



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces 2015 Fourth Quarter and Annual Results**

February 22, 2016, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported that EBITDA\* increased to \$7.3 million in the fourth quarter of 2015 from \$4.1 million in the same quarter of 2014. In 2015, EBITDA was \$7.7 million, compared to \$21.3 million in 2014. In the fourth quarter of 2015, we had a net loss of \$0.3 million, or \$0.01 per share, compared to net income of \$nil for the fourth quarter of 2014. In 2015, our net loss was \$17.3 million, or \$0.82 per share, compared to net income of \$4.6 million, or \$0.22 per diluted share, in 2014.

Selected operating results and statistics for each of the comparison periods are provided below.

	<b>Three Months Ended</b>		<b>Year Ended</b>	
	<b>December 31,</b>		<b>December 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>(millions of dollars except share and per share amounts, statistical and exchange rate information and lumber prices)</b>			
Sales – lumber segment .....	\$ 92.7	\$ 95.2	\$ 337.2	\$ 352.9
Sales – bioenergy segment.....	7.8	-	16.3	-
	<u>\$ 100.5</u>	<u>\$ 95.2</u>	<u>\$ 353.5</u>	<u>\$ 352.9</u>
EBITDA .....	\$ 7.3	\$ 4.1	\$ 7.7	\$ 21.3
Operating income (loss) .....	\$ 1.6	\$ 0.6	\$ (11.6)	\$ 9.3
Net income (loss) .....	\$ (0.3)	\$ -	\$ (17.3)	\$ 4.6
Net income (loss) per share – basic and diluted <sup>(1)</sup> .....	\$ (0.01)	\$ -	\$ (0.82)	\$ 0.22
Shares outstanding – weighted average (millions).....	21.1	20.9	21.0	20.9
<b>Statistics</b>				
Lumber production (MMfbm) .....	131.1	116.9	481.0	505.8
Lumber shipments – Conifex produced (MMfbm) .....	139.4	134.0	475.8	506.7
Lumber shipments – wholesale (MMfbm) .....	38.6	40.4	155.6	150.9
Electricity production (GWh) .....	54.5	-	125.0	-
Average exchange rate – US\$/Cdn\$ <sup>(2)</sup> .....	0.749	0.881	0.783	0.905
Average WSPF 2x4 #2&Btr lumber price (US\$) <sup>(3)</sup> .....	\$ 264	\$ 340	\$ 277	\$ 350
<b>Reconciliation of EBITDA to Net Income (Loss)</b>				
Net income (loss) .....	\$ (0.3)	\$ -	\$ (17.3)	\$ 4.6
Add: Finance costs.....	\$ 2.6	\$ 1.4	\$ 8.5	\$ 5.9
Amortization .....	\$ 5.0	\$ 2.7	\$ 16.5	\$ 10.8
EBITDA .....	<u>\$ 7.3</u>	<u>\$ 4.1</u>	<u>\$ 7.7</u>	<u>\$ 21.3</u>

Notes:

- (1) Diluted net income per share excludes the assumed conversion of convertible notes and/or the exercise of warrants if the effect on net income per share is anti-dilutive.
- (2) Source: Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca).
- (3) Source: Random Lengths Publications Inc.

\*EBITDA represents earnings before finance costs, taxes, depreciation and amortization. The Company discloses EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA is a non-GAAP measure, it may not be comparable to EBITDA calculated by others and is not a substitute for net earnings.

## Fourth Quarter 2015

In the fourth quarter of 2015, our revenues increased to \$100.5 million from \$95.2 million in the fourth quarter of 2014. Electricity sales, which commenced in May 2015, contributed \$7.8 million in revenues in the fourth quarter of 2015, which more than offset a 3% decline in lumber revenues.

As lumber, our principal product, is primarily priced and sold in U.S. dollars, a stronger U.S. dollar versus the dollar generally increases our revenues and our operating margins. However, a strengthening U.S. dollar generally puts downward pressure on lumber prices, which adversely impacts our revenues. Our electricity sales are made in dollars and are largely unaffected by changes in currency rates.

In the fourth quarter of 2015, WSPF #2 & Btr prices denominated in U.S. dollars declined by 22% compared to the same quarter last year. The U.S. dollar strengthened by 15% over the Canadian dollar, resulting in a 9% effective decline in average Canadian dollar-denominated benchmark lumber prices.

