



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces Third Quarter 2015 Results**

November 9, 2015, Vancouver, B.C. - Conifex Timber Inc. (“Conifex” or the “Company”) (TSX: CFF) today reported a net loss of \$5.6 million or \$0.26 per share for the third quarter of 2015 compared to a net loss of \$13.0 million or \$0.62 per share for the previous quarter and net income of \$1.1 million or \$0.05 per diluted share for the third quarter of 2014. Net loss for the first nine months of 2015 was \$17.0 million or \$0.81 per share compared to net income of \$4.7 million or \$0.22 per diluted share over the same period last year.

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

	Q3	Q2	YTD	Q3	YTD
(millions of dollars except share and per share amounts)	2015	2015	2015	2014	2014
Sales	85.9	81.8	253.0	90.9	257.6
EBITDA (1)	1.5	(6.8)	0.4	5.3	17.2
Operating income (loss)	(4.5)	(9.8)	(13.2)	1.5	8.7
Net income (loss)	(5.6)	(13.0)	(17.0)	1.1	4.7
Net income (loss) per share - basic and diluted (2)	(0.26)	(0.62)	(0.81)	0.05	0.22
Shares outstanding - weighted average (millions)	21.1	21.0	21.0	20.9	20.9

**Statistics**

Lumber shipments - Conifex product (MMfbm)	107.6	116.0	336.4	130.4	372.7
Lumber shipments - Wholesale (MMfbm)	42.6	39.7	117.0	41.9	110.4
Lumber production (MMfbm)	112.3	118.1	349.8	125.6	388.9
Average exchange rate - US\$/Cdn\$ (3)	0.764	0.813	0.794	0.918	0.914
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$ 267	\$ 271	\$ 281	\$ 356	\$ 353
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (5)	\$ 349	\$ 333	\$ 353	\$ 388	\$ 386

**Reconciliation of EBITDA to Net Income (Loss)**

Net income (loss)	(5.6)	(13.0)	(17.0)	1.1	4.7
Add: Finance costs	2.6	2.1	5.9	1.4	4.4
Amortization	4.5	4.1	11.5	2.8	8.1
EBITDA	1.5	(6.8)	0.4	5.3	17.2

- (1) EBITDA represents earnings before interest, 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.
- (2) The calculation of diluted net income per share excludes the assumed conversion of convertible notes and/or the assumed exercise of outstanding warrants if the resulting effect on net income per share is anti-dilutive.
- (3) Source: Bank of Canada website [www.bankofcanada.ca](http://www.bankofcanada.ca)
- (4) Source: Random Lengths Publications Inc.
- (5) Average WSPF 2x4 #2&Btr lumber price (US\$) divided by average exchange rate

Compared to the second quarter of 2015, the positive variance in net income of \$7.4 million was largely attributable to a sequential improvement in lumber segment operating income of \$4.9 million and a favorable quarter over quarter variance of \$2.7 million from currency rate fluctuations. The decline in net income of \$6.7 million from the third quarter of 2014 was mainly due to lower lumber segment operating results and higher financing costs related to the bioenergy segment, partially offset by benefits of a relatively greater foreign exchange translation gain. EBITDA of \$1.5 million in the third quarter of 2015 represented an increase of \$8.3 million over the previous quarter and a reduction of \$3.8 million from the third quarter of 2014.

According to data published by the U.S. Census Bureau, U.S. privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.16 million over the third and second quarters of 2015 and represented an improvement of approximately 13% over the third quarter of 2014. Seasonally adjusted single-family housing starts increased by 6% over the previous quarter and 14% over the third quarter of 2014. Despite the positive trend in U.S. housing starts and various other recent economic indicators which collectively point towards an underlying strength in the U.S. housing market recovery, average benchmark lumber prices remained at the lowest quarterly price levels since early 2012. Although the lumber price for the bellwether WSPF 2x4 #2 & Btr (“WSPF”) remained relatively flat and averaged approximately US\$270 during the third and second quarters of 2015, the devaluation of the Canadian currency by 6% in the current quarter improved Canadian dollar denominated benchmark prices by \$20 per thousand board feet. Compared to the third quarter of 2014, a decline in WSPF prices of 24% was somewhat offset by a 17% weaker Canadian currency and resulted in a 9% lower average Canadian dollar denominated benchmark price.

