



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces First Quarter 2020 Results

May 14, 2020, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the first quarter ended March 31, 2020. Adjusted EBITDA* from continuing operations was positive \$0.5 million for the quarter, which represented an improvement of \$4.6 million over the fourth quarter of 2019, primarily attributable to increased operating earnings and lower selling, general and administrative costs. Adjusted EBITDA included softwood lumber duties expense of \$2.0 million in the first quarter of 2020, 1.4 million in the last quarter of 2019 and \$3.8 million in the first quarter of 2019.

“With \$12.1 million of cash, a largely debt-free lumber business and predictable cash flows from power generation, Conifex is well positioned to withstand the economic challenges BC lumber producers face resulting from the COVID-19 pandemic”, said Ken Shields, Chairman and CEO.

Selected Financial Highlights

Continuing operations for the comparative periods primarily comprise operating results from our Mackenzie sawmill and power plant, our previously owned sawmill in Fort St. James, British Columbia, which was largely curtailed in May 2019 and sold in November 2019, and corporate costs and other unallocated items.

Selected Financial Information⁽¹⁾

(unaudited, in millions of dollars, except share and exchange rate information)

	Q1 2020	Q4 2019	Q1 2019
Sales			
Lumber – Conifex produced	20.9	18.0	42.6
Lumber – wholesale	-	-	11.8
By-products	1.7	1.7	4.2
Bioenergy	8.0	8.0	8.2
	<u>30.6</u>	<u>27.7</u>	<u>66.8</u>
Operating income (loss)	(6.8)	(11.5)	(8.5)
Adjusted EBITDA from continuing operations*	0.5	(3.9)	(4.0)
Net income (loss) from continuing operations	(8.2)	(10.2)	(7.4)
Net income (loss) from discontinued operations	0.5	(152.4)	(4.4)
Net income (loss)⁽²⁾	<u>(7.7)</u>	<u>(162.6)</u>	<u>(11.9)</u>
Basic and diluted earnings (loss) per share			
Continuing operations	(0.18)	(0.22)	(0.16)
Discontinued operations	0.01	(3.25)	(0.09)
Total basic and diluted earnings (loss) per share	<u>(0.17)</u>	<u>(3.47)</u>	<u>(0.25)</u>
Shares outstanding – weighted average (millions)	46.9	46.9	46.6

Operating highlights

Production – WSPF lumber (MMfbm)	38.2	37.8	73.5
Shipments – WSPF lumber (MMfbm)	37.6	38.0	78.7
Shipments – wholesale lumber (MMfbm)	-	-	16.6
Electricity production (GWh)	54.8	55.1	55.6
Average exchange rate – US\$/	0.744	0.758	0.752
Average WSPF 2x4 #2 & Btr lumber price (US\$)	\$399	\$380	\$372
Average WSPF 2x4 #2 & Btr lumber price (\$)	\$536	\$502	\$495

Reconciliation of Adjusted EBITDA to net income (loss)

Net income (loss) from continuing operations	(8.2)	(10.2)	(7.4)
Add: Finance costs	3.5	21.7	6.0
Amortization	2.9	4.8	4.1
Deferred income tax recovery	(1.7)	(3.8)	(2.1)
EBITDA from continuing operations ⁽³⁾	(3.5)	12.5	0.6
Add: Foreign exchange loss (gain) on long-term debt	2.1	(2.4)	(4.5)
Restructuring costs	1.9	2.6	-
Proceeds from insurance claim	-	(1.1)	-
Gain on sale of assets	-	(15.5)	(0.1)
Adjusted EBITDA from continuing operations*	0.5	(3.9)	(4.0)

Notes:

- (1) Reflects results of continuing operations, except where otherwise noted.
- (2) May not total due to rounding.
- (3) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

* Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets. 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 or cash flows.

Consolidated Net Earnings

During the first quarter of 2020, we incurred a net loss from continuing operations of \$8.2 million, or \$0.18 per share, compared to \$10.2 million or \$0.22 per share in the previous quarter and \$7.4 million or \$0.16 per share in the first quarter of 2019.

