



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Third Quarter Results

November 8, 2018, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the third quarter ended September 30, 2018. EBITDA in the third quarter of 2018, which excludes countervailing and anti-dumping duty deposits of \$6.4 million, was \$18.8 million, compared to a record \$20.8 million in the second quarter of 2018 and \$12.1 million in the third quarter of 2017. Compared to the previous quarter, an improvement in bioenergy segment EBITDA of \$1.1 million partially offset a decline in lumber segment EBITDA of \$1.6 million. Compared to the third quarter of 2017, lumber segment EBITDA improved by \$5.7 million and bioenergy segment EBITDA by \$0.2 million.

EBITDA was \$48.9 million for the nine-month period ended September 30, 2018, an improvement of 72% over the same period last year.

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

	<u>Q3</u> <u>2018</u>	<u>Q2</u> <u>2018</u>	<u>Q3</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)					
Financial Highlights					
Sales – lumber segment	\$ 176.0	\$ 195.2	\$ 114.2	\$ 494.5	\$ 319.4
Sales – bioenergy segment	<u>6.1</u>	<u>5.1</u>	<u>6.1</u>	<u>18.8</u>	<u>17.7</u>
	<u>\$ 182.1</u>	<u>\$ 200.3</u>	<u>\$ 120.3</u>	<u>\$ 513.3</u>	<u>\$ 337.1</u>
EBITDA	\$ 18.8	\$ 20.8	\$ 12.1	\$ 48.9	\$ 28.5
Operating income*	\$ 10.1	\$ 16.0	\$ 8.8	\$ 33.1	\$ 16.7
Net income	\$ 4.3	\$ 9.2	\$ 6.2	\$ 16.0	\$ 9.0
Net income per share – basic and diluted	\$ 0.09	\$ 0.35	\$ 0.23	\$ 0.49	\$ 0.36
Shares outstanding – weighted average (millions)	45.3	26.5	26.4	32.8	24.4
Operating Highlights					
Lumber production (MMfbm)	186.6	157.4	133.4	467.6	388.6
Lumber shipments – Conifex produced (MMfbm)	187.6	157.6	135.3	457.9	374.5
Lumber shipments – wholesale (MMfbm)	40.4	86.2	37.6	181.7	116.9
Electricity production (GWh)	54.7	51.5	55.2	156.7	152.5
Average exchange rate – US\$/Cdn\$(¹)	0.765	0.775	0.798	0.777	0.766
Average WSPF 2x4 #2&Btr lumber price (US\$)(²)	\$ 482	\$ 598	\$ 406	\$ 531	\$ 381
Average SYP 2x4 #2 lumber price (US\$)(²)	\$ 469	\$ 574	\$ 382	\$ 528	\$ 431
Reconciliation of EBITDA to Net Income					
Net income	\$ 4.3	\$ 9.2	\$ 6.2	\$ 16.0	\$ 9.0
Add: Finance costs	\$ 6.5	\$ 2.6	\$ 1.6	\$ 10.7	\$ 6.0
Amortization	\$ 7.0	\$ 5.5	\$ 4.3	\$ 17.0	\$ 13.5
Deferred income tax expense	<u>\$ 1.0</u>	<u>\$ 3.5</u>	<u>\$ -</u>	<u>\$ 5.2</u>	<u>\$ -</u>
EBITDA(³)	<u>\$ 18.8</u>	<u>\$ 20.8</u>	<u>\$ 12.1</u>	<u>\$ 48.9</u>	<u>\$ 28.5</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.

US South Mills' Operating Results

Commercial operations at the El Dorado Mill have been recorded in our operating results from April 2018. The El Dorado Mill produced SYP lumber at an annual run rate of approximately 100 million board feet in the second and third quarters of 2018, equivalent to approximately 56% of two-shift capacity of 180 million board feet. The El Dorado Mill made modest contributions to operating income and EBITDA in the second quarter of 2018. Higher operating costs were incurred at the El Dorado Mill in the third quarter of 2018 related primarily to training of personnel for the addition of a second shift.