Quarter-over-quarter, revenues from Conifex produced lumber were 5% lower and largely reflected lower sales realizations due to weaker benchmark lumber prices, partially offset by a 4% increase in shipment volumes. Wholesale lumber revenues increased modestly as higher sales realizations from a more valuable product mix more than offset a 4% decline in shipment volumes.

Operating income increased to \$1.6 million in the fourth quarter of 2015 from \$0.6 million in the same quarter last year, as the inclusion of the results of our bioenergy segment more than offset a decline in operating income from our lumber segment.

Lumber segment operating income was \$0.5 million in the fourth quarter of 2015 compared to \$1.8 million in the same quarter last year. Lumber segment operating results were adversely impacted by a 11% decline in unit sales realizations which outweighed the benefits of higher shipment and production volumes, lower unit log costs of 12% and unit cash conversion costs of 11%, and favorable variance in inventory valuation.

Our power generation plant commenced commercial operations in May 2015 and its results are reported in our bioenergy segment. This segment contributed operating income of \$2.4 million in the fourth quarter of 2015.

Net loss for the current quarter was \$0.3 million or \$0.01 per share compared to net income of \$nil for the same quarter last year. Net loss was adversely impacted by an increase in finance costs of \$1.2 million, primarily attributable to interest expense related to the power project term loan and lower lumber sales realizations.

Depreciation and amortization costs increased by \$2.3 million quarter-over-quarter and included \$1.7 million of depreciation expense attributable to our power plant assets.

EBITDA increased to \$7.3 million in the fourth quarter of 2015 from \$4.1 million in the fourth quarter of 2014, primarily as a result of the contribution from our bioenergy segment. The lumber segment and bioenergy segment each contributed EBITDA of \$4.1 million in the fourth quarter of 2015. Corporate and unallocated items accounted for negative EBITDA of \$0.9 million.

**Year Ended December 31, 2015**

Revenues were \$353.5 million in 2015 and \$352.9 million in 2014. The contribution of revenues from electricity sales of \$16.3 million more than offset a decline in lumber segment revenues of 4%. The operating loss was \$11.6 million in 2015 compared to operating income of \$9.3 million in 2014, including an operating loss in the lumber segment of \$8.7 million in 2015 compared to operating earnings of \$14.5 million in the prior year. Lumber segment operating results were most adversely impacted by lower unit sales realizations of 7% and higher unit log costs of 8%, but benefited from improvements in unit cash conversion costs of 6%. The lower unit sales realizations resulted from the decline in benchmark lumber prices denominated in U.S. dollars of 21% partially offset by the strengthening of the U.S. dollar against the dollar of 14% over the period. The bioenergy segment contributed operating earnings of \$2.1 million.

Net loss for the year ended December 31, 2015 was \$17.3 million or \$0.82 per share compared to net income of \$4.6 million or \$0.22 per share for the prior year. The year-over-year variance in net income was primarily attributable to the \$23.2 million variance in lumber segment operating results. Net loss was also adversely impacted by an increase in finance costs of \$2.7 million, but benefited from a positive variance in foreign exchange translation gain of \$1.7 million.

Depreciation and amortization costs increased by \$5.7 million year-over-year and included \$4.3 million of depreciation expense attributable to our power plant assets.

EBITDA was \$7.7 million for 2015 and \$21.3 million in 2014, with the difference largely due to variance in lumber segment operating results, somewhat offset with EBITDA contribution from the bioenergy segment. EBITDA in 2015 was comprised of lumber segment EBITDA of \$3.4 million, bioenergy segment EBITDA of \$6.3 million and corporate and unallocated items of negative \$2.0 million.

**Liquidity and Capital Resources**

Our net debt to capitalization ratio was 60% as at December 31, 2015 compared to 48% at the end of 2014. Net debt at December 31, 2015 was \$44.3 million higher than at December 31, 2014 due primarily to the issuance of the PIK Note of \$30.0 million and the assumption of a mortgage related to the El Dorado property of \$12.0 million.

