effort to procure and install new replacement equipment despite Covid-19 related challenges with global logistics and employee mobility.

“Following a challenging start to 2020, we safely and successfully resumed operations at the Mackenzie sawmill and benefited from the unprecedented strength in lumber markets in the second half of the year.” said Ken Shields, CEO. “With the resumption of power plant operations in February 2021, steady lumber production and continued strength in lumber market conditions, we expect a material improvement in financial results in the first half of 2021.”

**Selected Financial Highlights**

Continuing operations for the comparative periods discussed in this news release 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.

**Selected Financial Information<sup>(1)</sup>**

(in millions of dollars, except share information)

	<b>Q4 2020</b>	<b>Q3 2020</b>	<b>Q4 2019</b>	<b>2020</b>	<b>2019</b>
<b>Sales</b>					
Lumber – Conifex produced	42.0	30.7	18.0	98.4	106.2
Lumber – wholesale	1.7	0.5	-	3.3	15.6
By-products	-	0.4	1.7	2.3	9.8
Bioenergy	6.1	6.0	8.0	24.7	25.8
	<b>49.8</b>	<b>37.6</b>	<b>27.7</b>	<b>128.7</b>	<b>157.4</b>
Operating income (loss)	4.6	7.0	(11.5)	3.4	(40.2)
Adjusted EBITDA from continuing operations	6.8	7.6	(3.9)	13.8	(24.0)
Net income (loss) from continuing operations	2.2	2.0	(10.2)	(6.8)	(30.4)
Net income (loss) from discontinued operations	0.1	-	(152.4)	0.3	(169.8)
<b>Net income (loss)<sup>(2)</sup></b>	<b>2.3</b>	<b>2.0</b>	<b>(162.6)</b>	<b>(6.5)</b>	<b>(200.2)</b>
<b>Basic and diluted earnings (loss) per share</b>					
Continuing operations	0.05	0.04	(0.22)	(0.14)	(0.65)
Discontinued operations	-	-	(3.25)	-	(3.63)
Total basic and diluted earnings (loss) per share	0.05	0.04	(3.47)	(0.14)	(4.28)
Shares outstanding – weighted average (millions)	47.0	47.0	46.9	47.0	46.7

### Selected Operating Information

(unaudited, in millions of dollars, except share and exchange rate information)	Q4 2020	Q3 2020	Q4 2019	2020	2019
Production – WSPF lumber (MMfbm) <sup>(1)</sup>	48.3	48.0	37.8	136.8	185.0
Shipments – WSPF lumber (MMfbm) <sup>(1)</sup>	49.1	39.2	38.0	134.4	211.9
Shipments – wholesale lumber (MMfbm) <sup>(1)</sup>	1.8	0.7	-	4.1	22.3
Electricity production (GWh)	41.7	54.9	55.1	202.5	211.0
Average exchange rate – US\$/ $\text{\$}^{(2)}$	0.767	0.751	0.758	0.745	0.754
Average WSPF 2x4 #2&Btr lumber price (US $\text{\$}$ ) <sup>(3)</sup>	\$700	\$768	\$380	\$556	\$360
Average WSPF 2x4 #2&Btr lumber price ( $\text{\$}$ ) <sup>(4)</sup>	\$912	\$1,023	\$502	\$746	\$478

### Reconciliation of Adjusted EBITDA to net income (loss)

Net income (loss) from continuing operations	2.2	2.0	(10.2)	(6.8)	(30.4)
Add: Finance costs	1.3	1.2	21.7	7.2	42.1
Amortization	2.8	2.9	4.8	9.7	13.2
Income tax	0.5	1.5	(3.8)	(0.4)	(10.8)
EBITDA from continuing operations <sup>(5)</sup>	6.8	7.6	12.5	9.7	14.1
Add: Foreign exchange loss (gain) on long-term debt	-	-	(2.4)	2.1	(8.9)
Restructuring costs	-	-	2.6	2.0	2.6
Proceeds from insurance claim	-	-	(1.1)	-	(1.1)
Gain on sale of assets	-	-	(15.5)	-	(15.5)
Gain on sale of right to duty refunds	-	-	-	-	(15.2)
Adjusted EBITDA from continuing operations*	6.8	7.6	(3.9)	13.8	(24.0)

(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 $\text{\$}$ ) divided by average exchange rate.

