



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces Record Second Quarter Results**

***Reports Record Revenue, Net Income and EBITDA***

August 10, 2018, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the second quarter ended June 30, 2018. EBITDA in the second quarter of 2018, which excludes countervailing and anti-dumping duty deposits of \$8.2 million, was a record \$20.8 million, compared to \$9.3 million in the first quarter of 2018 and \$10.2 million in the second quarter of 2017. Compared to the previous quarter, lumber segment EBITDA improved by \$12.0 million in the second quarter. Compared to the second quarter of 2017, lumber segment EBITDA improved by \$8.5 million and bioenergy segment EBITDA by \$0.6 million.

EBITDA was \$30.1 million for the six month period ended June 30, 2018 compared to \$16.3 million for the six month period ended June 30, 2017.

Selected financial and operating highlights for each of the comparison periods are provided below.

	<u>Q2</u> <u>2018</u>	<u>Q1</u> <u>2018</u>	<u>Q2</u> <u>2017</u>	<u>YTD</u> <u>2018</u>	<u>YTD</u> <u>2017</u>
(millions of dollars except share and per share amounts and as otherwise noted)					
<b>Financial Highlights</b>					
Sales – lumber segment .....	\$ 195.2	\$ 123.3	\$ 111.7	\$ 318.5	\$ 205.2
Sales – bioenergy segment .....	<u>5.1</u>	<u>7.5</u>	<u>4.7</u>	<u>12.6</u>	<u>11.6</u>
	<u>\$ 200.3</u>	<u>\$ 130.8</u>	<u>\$ 116.4</u>	<u>\$ 331.1</u>	<u>\$ 216.8</u>
EBITDA .....	\$ 20.8	\$ 9.3	\$ 10.2	\$ 30.1	\$ 16.3
Operating income* .....	\$ 16.0	\$ 7.0	\$ 6.4	\$ 23.0	\$ 7.9
Net income .....	\$ 9.2	\$ 2.5	\$ 4.2	\$ 11.7	\$ 2.8
Net income per share – basic and diluted .....	\$ 0.35	\$ 0.10	\$ 0.16	\$ 0.44	\$ 0.12
Shares outstanding – weighted average (millions) .....	26.5	26.4	26.3	26.5	24.4
<b>Operating Highlights</b>					
Lumber production (MMfbm) .....	157.4	123.7	131.6	281.1	255.2
Lumber shipments – Conifex produced (MMfbm) .....	157.6	112.7	128.5	270.3	239.2
Lumber shipments – wholesale (MMfbm) .....	86.2	55.1	38.4	141.3	79.4
Electricity production (GWh) .....	51.5	50.5	51.0	102.0	97.3
Average exchange rate – US\$/Cdn\$( <sup>1</sup> ) .....	0.775	0.791	0.744	0.783	0.750
Average WSPF 2x4 #2&Btr lumber price (US\$)( <sup>2</sup> ) .....	\$ 598	\$ 513	\$ 388	\$ 556	\$ 368
Average SYP 2x4 #2 lumber price (US\$)( <sup>2</sup> ) .....	\$ 574	\$ 540	\$ 455	\$ 557	\$ 456
<b>Reconciliation of EBITDA to Net Income</b>					
Net income .....	\$ 9.2	\$ 2.5	\$ 4.2	\$ 11.7	\$ 2.8
Add: Finance costs .....	\$ 2.6	\$ 1.6	\$ 1.7	\$ 4.2	\$ 4.3
Amortization .....	\$ 5.5	\$ 4.5	\$ 4.3	\$ 10.0	\$ 9.2
Deferred income tax expense .....	<u>\$ 3.5</u>	<u>\$ 0.7</u>	<u>\$ -</u>	<u>\$ 4.2</u>	<u>\$ -</u>
EBITDA( <sup>3</sup> ) .....	<u>\$ 20.8</u>	<u>\$ 9.3</u>	<u>\$ 10.2</u>	<u>\$ 30.1</u>	<u>\$ 16.3</u>

Notes:

(1) Source: Bank of Canada, www.bankofcanada.ca.

(2) Source: Random Lengths Publications Inc.

(3) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

## Commencement of Commercial Operations at El Dorado Mill

Commercial operations at our recently commissioned mill in El Dorado, Arkansas (the “El Dorado Mill”) have been recorded in our operating results from April 2018. The El Dorado Mill produced Southern Yellow Pine (“SYP”) lumber at an annual run rate of 100 million board feet in the second quarter of 2018, equivalent to approximately 56% of two-shift capacity of 180 million board feet. As a result, the El Dorado Mill began making modest contributions to operating income and EBITDA in the second quarter of 2018.

