



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces Second Quarter 2021 Results and Normal Course Issuer Bid Amendment**

August 10, 2021, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the second quarter ended June 30, 2021. EBITDA\* from continuing operations was \$37.8 million versus negative EBITDA of \$1.2 million in the second quarter of 2020. Net earnings were \$26.1 million or \$0.56 per share in the quarter versus a loss in the year-earlier quarter of \$0.06 per share. The results reflect record-high lumber prices, increased shipments with the easing of railcar supply challenges, and strong results at our power plant.

**Selected Financial Highlights**

The following table summarizes our selected financial information for the comparative periods. Unless otherwise noted, financial information reflects results of continuing operations from our Mackenzie sawmill and power plant.

**Selected Financial Information<sup>(1)</sup>**

(unaudited, in millions of dollars, except earnings per share and share information)	<b>Q2 2021</b>	<b>Q1 2021</b>	<b>YTD 2021</b>	<b>Q2 2020</b>	<b>YTD 2020</b>
<b>Sales</b>					
Lumber – Conifex produced	80.1	39.9	120.0	4.7	25.6
Lumber – wholesale	9.0	0.6	9.6	1.2	1.2
By-products	2.7	2.4	5.1	0.2	1.9
Bioenergy	4.7	3.7	8.4	4.7	12.7
	<b>96.5</b>	<b>46.6</b>	<b>143.1</b>	<b>10.8</b>	<b>41.4</b>
Operating income (loss)	33.5	8.7	42.2	(1.4)	(8.2)
EBITDA from continuing operations <sup>(2)</sup>	37.8	9.7	47.5	(1.2)	(4.7)
Net income (loss) from continuing operations	26.1	4.5	30.6	(2.7)	(10.9)
Net income (loss) from discontinued operations	-	-	-	(0.3)	0.2
<b>Net income (loss)</b>	<b>26.1</b>	<b>4.5</b>	<b>30.6</b>	<b>(3.0)</b>	<b>(10.7)</b>
<b>Basic and diluted earnings (loss) per share</b>					
Continuing operations	0.56	0.10	0.66	(0.05)	(0.23)
Discontinued operations	-	-	-	(0.01)	-
Total basic and diluted earnings (loss) per share	0.56	0.10	0.66	(0.06)	(0.23)
Shares outstanding – weighted average (millions)	46.3	46.4	46.2	46.9	46.9
<b>Reconciliation of EBITDA to net income (loss)</b>					
Net income (loss) from continuing operations	26.1	4.5	30.6	(2.7)	(10.9)
Add: Finance costs	1.1	1.1	2.3	1.2	4.7
Amortization	2.1	2.2	4.2	1.1	4.0
Deferred income tax expense (recovery)	8.5	1.9	10.4	(0.8)	(2.5)
EBITDA from continuing operations <sup>(2)</sup>	37.8	9.7	47.5	(1.2)	(4.7)

\* Conifex’s EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization. We disclose EBITDA as it is a measure used by analysts and by our management to evaluate our performance. As EBITDA is a non-GAAP measure that does not have any standardized meaning prescribed by International Financial Reporting Standards, it may not be comparable to EBITDA calculated by others and is not a substitute for net earnings or cash flows, and therefore readers should consider those measures in evaluating our performance.

## Selected Operating Information

Production – WSPF lumber (MMfbm) <sup>(3)</sup>	49.0	51.0	100.0	2.4	40.6
Shipments – WSPF lumber (MMfbm) <sup>(3)</sup>	55.5	37.8	93.3	8.5	46.1
Shipments – wholesale lumber (MMfbm) <sup>(3)</sup>	5.8	0.7	6.5	1.6	1.6
Electricity production (GWh)	50.9	25.0	75.9	51.2	106.0
Average exchange rate – \$/US\$ <sup>(4)</sup>	0.814	0.790	0.802	0.722	0.733
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(5)</sup>	\$1,290	\$982	\$1,136	\$357	\$378
Average WSFP 2x4 #2 & Btr lumber price (\$) <sup>(6)</sup>	\$1,584	\$1,244	\$1,414	\$494	\$515

- (1) Reflects results of continuing operations, except where otherwise noted.  
(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.  
(3) MMfbm represents million board feet.  
(4) Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca).  
(5) Random Lengths Publications Inc.  
(6) Average SPF 2x4 #2 & Btr lumber prices (US\$) divided by average exchange rate.