(5) 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 gains or losses on long-term debt, restructuring costs, proceeds from insurance claims, and gains on sale of assets and our sale of duties. 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.

## Summary of 2020 Results

### Consolidated Net Earnings

During 2020, we generated a net loss from continuing operations of \$6.8 million, or \$0.14 per share, compared to a net loss from continuing operations of \$30.4 million or \$0.65 per share in 2019.

### Lumber Operations

Our lumber operating and financial results in 2020 were materially impacted by the curtailment of our Mackenzie sawmill from April 6 to July 6, 2020. In the second half of 2020, following the restart and gradual ramp-up to normalized operating levels, 86.2 million board feet of lumber was produced, reflecting an annualized operating rate of 72% of capacity. In 2019, our lumber operations include results from the Fort St. James sawmill which was curtailed in May 2019 and sold in November 2019. In 2019, 185.0 million board feet of lumber was produced from the Fort St. James and Mackenzie sawmills as a result of reduced daily operating configuration and the incurrence of intermittent curtailments during the year. Lumber production was 136.8 million board feet in 2020, representing a decrease of 26% in comparison to 2019 production.

Shipments of Conifex produced lumber totaled 134.4 million board feet in 2020. Shipments of Conifex produced lumber decreased by 37% from 2019 as a result of decreased production volumes, offset partially

by a decrease in inventory from the prior year. Our wholesale lumber program shipped 4.1 million board feet in 2020.

Revenues from lumber products were \$101.7 million in 2020 and represented a decrease of 16% from 2019. Lower revenues were driven by lower shipment volumes and wholesale activity, offset partially by significantly higher mill net realizations resulting from higher overall benchmark lumber prices in 2020.

Following the initial adverse economic impacts of the COVID-19 pandemic, North American lumber markets improved significantly during the second half of 2020. US housing starts on a seasonally adjusted annual basis recovered to levels reported prior to the COVID-19 pandemic. 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 second half of 2020. Canadian dollar-denominated benchmark Western SPF prices increased by 56% from the prior year to \$746 in 2020.

Cost of goods sold in 2020 were 40% lower than 2019 as a result of lower production and shipment volumes as unit operating costs were largely consistent year-over-year. We recorded a positive inventory valuation adjustment of \$2.1 million in 2020 compared to \$1.9 in 2019.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of \$10.5 million in 2020, an increase of 18% from 2019. The duty deposits were based on a combined rate of 20.23% from January 1, 2020 to December 1, 2020, and 8.99% thereafter. These export taxes were significantly higher than 2019 on a unit basis due to the increased proportion of lumber shipments made to the stronger US market during 2020.

#### Bioenergy Operations

Our Mackenzie power plant sold 202.5 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro and Power Authority ("**BC Hydro**") in 2020, representing approximately 92% of targeted operating rates. In 2019, the Mackenzie power plant sold 211.0 gigawatt hours of electricity, representing 96% of targeted operating rates. The decrease in 2020 production was driven by a disruption in December 2020 caused by damage to the plant's generator, resulting in 29 days of unplanned downtime. A replacement for the failed component of the power plant was procured from the original equipment manufacturer and installed in February. The power plant was successfully recommissioned and began producing electricity at normalized rates in late February 2021.

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 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 (the "**LDA**").

#### Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs of \$6.5 million in 2020 reflected a decrease of 46% from 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 \$1.9 million in 2020 in relation to these cost reduction initiatives.

#### Finance costs and accretion

Finance costs and accretion of \$7.2 million in 2020 were 83% lower than finance costs of \$42.1 million in 2019 as a result of the repayment of our former lumber segment credit facility on February 1, 2020. Finance costs incurred subsequent to February 1, 2020 relate primarily to our term loan for our power operations.