We completed the acquisition of a sawmill in Cross City, Florida (the "Cross City Mill") and a sawmill in Glenwood, Arkansas (the "Glenwood Mill") on July 9, 2018. The Cross City Mill and Glenwood Mill have combined annual dimension lumber capacity of approximately 370 million board feet on a two-shift basis. Operating results of the Cross City Mill and Glenwood Mill from July 10, 2018 are included in our consolidated operating results. In our preliminary purchase price allocation, the finished lumber inventory acquired at close was revalued from cost to reflect estimated fair market value. Accordingly, our operating results for the third quarter of 2018 exclude the benefit of the gross profit that would otherwise have been recorded when the lumber shipped. The Glenwood Mill commenced training of a second shift in August 2018 following the commissioning of a second continuous dry kiln at that site.

In the third quarter of 2018, overall operating results from our US South mills were hampered by higher operating costs related to the ramp up of second shifts at two of our mills without the attendant benefit of full two-shift operating rates. We expect unit cash conversion costs to normalize as operating rates approach targeted levels.

BC Forest Fires

In August 2018, the Province declared a Provincial state of emergency due to the volatile wildfire activity in British Columbia. The Regional District of Bulkley-Nechako issued an evacuation alert due to wildfire activity for an area which included the town of Fort St. James and our mill site. Operations at our Fort St. James sawmill facility were either fully curtailed by us or partially reduced for several weeks during the summer resulting in approximately 20 million board feet of estimated lost production. In addition, logging activities were restricted in both of our operating areas in the northern interior region of B.C.

We view the health and safety of our employees and their families of paramount importance and resumed operations once we assessed it was safe to do so. Our sawmill facility in Fort St. James did not sustain any damage as a result of the forest fires.

Overview

Our revenues totaled \$182.1 million in the third quarter of 2018, a decline of 9% from the prior quarter and an improvement of 51% over the same quarter last year. Compared to the previous quarter, revenue growth of 14% from Conifex produced lumber and residuals, largely from the addition of the Cross City and Glenwood Mills, was offset by a 48% reduction, to more typical levels, in wholesale lumber revenues. Bioenergy segment revenues were consistent with the same quarter last year and improved by 20% over the second quarter of 2018.

Third quarter lumber segment operating earnings were \$9.3 million compared to \$16.1 million in the previous quarter and \$8.5 million in the second quarter of 2017. Lumber segment operating results included countervailing ("CV") and anti-dumping ("AD") duties expense of \$6.4 million in the third quarter of 2018, \$8.2 million in the second quarter of 2018 and \$3.4 million in the third quarter of 2017. The bioenergy segment contributed operating earnings of \$2.8 million in the current quarter compared to \$1.4 million in the previous quarter and \$2.5 million in the same quarter last year. Year-to-date operating earnings were \$33.1 million, an improvement of 98% over the same period last year.

Net income for the third quarter of 2018 included a foreign exchange translation gain of \$1.8 million, gain on derivative financial instruments of \$2.0 million and non-recurring acquisition costs of \$2.1 million. Interest expense and accretion increased by \$3.9 million over the previous quarter and \$4.9 million over the third quarter of 2017, largely due to the accelerated amortization of financing fees of \$1.5 million related to the early extinguishment of our existing credit facility, financing costs related to our new credit facility, and higher interest costs based on increased borrowings related to the acquisition of the Cross City and Glenwood Mills.

Net income for the third quarter of 2018 was \$4.3 million, or \$0.09 per share, compared to net income of \$9.2 million or \$0.35 per share in the previous quarter and \$6.2 million or \$0.23 per share in the third quarter of 2017. Year-to-date net income was \$16.0 million, or \$0.49 per share, an increase of 78% compared to the same period last year. Net income for the first nine months of 2018 included deferred income tax expense of \$5.2 million. There was no income tax expense recorded for the first nine months of 2017.