## Summary of Second Quarter 2021 Results

### Consolidated Net Earnings

During the second quarter of 2021, we recognized net income from continuing operations of \$26.1 million, or \$0.56 per share compared to \$4.5 million or \$0.10 per share in the previous quarter and a net loss of \$2.7 million or \$0.05 per share in the second quarter of 2020.

### Lumber Operations

North American lumber market prices climbed considerably through most of the quarter, reaching a record high of US\$1,630 in May 2021. In June, market prices began a continued slide from the historically elevated levels driven by a slowdown in North American repair and remodelling activities and elevated lumber inventory supply in the market. US housing starts on a seasonally adjusted annual basis averaged 1,550,000 in the second quarter of 2021, down 4% from the previous quarter and up 44% from the second quarter of 2020. During the quarter, home construction activity for the single-family housing market remained strong, while multi-family housing starts declined. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family housing starts.

The US dollar averaged US\$0.814 for each Canadian dollar during the second quarter of 2021, a level which represented a strengthening of the Canadian dollar over the previous quarter<sup>1</sup>. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$1,584 in the second quarter of 2021, increased by 27% or \$340 from the previous quarter and by 221% or \$1,090 from the second quarter of 2020. The sustained lumber demand, coupled with the impact of supply disruptions caused by railcar supply challenges, resulted in an overall increase to the benchmark WSPF lumber price during the quarter.

Our lumber production in the second quarter of 2021 totalled approximately 49.0 million board feet, representing operating rates of approximately 82% of annualized capacity. In the previous quarter, 51.0 million board feet of lumber was produced. The decrease in lumber production for the second quarter primarily reflected challenging logging conditions characterized by unseasonal wet weather through the quarter, combined with high wildfire risk late in the last two weeks of the quarter. The wildfires in the BC interior and the related provincial state of emergency led to a government mandated curtailment of all forest harvesting activities and impacted log availability at our sawmill late in the quarter and through July. In the second quarter of 2020, 2.4 million board feet of lumber was produced due to the curtailment of our Mackenzie sawmill for most of the quarter.

Shipments of Conifex produced lumber totaled 55.5 million board feet in the second quarter of 2021, representing an increase of 47% from the 37.8 million board feet shipped in the previous quarter and an

<sup>1</sup> Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca)

increase of 553% from the 8.5 million board feet of lumber shipped in the second quarter of 2020. As railcar supply challenges eased in the quarter, shipments of Conifex produced lumber increased significantly. Our wholesale lumber program shipped 5.8 million board feet in the second quarter of 2021, representing an increase of 729% from the 0.7 million board feet shipped in the first quarter of 2021 and an increase of 263% from the 1.6 million board feet shipped in the second quarter of 2020.

Revenues from lumber products were \$89.1 million in the first quarter of 2021 representing an increase of 120% from the previous quarter and an increase of 1,410% from the second quarter of 2020. Compared to the previous quarter, the higher revenues in the current quarter were driven by higher shipment volumes and higher realized lumber prices. Decreased revenues during the second quarter of 2020 were primarily the result of the curtailment of our Mackenzie sawmill. Our lumber is typically sold 2-4 weeks in advance of its shipment date, resulting in a lag in our realized lumber prices when compared to concurrent reported lumber prices. As a result, the sharp decline in lumber prices since June 2021 will be realized in the third quarter of 2021.

Cost of goods sold in the second quarter of 2021 increased by 65% from the previous quarter and increased by 428% from the second quarter of 2020. The increase in cost of goods sold from the prior quarter is due to higher overall shipments in the current quarter, including higher volumes of wholesale shipments, and higher log costs. Unit manufacturing costs remained steady in comparison to the previous quarter and were significantly below the second quarter of 2020 as a result of the curtailment of our sawmill in the prior year.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$5.3 million in the second quarter of 2021, \$2.5 million in the previous quarter and \$0.3 million in the second quarter of 2020. The duty deposits were based on a combined rate of 20.23% until December 1, 2020 and 8.99% thereafter. The export taxes during the second quarter of 2021 were significantly greater than the previous quarter due to the higher lumber shipment volumes made to the US market.

#### Bioenergy Operations

Our Mackenzie power plant sold 50.9 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro and Power Authority (“**BC Hydro**”) in the second quarter of 2021 representing approximately 90% of targeted operating rates. Our Mackenzie power plant sold 25.0 and 51.2 gigawatt hours of electricity in the previous quarter and second quarter of 2020, respectively. The increase in production in the second quarter of 2021 over the prior quarter is mainly attributable to the successful recommissioning of the power plant on February 21, 2021 following a disruption beginning in December 2020 caused by damage to the plant’s generator. The disruption resulted in 49 days of unplanned downtime during the first quarter of 2021.