#### 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. We do not presently use derivatives for trading or speculative purposes. In 2020, 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 2020, we recorded a loss from lumber derivative instruments of \$3.3 million in 2020. These futures contracts were closed and there were no outstanding futures contracts in place as at December 31, 2020.

#### Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash, working capital balances and our former lumber segment credit facility. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on our previous US dollar denominated lumber segment credit facility resulted in the recognition of a foreign exchange loss of \$2.1 million in 2020 and a foreign exchange gain of \$8.9 million in 2019. We recognized a foreign exchange gain of \$1.9 million on cash and working capital balances in 2020, compared to a gain of \$0.4 million in 2019.

### **Summary of Fourth Quarter 2020 Results**

#### Consolidated Net Earnings

During the fourth quarter of 2020, we generated net income from continuing operations of \$2.2 million, or \$0.05 per share, compared to net income from continuing operations of \$2.0 million or \$0.04 per share in the previous quarter and a loss of \$10.2 million or \$0.22 per share in the fourth quarter of 2019.

#### Lumber Operations

Our lumber operating results in the fourth quarter of 2020 were impacted by challenging logging conditions leading to a short period of downtime and resulting in operating rates of approximately 80% of annualized capacity. We produced 48.3 million board feet of lumber in the fourth quarter of 2020. In the previous quarter, 48.0 million board feet of lumber was produced following the restart and gradual ramp-up of operations. In the fourth quarter of 2019, we produced 37.8 million board feet of lumber as a result of the reduced daily operating configuration.

Shipments of Conifex produced lumber totaled 49.1 million board feet in the fourth quarter of 2020, representing an increase of 25% from the 39.2 million board feet of lumber shipped in the previous quarter and 29% from the 38.0 million board feet of lumber shipped in the fourth quarter of 2019 as a result of increased production volumes and a decrease in inventory from the previous quarter.

Revenues from lumber products were \$43.7 million in the fourth quarter of 2020 and represented an increase of 40% from the previous quarter and an increase of 143% from the fourth 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 the previous quarter was realized in the current quarter.

Following the significant increase in North American lumber market prices in the third quarter of 2020, activity and lumber prices adjusted downward in the fourth quarter but remained at historically elevated levels. US housing starts on a seasonally adjusted annual basis averaged 1,582,000 in the fourth quarter of 2020, up 10% from the previous quarter and 11% from the fourth quarter of 2019. Canadian dollar-denominated benchmark Western SPF prices, which averaged \$912 in the fourth quarter of 2020, decreased by 11% or \$111 from the previous quarter and increased by 82% or \$410 from the fourth quarter of 2019.

Cost of goods sold in the fourth quarter of 2020 increased by 60% from the previous quarter and 13% from the fourth quarter of 2019 as a result of higher overall shipments in the current quarter. Unit costs increased in comparison to the previous quarter and were significantly below the fourth quarter of 2019 as a result of a reduced operating format in the prior year.

We expensed CV and AD duty deposits of \$4.6 million in the fourth quarter of 2020, \$3.7 million in the previous quarter and \$1.4 million in the fourth quarter of 2019. The duty deposits were based on a combined rate of 20.23% until December 1, 2020 and 8.99% thereafter.

#### Bioenergy Operations

Our Mackenzie power plant sold 41.7 gigawatt hours of electricity under our EPA with BC Hydro in the fourth quarter of 2020, representing approximately 75% of targeted operating rates. The Mackenzie power plant sold 54.9 and 55.1 gigawatt hours of electricity in the previous quarter and fourth quarter of 2019, respectively. The relative decrease in production in the fourth quarter of 2020 resulted from the disruption in December 2020 caused by damage to the plant's generator as summarized above.

#### Selling, General and Administrative Costs

SG&A costs of \$1.1 million in the fourth quarter of 2020 reflected a decrease of 40% from the fourth quarter of last year, driven by reduced management personnel and overhead costs.