Lumber Segment

Lumber segment EBITDA was \$17.7 million in the third quarter of 2018 compared to \$19.3 million in the previous quarter and \$12.0 million in the third quarter of 2017. Lumber segment EBITDA was \$44.2 million for the nine months ended September 30, 2018, an improvement of 58% over the same period last year.

Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$482 during the third quarter of 2018, a decline of 19% from the previous quarter and an increase of 19% over the third quarter of 2017.¹ Average benchmark prices for SYP Westside averaged US\$469 during the third quarter of 2018, a decline of 18% from the previous quarter and an improvement of 23% over the third quarter of 2017². Compared to the U.S. dollar, the Canadian dollar weakened modestly by 1% compared to the previous quarter and weakened by 4% compared to the same quarter last year.³

Revenues from Conifex produced lumber were \$118.3 million in the third quarter of 2018 and represented an increase of 12% over the previous quarter. The growth in revenues was primarily attributable to the addition of sales from the Cross City and Glenwood Mills which offset lower shipments, reflecting reduced operating rates from our BC mills and a decline in unit sales realizations of 6%. Compared to the third quarter of 2017, revenue growth of 61% was generally attributable to the commencement of operations at our El Dorado Mill, the addition of the two new US South mills and a 19% increase in unit sales realizations from our BC mills which more than offset comparative lower shipment volumes.

Wholesale lumber revenues, which represented 21% of total lumber segment revenues in the third quarter of 2018, returned to more typical levels from the record shipment volumes and revenues reported in the previous quarter. Increases in revenues from wood chips and other residuals of 32% over the previous quarter and 114% over the third quarter of 2017 were largely due to the addition of residual revenues from the US South mills.

Lumber production at our BC mills totalled approximately 104 million board feet during the third quarter of 2018 which represented an annualized operating rate of 79%. The lower productivity relative to the previous quarter and the same quarter last year, when operating rates exceeded 100%, was primarily due to the full curtailment, followed by reduced operating hours, at our Fort St. James mill due to area wildfires which resulted in an evacuation alert. Our US South mills produced approximately 83 million board feet of lumber which represented an annualized operating rate of 60% based on two-shift production capacity of 550 million board feet.

The lumber segment recorded operating income of \$9.3 million in the third quarter of 2018 compared to \$16.1 million in the previous quarter and \$8.5 million in the third quarter of 2017. Compared to the previous quarter, lumber segment operating results were hampered by lower lumber shipments and operating rates and higher unit operating and log costs at our BC mills, higher depreciation expense, negative quarter over quarter variance in inventory valuation adjustments of \$3.2 million, higher operating costs at our El Dorado and Glenwood Mills with the addition of second shift personnel, and mark to market valuation on acquired finished goods inventories that would otherwise have flowed through operating earnings at time of shipment. These factors outweighed the benefits of operating earnings from the addition of the Cross City and Glenwood Mills and positive variances from gains on lumber derivative contracts and lower CV and AD duty deposits. Compared to the third quarter of 2017, lumber segment

¹ As quoted in Random Lengths Publications Inc.

² As quoted in Random Lengths Publications Inc.

³ Source: Bank of Canada, www.bankofcanada.ca

operating results benefited from increased overall shipment and production volumes, higher sales realizations due to higher lumber prices and gains on lumber future contracts that more than offset higher softwood lumber duties and depreciation and amortization and inventory valuation expense.

Bioenergy Segment

Bioenergy segment EBITDA was \$9.5 million for the first nine months of 2018, an improvement of 19% over the same period last year.