### Overview

Our revenues totaled \$200.3 million in the second quarter of 2018, an improvement of 53% over the prior quarter and 72% over the same quarter last year. Our revenue growth over the comparative quarters was mainly attributable to an increase in our lumber segment revenues. The commencement of commercial operations in April 2018 at our El Dorado Mill contributed approximately 8% of total revenues.

Second quarter lumber segment operating earnings of \$16.1 million represented increases of 140% over the previous quarter and 126% over the second quarter of 2017. Lumber segment operating results included countervailing (“CV”) and anti-dumping (“AD”) duties expense of \$8.2 million in the second quarter of 2018, \$6.3 million in the first quarter of 2018 and \$4.6 million in the second quarter of 2017. The bioenergy segment contributed operating earnings of \$1.4 million in the current quarter compared to \$2.0 million in the previous quarter and \$0.9 million in the same quarter last year. Operating earnings were \$23.0 million for the first six months of 2018 compared to \$7.9 million for the first six months of 2017.

Net income for the second quarter of 2018 was \$9.2 million, or \$0.35 per share, compared to net income of \$2.5 million or \$0.10 per share in the previous quarter and \$4.2 million or \$0.16 per share in the second quarter of 2017. Year to date net income was \$11.7 million, or \$0.44 per share compared to \$2.8 million or \$0.12 per share for the same period last year. Net income for the first half of 2018 included deferred income tax expense of \$4.2 million. There were no income tax expenses recorded for the first six months of 2017.

### Lumber Segment

Lumber segment EBITDA was \$19.3 million in the second quarter of 2018 compared to \$7.3 million in the previous quarter and \$10.8 million in the second quarter of 2017. Lumber segment EBITDA was \$26.5 million for the six months ended June 30, 2018 and \$15.9 million for the six months ended June 30, 2017.

Average prices for the bell-weather WSPF #2 & Btr product in the second quarter of 2018 improved by 17% over the previous quarter and 54% over the second quarter of 2017.<sup>1</sup> Average benchmark prices for SYP remained elevated by historical standards and improved by 26% over the second quarter of 2017<sup>2</sup>. Compared to the U.S. dollar, the Canadian dollar weakened by 2% compared to the previous quarter and strengthened by 4% compared to the same quarter last year.<sup>3</sup>

Revenues from Conifex produced lumber were \$106.0 million in the second quarter of 2018 and represented an increase of 51% over the previous quarter. The addition of sales from our El Dorado Mill contributed to approximately 21% of the increase with the balance mainly attributable to a 19% increase in shipment volumes and 10% improvement in unit sales realizations from our B.C. mills. Lumber shipments, which were somewhat hampered by logistical constraints in the prior quarter, returned to more typical levels. The higher sales realizations generally reflected stronger lumber prices coupled with a modestly weaker Canadian currency. The growth in revenue of 50% over the second quarter of 2017 was largely due to improvements in sales realizations of 23% and shipment volumes of 4% from our B.C. mills and the addition of revenues from the El Dorado Mill.

Wholesale lumber revenues, which represented 37% of total lumber segment revenues in the second quarter of 2018, increased by 71% from the previous quarter and 152% from the second quarter of 2017 due primarily to higher shipment volumes.

<sup>1</sup> As quoted in Random Lengths Publications Inc.

<sup>2</sup> As quoted in Random Lengths Publications Inc.

<sup>3</sup> Source: Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca)

Lumber production at our B.C. mills totalled approximately 132 million board feet during the second quarters of 2018 and 2017 and represented annualized operating rates of 98% compared to 92% in the previous quarter. Productivity in the first quarter of 2018 was somewhat hampered by winter conditions at our B.C. mills. Our El Dorado Mill produced approximately 25 million board feet of lumber which represented an annualized operating rate of 56% based on two-shift production capacity of 180 million board feet.

The lumber segment recorded operating income of \$16.1 million in the second quarter of 2018 compared to \$6.7 million in the previous quarter and \$7.1 million in the second quarter of 2017. Compared to the previous quarter, lumber segment operating results benefited from increased shipment volumes, improved sales realizations from higher benchmark lumber prices and a weaker Canadian currency, and growth in revenues from residuals, and were impeded by higher CV and AD duty deposits expense and higher overall unit manufacturing costs due to relatively low operating rates at the El Dorado Mill. Compared to the second quarter of 2017, improvements in gross sales realizations, shipment volumes and revenues from residuals were somewhat offset by higher softwood lumber duties expense and higher unit log and cash conversion costs.