Weaker WSPF prices during the third and second quarters of 2015 were generally attributed by industry analysts to increased supply in North America due to fewer offshore shipments and mild weather conditions in North America which alleviated supply chain constraints, and to the weaker Canadian currency which tends to erode U.S. dollar denominated lumber prices. Compared to the previous quarter and the third quarter of 2014, reduced shipments to China, which contributed to steeper discounts on low grade products compared to WSPF, and higher average export tax rates hampered mill net realizations.

Shipments of Conifex produced lumber totaled 108 million board feet during the quarter and represented a decline of 7% from the previous quarter and 17% from the third quarter of 2014. Shipments of Conifex produced lumber totaled 336 million board feet for the first nine months of 2015, a decline of 10% from the same period last year. The lower shipment volumes in each comparative period largely reflected lower operating rates. Operating rates during the third quarter of 2015 contracted by approximately 11% due to a two-week scheduled downtime in July 2015 and one-week partial production curtailment in September 2015 to complete a capital upgrade at the Fort St. James mill. Production volumes of 112 million board feet were 5% lower than the previous quarter and 11% lower than the third quarter of 2014.

The export tax rate on shipments to the U.S. reflected lower average Random Lengths Framing Lumber Composite Prices and averaged 8.3 % during the third quarter of 2015 compared to 6.7% during the previous quarter and zero percent during the third quarter of 2014.

The lumber segment recorded an operating loss of \$3.2 million for the third quarter of 2015 compared to an operating loss of \$8.1 million for the second quarter of 2015 and operating income of \$2.9 million in the third quarter of 2014. Lumber segment EBITDA for the third quarter of 2015 was negative \$0.4 million compared to negative \$5.0 million for the previous quarter and positive \$5.8 million for the third quarter of 2014.

Compared to the previous quarter, the improvement in lumber segment operating results of \$4.9 million was due primarily to higher unit mill net realizations which reflected a 7% increase in Canadian dollar denominated benchmark prices and offset a 7% decline in shipment volumes, and improvements of 6% in unit log costs and 5% in unit cash conversion costs.

Compared to the third quarter of 2014, the primary factors contributing to the decrease in lumber segment operating results of \$6.1 million included lower shipment and production volumes of 18% and 11%, respectively, declining mill net realizations due to 9% lower Canadian dollar denominated benchmark prices and higher export tax rates, partially offset by a 5% improvement in unit cash conversion costs.

On a year-to-date comparative basis, current year lumber segment operating income was adversely impacted by a 10% reduction in shipment and production volumes, 15% increase in unit log costs, and 5% decline in unit mill net realizations, which more than offset a 4% improvement in unit cash conversion costs.

Electricity sales generated revenues from external sources of \$5.9 million in the third quarter of 2015 and \$2.6 million in the previous quarter. Operating income was \$0.2 million in the third quarter of 2015 compared to an operating loss of \$0.5 million in the previous quarter and included depreciation expense of \$1.6 million and \$1.0 million, respectively. The bioenergy segment recorded interest expense of \$1.3 million in the current quarter and \$0.8 million in the previous quarter. Bioenergy segment EBITDA was \$1.8 million for the third quarter of 2015 and \$0.5 million in the previous quarter.

Although electricity revenues from BC Hydro under the Electricity Purchase Agreement are based upon a fixed base price per MWh, the application of a "time of delivery factor" ("TDF") to the base unit price adds a seasonal effect to quarterly revenues. The TDF is expected to produce considerable variability in quarterly revenues with the lowest revenues generated in the second quarter and the highest in the first and fourth quarters of each year.

In July 2015, the power plant achieved approximately 103% of targeted operating rates. Overall production in August 2015 was hampered by a planned outage of seven days taken to perform scheduled warranty and other major maintenance work. The work performed in August is expected to reduce the number of planned outage days required to prepare the plant for the winter season in November 2015, when higher effective electricity rates are available. Accordingly, only a one week outage is planned for November 2015.