Continuing Operations

Our revenues totaled \$30.6 million in the first quarter of 2020, an increase of 10% from the prior quarter and a decrease of 54% from the first quarter of 2019. The increase in revenue compared to the prior quarter primarily consisted of higher sales realizations in the first quarter of 2020. Revenues from the first quarter of 2019 included sales from our previously owned Fort St. James sawmill which we sold in November 2019, resulting in significantly lower production and shipment volumes, which more than offset moderate increases in US-dollar Western Spruce/Pine/Fir ("WSPF") benchmark lumber prices and a weaker Canadian dollar.

We recorded operating losses of \$6.8 million in the first quarter of 2020, \$11.5 million in the previous quarter and \$8.5 million in the first quarter of 2019. Operating results included countervailing ("CV") and anti-dumping ("AD") duties expense of \$2.0 million in the first quarter of 2020, \$1.4 million in the last quarter of 2019 and \$3.8 million in the first quarter of 2019. Selling, general and administrative ("SG&A") costs of \$1.7 million in the first quarter of 2020 reflected a decrease of 20% from the prior quarter and a decrease of 51% from the first quarter of last year. We significantly reduced SG&A costs in the first quarter of this year 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 and \$2.6 million in the first quarter of 2020 and the fourth quarter of 2019, respectively, in relation to these cost reduction initiatives.

Net income from continuing operations included a foreign exchange loss on long-term debt of \$2.1 million in the first quarter of 2020 compared to foreign exchange gain on long-term debt of \$2.4 million and \$4.5 million in the previous quarter and the first quarter of 2019, respectively. Finance costs were \$3.5 million

in the first quarter of 2020, \$21.7 million in the previous quarter and \$6.0 million in the first quarter of 2019.

Adjusted EBITDA was \$0.5 million in the first quarter of 2020 and negative \$3.9 million and \$4.0 million in the previous quarter and the first quarter of 2019, respectively. The improvement in adjusted EBITDA was largely attributable to higher sales realizations and lower SG&A costs in the first quarter of 2020.

Lumber Operations

Prices for the bell-weather WSPF #2 & Btr product saw a significant increase in January and February of this year but gave way to a steep decline in March as the effects of the COVID-19 pandemic took hold. Overall, prices averaged US\$399 during the first quarter of 2020, which represented an improvement of 5% compared to the previous quarter and 7% higher than the first quarter of 2019.¹

The US dollar averaged US\$0.744 for each Canadian dollar during the first quarter of 2020, a level which represented a modest weakening of the Canadian dollar over the previous quarter and the first quarter of last year.² Canadian dollar-denominated benchmark WSPF prices, which averaged \$536 in the first quarter of 2020, improved by 7% or \$34 over the previous quarter and improved 8% or \$41 from the first quarter of 2019.

Lumber production at our Mackenzie sawmill totaled approximately 38.2 million board feet during the first quarter of 2020, which represented an annualized operating rate of 64%, compared to 63% in the previous quarter and 89% in the first quarter of 2019. Our previously owned Fort St. James sawmill, which is included in our continuing operations until it was sold on November 1, 2019, represented 20.1 million board feet of total production in the first quarter of 2019. Compared to the current period, lumber production from our Mackenzie sawmill was consistent with the prior quarter, and 28% lower than the first quarter of 2019. The decrease from the first quarter of 2019 was primarily due to a revised operating format that was initiated in the second quarter of 2019 in response to adverse market conditions characterized by lower lumber prices, elevated log costs and the continued imposition of softwood lumber duties.

Shipments of Conifex produced lumber totaled 37.6 million board feet in the first quarter of 2020. Shipments of lumber declined by 1% from the previous quarter and by 52% from the first quarter of 2019. The lower lumber shipments in the quarter were due to lower production compared to the first quarter of 2019 primarily as a result of shipment volumes attributable to our previously owned Fort St. James sawmill. Our wholesale lumber program did not have material purchases or sales volumes in the first quarter of 2020 or the previous quarter.

Revenues from lumber products were \$20.9 million in the first quarter of 2020 and represented an increase of 16% from the previous quarter and a decrease of 61% from the first quarter of 2019. Compared to the prior quarter, the higher revenues were mainly attributable to higher realized lumber prices, driven by a 7% increase in Canadian dollar benchmark pricing and improved sales realizations. Compared to the first quarter of 2019, the lower revenues were primarily due to lower shipment volumes, offset partially by higher realized lumber prices.