### **Bioenergy Segment**

Bioenergy segment EBITDA was \$6.0 million for the first six months of 2018, an improvement of 30% over the same period last year.

Our Mackenzie power generation plant (the "Mackenzie Power Plant") sold 51.5 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro ("EPA") in the second quarter of 2018, which represented approximately 94% of targeted operating rates. Current quarter electricity revenues were 32% lower than the first quarter of 2018 due to lower seasonal rates coupled with slightly reduced rates during the dispatch period. Electricity revenues were 9% higher than the same quarter last year due primarily to a relatively shorter dispatch period during the current quarter.

Cash operating costs were generally consistent with the second quarter of 2017 and improved by 31% from the first quarter of 2018.

#### Dispatch Notice

Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order". In January 2018, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of 112 days, encompassing the mid-May to early September 2018 period. Last year, the Mackenzie Power Plant, among others, was dispatched for 122 days encompassing the months of April, June, July and August. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

### **Liquidity and Capital Resources**

Our net debt to capitalization ratio was 39% at June 30, 2018 compared to 41% at December 31, 2017. Excluding the effects of borrowings for our power subsidiary that are non-recourse to our other operations, our net debt to capitalization ratio was 25% compared to 29% at December 31, 2017.

At June 30, 2018, we had total liquidity of \$61.9 million, compared to \$49.2 million at December 31, 2017 and \$63.0 million at June 30, 2017.

### **Operations and Lumber Market Outlook**

We expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We expect benchmark prices for WSPF and SYP to remain at reasonably elevated levels to reflect solid softwood lumber demand and the continued imposition of trade sanctions on Canadian softwood lumber exports to the U.S. The extent to which the anticipated increase in U.S. softwood lumber demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. We expect the uncertainty created by

the softwood lumber trade dispute and possible supply chain disruptions from potential equipment and labor shortages will contribute to price volatility in the North American market.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets. We expect to sustain the year-over-year gains in sales realizations achieved in 2017 in our key export markets.

At our B.C. mills, we expect to sustain the more typical operating rates and normalized shipment patterns restored during the second quarter of 2018. We expect continued log cost inflation in our operating areas in the interior region of B.C. due to forecast heightened lumber prices which will contribute to higher market based stumpage and purchased log costs. We expect unit cash conversion costs to remain relatively consistent.

We will continue to focus on productivity improvements at the El Dorado Mill and our recently acquired Cross City Mill, and the ramp up of production at our recently acquired Glenwood Mill following its recent commissioning of a second continuous dry kiln.

## **SUBSEQUENT EVENTS**

### **Acquisition of Sawmills in the US South and Completion of Related Financings**

On July 9, 2018, we completed the previously announced acquisition of a sawmill in Cross City, Florida (the "Cross City Mill") and a sawmill in Glenwood, Arkansas (the "Glenwood Mill"). The total purchase price under the Securities Purchase Agreement with the vendors was (i) cash consideration of US\$153.1 million plus US\$19.8 million, representing the estimated net working capital of the acquired mills at closing, (ii) \$60.3 million through the issuance of 9,273,291 common shares of the Company (the "Shares") to the vendors at a price of \$6.50 per Share, and (iii) 3.5 million warrants to purchase Shares for a period of five years (subject to extension in certain circumstances for a one-year period) at an exercise price of \$8.78 per Share.

The cash portion of the purchase price was paid by Conifex using the net proceeds from our recently completed \$64.8 million offering of subscription receipts (the "Subscription Receipts") and borrowings under the Company's new syndicated US\$225.0 million senior secured credit facility (the "New Credit Facility") led by a leading US commercial bank, along with a syndicate of other lenders. A total of 10,806,332 Shares were issued to the holders of the Subscription Receipts.

The New Credit Facility consists of a US\$165.0 million term loan facility and a US\$60.0 million revolving credit facility with a term of five years. Availability under the revolving credit facility is determined by a borrowing base tied to eligible accounts receivable and inventory. In addition to financing a part of the purchase price of the acquisition, a portion of the New Credit Facility was utilized to repay and retire the Company's existing revolving credit facility.

The New Credit Facility is secured by substantially all of the Company's and its subsidiaries' lumber segment assets.