Subsequent to the year end, in February 2016, the holder of our PIK Note exercised its option to convert the note to acquire a subsidiary of ours, which holds a forest licence with an AAC of 200,000 m<sup>3</sup>. The redemption of the PIK Note and resultant net gain on the sale of assets of approximately \$29.0 million, or \$1.37 per share, will be recorded in the first quarter of 2016.

After giving effect to the discharge of the PIK Note, we hold forest licences with an AAC totaling 1,372,500 m<sup>3</sup> and our net debt to capitalization ratio declined to approximately 49%. Further, our net debt to capitalization ratio, excluding borrowings for our power subsidiary that are non-recourse to our other operations, was approximately 26%.

At December 31, 2015, we had total liquidity of \$22.7 million, compared to \$24.6 million at the end of 2014. Subsequent to the year end, in January 2016, we amended our revolving asset based loan facility to increase the maximum availability to \$35.0 million from \$25 million, and to extend the term to January 2019. After giving effect to the amendment, our total liquidity at February 12, 2016 was approximately \$29.0 million.

## **Market Outlook**

Looking ahead to 2016, we expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We agree with forecasts calling for an approximate 6% increase in North American lumber consumption. We expect a modest increase in sales realizations in 2016 from a small improvement in benchmark lumber prices and anticipated continued strength in the U.S. currency. The uncertainty related to the recent expiry of the Softwood Lumber Agreement may increase market volatility.

Although Chinese demand for lumber is currently forecast to weaken in 2016, we expect our sales volume to China will remain steady and anticipate a slight improvement in pricing after the annual holiday period in February. We expect limited growth in the Japanese lumber market through the first half of 2016 and modest volume improvements in the second half, ahead of the anticipated increase in consumption tax in 2017.

In the lumber segment, we intend to remain focused on a number of initiatives to enhance operations and cash flow, including continued heightened cost management and productivity improvements from affordable, high-return capital projects. In 2016, we expect further improvements in unit cash conversion costs from these initiatives and to achieve a modest improvement in logs costs.

We will continue to work towards optimizing performance of the Mackenzie power generation plant and should benefit from a full year of plant operations and resultant cash flow generation in 2016.

## **Strategic Capital Expenditures**

Pursuant to our 20-year EPA with BC Hydro, we may increase our electricity deliveries by 10% provided we notify BC Hydro prior to the date agreed to in the EPA. The Mackenzie Plant has demonstrated its potential to produce electricity at levels that would enable us to increase our future deliveries by such an amount. Prior to making such a commitment, we are undertaking due diligence related to, among other things, sufficiency of affordable feedstock volumes to support higher power production over the remaining 19-year term of our contract. We may consider certain capital expenditures to modify and strengthen our fibre procurement operations at Mackenzie. We currently believe such capital expenditures could be funded without requiring additional borrowings.

Other than the above, in the short-term, we expect modest capital expenditure outlays on maintenance of business types of projects for our lumber and bioenergy segments in 2016. Beyond the short-term, we plan to continue to invest in our assets and are evaluating a number of larger scale capital projects. Once we complete our evaluation, we intend to prioritize the projects based on perceived risks and the attractiveness of potential returns.

## **Conference Call**

There will be a conference call held by the Company on Monday, February 22, 2016 at 8:00 AM Pacific time / 11:00 AM Eastern time to discuss the fourth quarter financial and operating results. To participate in the call, please dial 416-340-2216 or toll free 866-225-0198. The call will also be available on instant replay access until March 6, 2016 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 4165815#.

The Company's management's discussion and analysis and financial statements for the year ended December 31, 2015 will be available under the Company's 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 has expanded its operations to include bioenergy production following the commencement of commercial operations of its power generation facility at Mackenzie, British Columbia.

Conifex and other member companies of the Forest Products Association of Canada, as well as a number of environmental organizations, are partners in the Canadian Boreal Forest Agreement. The group works to identify solutions to conservation issues that meet the goal of balancing equally the three pillars of sustainability linked to human activities: environmental, social and economic.

### **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; benefits that may accrue to the Company as a result of certain capital expenditure programs; U.S. benchmark lumber prices; unit cash conversion costs; the Company's net debt to capitalization ratio; and the anticipated benefits, cost, timing and completion dates for projects 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 power generation project at the Company's Mackenzie facility 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; the ability of the Company to obtain financing (if necessary) on acceptable terms or at all; 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 2014 annual information form, 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 the Company undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.