Unit log costs decreased by 7% over the previous quarter and increased by 3% over the first quarter of last year at our Mackenzie sawmill. Compared to the previous quarter, improved unit costs were mainly attributable to lower purchased log costs. Overall operating costs in the first quarter of 2020 were elevated by lower operating rates which adversely impacted productivity.

We recorded a negative inventory valuation adjustment of \$0.7 million in the first quarter of 2020 compared to a positive \$0.1 million adjustment in the fourth quarter of 2019 and an adjustment of \$nil in the first quarter of 2019.

¹ Random Lengths Publications Inc.

² Bank of Canada, www.bankofcanada.ca.

We expensed CV and AD duty deposits of \$2.0 million in the first quarter of 2020, \$1.4 million in the previous quarter and \$3.8 million in the first quarter of 2019. The duty deposits were based on a combined rate of 20.23%. The results of the US Department of Commerce's second administrative review for 2019 are not expected to be finalized until 2021.

Bioenergy Operations

Our Mackenzie power plant sold 54.8 gigawatt hours of electricity under our Electricity Purchase Agreement ("EPA") with BC Hydro and Power Authority ("BC Hydro") in the first quarter of 2020, representing approximately 100% of targeted operating rates.

The effective power rate is highest during the first and fourth quarters of each year. Electricity production contributed revenues of \$8.0 million in the first quarter of 2020, consistent with the previous quarter and a decrease of 3% over the first quarter of 2019. In comparison to the first quarter of 2019, revenues were slightly lower in the current quarter due to a 2% reduction in electricity production in the period.

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 advising of a dispatch period of approximately 99 days, from April 24 to July 31, 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.

Selling, General and Administrative Costs

SG&A costs were \$1.7 million in the first quarter of 2020, \$2.2 million in the previous quarter and \$3.6 million in the first quarter of 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 and \$2.6 million in the first quarter of 2020 and the fourth quarter of 2019, respectively, in relation to such initiatives.

Financial Position and Liquidity

Overall debt was \$66.3 million at March 31, 2020 compared to \$257.2 million at December 31, 2019. The net reduction of \$190.9 million in debt comprised repayment in full of our previous Lumber Credit Facility of \$189.4 million, lease repayments of \$0.4 million and a payment of \$1.1 million on our Conifex term loan supporting our electricity generation operations (the "Power Term Loan"). Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our long-term debt. At March 31, 2020, we had \$59.1 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.7 million.

At March 31, 2020, we had total liquidity of \$12.1 million, compared to \$5.2 million at December 31, 2019 and \$11.1 million at March 31, 2019. Liquidity at March 31, 2020 was comprised of unrestricted cash of \$12.1 million.

Outlook

In response to the significant adverse impacts of the COVID-19 pandemic, we instituted a number of measures to help protect the health and safety of our employees and maintain our liquidity and balance sheet strength. On April 1, 2020, we announced a temporary curtailment of operations at our Mackenzie sawmill, which was subsequently extended to June 1, 2020. The resulting eight-week production curtailment will impact our lumber operating results in the second quarter of this year, however, we do not expect our bioenergy operations, which are scheduled to be dispatched for much of the period, to be materially affected.

Depending upon lumber market conditions, we expect that our Mackenzie sawmill will achieve annualized operating rates approaching 80% in 2020 at improved operating costs in the second half of the year. We anticipate benefiting from the planned implementation of additional operating hours, lower log costs from the reset of stumpage calculations in July and a more robust harvesting program which is expected to decrease unit fixed costs, and a reduction in softwood lumber duty rates. We expect our Mackenzie

power plant to continue to provide a steady diversified source of cash flow and anticipate a dispatch period similar to 2019. We expect to see the continued benefit of sustained efforts to reduce SG&A costs as we align our resources with our smaller and more geographically focused operations.

Conference Call

We have scheduled a conference call on Thursday, May 14, 2020 at 7:00 AM Pacific time/10:00 AM Eastern time to discuss the first quarter financial and operating results. To participate in the call, please dial 647-484-0473 or toll free 1-800-289-0459. The call will also be available on instant replay access until June 14, 2020 by dialling 905-694-9451 or 1-800-408-3053 and entering participant pass code 1814861#.

The Company's management's discussion and analysis and financial statements for the quarter ended March 31, 2020 are available under the Company's profile on SEDAR at 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 2019 annual information form and management's discussion and analysis for the quarter ended March 31, 2020, each of which is 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 Conifex undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.