The Cross City Mill and the Glenwood Mill primarily produce SYP softwood lumber and specialty products. The Cross City Mill and Glenwood Mill each have an annual dimension lumber capacity of 185 million board feet on a two-shift basis. Both the Cross City Mill and Glenwood Mill have had significant modernization capital projects in recent years.

Including the results from the Cross City Mill and the Glenwood Mill as if the acquisition had occurred on January 1, 2018, the estimated pro-forma consolidated results for the six months ended June 30, 2018 were combined revenues of \$430.6 million and net income of \$23.0 million or \$0.49 per share.\*\*

### **Appointment to Management Team**

Brett Bray was appointed to the new position of Vice President, US Operations and will be responsible for leading the operations at our three U.S. South mills. Mr. Bray previously was the General Manager of the Glenwood Mill and played a key role in the successful completion of a major capital project and commencement of commercial operations at the site. Mr. Bray also has previous leadership experience with other sawmills in the U.S. South and in the pulp sector.

## Conference Call

We will hold a conference call on Friday, August 10, 2018 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 416-340-2216 or toll free 800-273-9672. The call will also be available on instant replay access until September 6, 2018 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 795861#.

The Company's management's discussion and analysis and financial statements for the quarter ended June 30, 2018 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.

### 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; planned capital expenditures and benefits that may accrue to the Company as a result of capital expenditure programs; U.S. benchmark lumber prices; unit cash conversion costs; the Company's net debt to capitalization ratio; the Company's expectations regarding the operation of the Mackenzie Power Plant; the Company's expectations regarding improvements in bioenergy segment revenues; the Company's expectations regarding operations, shipments and costs at our B.C. mills; the anticipated improvements and production at our U.S. mills; and the Company's expectations regarding financial results from our newly acquired Cross City Mill and Glenwood Mill. 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 2017 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.

**\*Reconciliation of Operating Income to EBITDA**

	<u>Q2</u> <u>2018</u>	<u>Q1</u> <u>2018</u>	<u>Q2</u> <u>2017</u>	<u>YTD</u> <u>2018</u>	<u>YTD</u> <u>2017</u>
<b>Lumber Segment</b> (millions of dollars, unaudited)					
Sales – Lumber – Conifex produced .....	106.0	70.2	70.8	176.2	127.5
– Lumber – wholesale .....	72.2	42.1	28.6	114.3	56.9
– By-products.....	11.2	6.3	7.2	17.5	12.7
– Logistics services.....	<u>5.8</u>	<u>4.7</u>	<u>5.1</u>	<u>10.5</u>	<u>8.1</u>
Total Sales	<u>195.2</u>	<u>123.3</u>	<u>111.7</u>	<u>318.5</u>	<u>205.2</u>
EBITDA .....	19.3	7.3	10.8	26.5	15.9
Amortization .....	4.5	2.9	3.4	7.3	6.7
Loss on derivative financial instruments.....	<u>(1.3)</u>	<u>(2.3)</u>	<u>0.3</u>	<u>(3.7)</u>	<u>0.3</u>
Operating income .....	<u>16.1</u>	<u>6.7</u>	<u>7.1</u>	<u>22.9</u>	<u>8.9</u>

	<u>Q2</u> <u>2018</u>	<u>Q1</u> <u>2018</u>	<u>Q2</u> <u>2017</u>	<u>YTD</u> <u>2018</u>	<u>YTD</u> <u>2017</u>
<b>Bioenergy Segment</b> (millions of dollars, other than statistical information, unaudited)					
Electricity sales under EPA - GWh.....	51.5	50.5	51.0	102.0	97.3
Electricity revenues.....	5.1	7.5	4.7	12.6	11.6
EBITDA .....	2.4	3.6	1.8	6.0	4.6
Amortization .....	<u>1.0</u>	<u>1.6</u>	<u>0.9</u>	<u>2.6</u>	<u>2.4</u>
Operating income .....	<u>1.4</u>	<u>2.0</u>	<u>0.9</u>	<u>3.4</u>	<u>2.2</u>

**\*\*Reconciliation of Pro-Forma Consolidated Results**

	<u>Conifex</u>	<u>BW Group</u>	<u>Pro-Forma</u> <u>Consolidated</u> <u>Results</u>
(millions of dollars, except per share amounts, unaudited)			
Revenue .....	331.1	99.4	430.6
Net income for period .....	11.7	11.2	23.0
Net income per share, basic and diluted .....	0.44		0.49 <sup>(1)</sup>

(1) Calculated using the weighted average shares outstanding following completion of the acquisition of the Cross City Mill and Glenwood Mill and the offering of Subscription Receipts.