#### Finance costs and accretion

Finance costs and accretion totaled \$1.3 million in the fourth quarter of 2020, \$1.2 million in the previous quarter and \$21.7 million in the fourth quarter of 2019. Finance costs in the fourth quarter of 2019 related primarily to our former lumber segment credit facility and included \$13.0 million for the recognition of unamortized financing fees in the quarter. Finance and interest costs subsequent to February 1, 2020 relate primarily to the term loan for our power operations.

### **Financial Position and Liquidity**

Our overall debt was \$63.4 million at December 31, 2020 compared to \$257.2 million at December 31, 2019. The reduction of \$193.8 million in debt comprised repayment in full of our former lumber segment credit facility of \$189.4 million, lease repayments of \$1.4 million and term loan payments of \$3.0 million. Our term loan for our power operations, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At December 31, 2020, we had \$60.3 million outstanding on the term loan for our power operations, while our remaining long-term debt, consisting of leases, was \$3.1 million.

At December 31, 2020, we had total liquidity of \$21.2 million, compared to \$5.2 million at December 31, 2019. Liquidity at December 31, 2020 was comprised of unrestricted cash of \$11.2 million and unused availability of \$10.0 million under our revolving credit facility.

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\$10.2 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.

### **Outlook**

We expect lumber markets to remain strong in 2021, supported by robust demand from US housing starts and continued strength in the repair and remodeling sector. At the Mackenzie sawmill, we expect to achieve annualized operating rates of approximately 90% in 2021. Following the successful resumption of Mackenzie power plant operations in February 2021, we plan to operate at full capacity, subject to the optional "turn down" notice that may be received from BC Hydro during seasonal low demand periods.

As our liquidity and financial position are forecasted to continue to strengthen in the first half of 2021, funding quick payback sawmill upgrades and our share repurchase program remain key priorities.

### **Chief Financial Officer Appointment**

Conifex announced today that Winny Tang, CPA, CA, CGA, has been appointed to the role of Chief Financial Officer, effective March 16<sup>th</sup>, 2021. Winny began her career at a big four accounting firm and joined Conifex in 2013 where she has led various finance functions in her role as Financial Controller. We are pleased to welcome Winny to the role and thank Jordan Neeser for his contributions to Conifex.

### **Normal Course Issuer Bid**

On November 26, 2020, the Toronto Stock Exchange (the "**TSX**") accepted our notice of intention to make a normal course issuer bid (the "**NCIB**") for our common shares. We commenced the bid because we believed the market price of our common shares did not reflect the value of our underlying business and future prospects. Therefore, we considered an allocation of capital to repurchase some of our common shares was an attractive option. Under the NCIB, we may purchase up to a maximum of 2,944,320 of our outstanding common shares. Pursuant to the NCIB, we may not repurchase more than (i) \$5 million of our common shares between the period of November 30, 2020 and September 30, 2021 and (ii) \$5 million of our common shares between the period of October 1, 2021 and the expiry of the bid. Any common shares acquired under the NCIB will be purchased at the market price up to a daily maximum of 12,500 common shares, being 25% of the average daily trading volume for the six months prior to the bid, subject to the block purchase exemption. All common shares acquired by us under the NCIB will be cancelled following purchase. The NCIB will terminate on November 30, 2021 or earlier if we have completed our purchases of the securities subject to the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. In December 2020, we purchased 584,400 shares under the NCIB.

### **Conference Call**

We have scheduled a conference call on Tuesday, March 2, 2021 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the 2020 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 April 2, 2021 by dialling 905-694-9451 or 1-800-408-3053 and entering participant pass code 5775287#.

Our management's discussion and analysis and financial statements for the year ended December 31, 2020 are available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

For further information, please contact:

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### **About Conifex Timber Inc.**

Conifex and its subsidiaries' primary business currently includes timber harvesting, reforestation, forest management, sawmilling logs into lumber and wood chips, and value added lumber finishing and distribution. Conifex's lumber products are sold in the United States, Chinese, Canadian and Japanese markets. Conifex 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 2020 Management's Discussion and Analysis which is available on SEDAR at [www.sedar.com](http://www.sedar.com). These risks, as well as others, could cause actual results and events to vary significantly. Accordingly, readers should exercise caution in relying upon forward-looking statements and Conifex undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.