Our Mackenzie power generation plant (the “Mackenzie Power Plant”) completed its dispatch period and resumed operations in September 2018. The Mackenzie Power Plant sold 54.7 gigawatt hours of electricity under our Electricity Purchase Agreement with BC Hydro (“EPA”) in the third quarter of 2018, which represented approximately 100% of targeted operating rates. Current quarter electricity revenues increased by 20% over the second quarter of 2018 due to improved operating rates and higher seasonal electricity rates. Electricity revenues were consistent with the same quarter last year.

Cash operating costs were generally consistent with the second quarter of 2018 and improved by 7% from the third quarter of 2017.

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 46% at September 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 41% compared to 29% at December 31, 2017.

At September 30, 2018, we had total liquidity of \$39.0 million, compared to \$49.2 million at December 31, 2017 and \$55.7 million at September 30, 2017. We had \$104.6 million invested in non-cash operating working capital at September 30, 2018 compared to \$69.8 million at December 31, 2017.

Operations and Lumber Market Outlook

We believe the lumber price correction that began in June 2018 is largely completed and expect lumber prices to strengthen from current levels over the closing months of the year. We expect quarter over quarter increases in our lumber production and shipment volumes as operating rates at our BC mills normalize and we continue to ramp up second shifts at the El Dorado and Glenwood Mills. Despite the anticipated improvement in operating rates, we expect our EBITDA in the fourth quarter of 2018 to be materially lower than the third quarter due to the recent significant decline in lumber prices.

Conference Call

We will hold a conference call on Thursday, November 8, 2018 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 647-484-0478 or toll free 800-289-0438 and enter confirmation code 2553287. The call will also be available on instant replay access until December 5, 2018 by dialling 905-694-9451 or 800-408-3053 and entering participant pass code 4488402#.

The Company’s management’s discussion and analysis and financial statements for the quarter ended September 30, 2018 will be available under the Company’s profile on SEDAR at www.sedar.com.

For further information, please contact:
Yuri Lewis
Chief Financial Officer
(778) 331-8687

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. 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>Q3</u> <u>2018</u>	<u>Q2</u> <u>2018</u>	<u>Q3</u> <u>2017</u>	<u>YTD</u> <u>2018</u>	<u>YTD</u> <u>2017</u>
Lumber Segment					
(millions of dollars, unaudited)					
Sales – Lumber – Conifex produced	118.3	106.0	73.3	294.4	200.8
– Lumber – wholesale	37.8	72.2	28.5	152.1	85.4
– By-products.....	14.8	11.2	6.9	32.3	19.6
– Logistics services.....	<u>5.1</u>	<u>5.8</u>	<u>5.5</u>	<u>15.7</u>	<u>13.6</u>
Total Sales	<u>176.0</u>	<u>195.2</u>	<u>114.2</u>	<u>494.5</u>	<u>319.4</u>
EBITDA	17.7	19.3	12.0	44.2	27.9
Amortization	6.4	4.5	3.5	13.6	10.2
Loss on derivative financial instruments.....	<u>2.0</u>	<u>(1.3)</u>	<u>-</u>	<u>(1.6)</u>	<u>0.3</u>
Operating income	<u>9.3</u>	<u>16.1</u>	<u>8.5</u>	<u>32.2</u>	<u>17.4</u>
	<u>Q3</u> <u>2018</u>	<u>Q2</u> <u>2018</u>	<u>Q3</u> <u>2017</u>	<u>YTD</u> <u>2018</u>	<u>YTD</u> <u>2017</u>
Bioenergy Segment					
(millions of dollars, other than statistical information, unaudited)					
Electricity sales under EPA – GWh.....	54.7	51.5	55.2	156.7	152.5
Electricity revenues.....	6.1	5.1	6.1	18.8	17.7
EBITDA	3.5	2.4	3.3	9.5	8.0
Amortization	<u>0.7</u>	<u>1.0</u>	<u>0.8</u>	<u>3.3</u>	<u>3.3</u>
Operating income	<u>2.8</u>	<u>1.4</u>	<u>2.5</u>	<u>6.2</u>	<u>4.7</u>