Operating results in the current and previous quarter have been challenged by higher than budgeted costs related primarily to the ramp up phase. The primary focus of the operations team to date has been on reliability and optimization of plant performance. With plant performance stabilized, heightened focus will be placed on operating costs which are expected to normalize over the next several quarters.

Management expects continued steady demand from the Japanese market and a slight improvement in demand and pricing from the Chinese market over the next two quarters. Shipments to the U.S. attracted an export tax of 15% for the first twelve days of October, prior to the expiry of the Softwood Lumber Agreement on October 12, 2015. Although we expect average Canadian dollar denominated benchmark prices to remain relatively unchanged for the balance of the year, we anticipate lumber segment operating results will improve sequentially due to forecast benefits from recent capital upgrades and improved quality of fibre resulting from the robust harvesting activities undertaken in recent months. We expect log costs will remain stable or slightly decline and the improvements in lower unit cash conversion costs will be sustained over the remaining quarter of the year.

The Company had unrestricted cash balances of \$6.2 million at September 30, 2015, \$10.1 million at December 31, 2014, and \$10.5 million at September 30, 2014. At September 30, 2015, the Company had operating working capital of \$52.7 million invested primarily in its lumber segment operations. Lumber segment operating working capital levels increased by \$19.0 million over the previous quarter due primarily to the accelerated build of log inventories which are expected to be partially reduced by the end of the year. Net debt increased by \$48.8 million during the first nine months of 2015 due primarily to additional drawings of \$5.0 million on the Company's asset backed revolving credit facility and demand revolving loan and \$9.6 million on the construction loan for the power generation project, issuance of a previously announced payment-in-kind note of \$30 million by wholly-owned subsidiary, Conifex Inc., (the "PIK Note") and completion of a mortgage of \$11.5 million, offset by principal repayments of long-term debt of \$6.1 million.

The PIK Note has a term of five years, bears no interest for the first two years with interest of 5% per annum thereafter until maturity and is secured by, among other things, a first lien on a forest licence with 200,000 m<sup>3</sup> of annual cut held indirectly by a subsidiary of Conifex Inc. (the "Subsidiary"). The PIK Note provides for a payment-in-kind option. The holder of the PIK Note has the option, exercisable after one year, to convert the PIK Note into an ownership interest in the forest licence. Additionally, Conifex Inc. can elect after 17 months to pay the principal amount of the PIK Note by the transfer of all of the issued common shares of the Subsidiary. The exercise of the payment-in-kind option would result in a net gain after tax of approximately \$29.0 million, or \$1.26 per diluted share.

Excluding borrowings related to the power generation project, which are largely structured on a non-recourse basis to the lumber segment assets and to the parent company, Conifex Timber Inc., the Company ended the third quarter of 2015 with a net debt to capitalization ratio of 55% compared to 34% at December 31, 2014. After giving full effect to the exercise of the PIK Note, the net debt to capitalization ratio would have been 37% at September 30, 2015.

Subsequent to the end of the third quarter of 2015, the Company received \$5.5 million of interim insurance proceeds.

### **Outlook and Strategy**

Through the closing quarter of 2015, management expects lumber segment productivity will show further improvements and power generation financial results to demonstrate the benefits of seasonally stronger pricing.

Work on the detailed capital expenditure and financing plans on the El Dorado Arkansas sawmill site is underway, and is expected to be complete early in 2016. The analysis to date indicates that prioritization of El Dorado over other potential major capital expenditure initiatives, besides providing superior financial returns, helps mitigate foreign exchange risk and market access related risks.

### **Conference Call**

There will be a conference call held by the Company on Monday, November 9, 2015 at 8:00 AM Pacific time / 11:00 AM Eastern Time to discuss the third 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 November 22, 2015 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 4977735#.

The Company's management's discussion and analysis and financial statements for the three months ended September 30, 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; that the Mackenzie mills will incorporate the recently determined harvest levels for the Mackenzie Timber Supply Area; 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; and that the equipment at our mills and power generation facility will operate at expected levels. 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.