We have submitted an insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator, subject to deductible amounts, and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the commencement of the power plant. We have recognized \$2.8 million as other income in the second quarter of 2021 to reflect our best estimate of the expected settlement for lost income under our business interruption policy.

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”. In April 2021, BC Hydro issued a dispatch order for 61 days, from May 1 to June 30, 2021. In 2020, our power plant was dispatched for 117 days, from April 24 to August 19, 2020. 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

Selling, general and administrative (“**SG&A**”) costs were \$3.0 million in the second quarter of 2021, \$2.2 million in the previous quarter and \$1.9 million in the second quarter of 2020. The higher SG&A costs in the current quarter compared to the previous quarter were primarily attributable to variable compensation costs, including equity-based compensation, and an increased commitment for First Nations and community donations.

#### Finance Costs and Accretion

Finance costs and accretion totaled \$1.1 million in the second quarter of 2021, \$1.1 million in the previous quarter and \$1.2 million in the second quarter of 2020. Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the “**Power Term Loan**”).

#### Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period. We entered into lumber futures contracts for downside price protection on a small percentage of our estimated second and third quarter 2021 production. Due to lumber market conditions characterized by rapidly rising prices from April through May 2021, we recorded a loss from lumber derivative instruments of \$0.7 million in the second quarter of 2021. We recorded a loss from lumber derivative instruments of \$0.9 million and \$0.7 million in the previous quarter and in the second quarter of 2020, respectively. The futures contracts were closed and there were no outstanding futures contracts in place as at June 30, 2021.

#### Income Tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. We recorded a deferred income tax expense of \$8.5 million in the second quarter of 2021 and \$1.9 million in the previous quarter, respectively, and a deferred income tax recovery of \$0.8 million in the second quarter of 2020. As at June 30, 2021, we have recognized deferred income tax liability of \$0.6 million.

#### **Financial Position and Liquidity**

Overall debt was \$61.6 million at June 30, 2021 compared to \$63.4 million at December 31, 2020. The reduction of \$1.8 million in debt comprised net lease repayments of \$0.3 million and Power Term Loan payments of \$1.5 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At June 30, 2021, we had \$58.9 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.7 million.

At June 30, 2021, we had total liquidity of \$45.8 million, compared to \$21.2 million at December 31, 2020 and \$11.5 million at June 30, 2020. Liquidity at June 30, 2021 was comprised of unrestricted cash of \$35.8 million and unused availability of \$10.0 million under our \$10.0 million secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the “**Revolving Credit Facility**”).

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$16.3 million paid by us, net of sales of the right to refunds, since the inception of the current trade dispute remain held in trust by the US pending administrative reviews and the conclusion of all appeals of US decisions. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits to the extent additional costs on US destined shipments are not mitigated by higher lumber prices.

## Outlook

We expect a reduction in lumber shipments to follow from the recent announcements of production curtailments from a number of BC lumber producers, sustained robust demand from US housing starts and a recovery of repair and remodelling activities will result in better balanced lumber markets and a gradual recovery of lumber prices through the remainder of the year. At our Mackenzie sawmill, we expect to achieve annualized operating rates of approximately 90% in the third quarter, ramping up to annualized operating rates approaching 100% through the fourth quarter of 2021. Our Mackenzie power plant is forecasted to operate at full capacity and continue to generate a steady and diversified source of cash flow, with seasonally stronger EBITDA contributions expected in the closing quarter of 2021.

As our liquidity and financial position are forecasted to continue to remain strong in the second half of 2021, funding quick payback sawmill upgrades and our NCIB program remain key priorities. We believe that our strengthened liquidity position will allow us to manage any further market volatility that may arise in the coming months.

## Normal Course Issuer Bid

In December 2020, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB, we may purchase up to a maximum of 2,944,320 of our outstanding common shares. Pursuant to the NCIB, we may not repurchase more than (i) \$5.0 million of our common shares between the period of November 30, 2020 and September 30, 2021 and (ii) \$5.0 million of our common shares between the period of October 1, 2021 and the expiry of the bid (the "**NCIB Limitations**"). Any common shares acquired under the NCIB are purchased at the market price up to a daily maximum of 12,500 common shares, being 25% of the average daily trading volume for the six months prior to the bid, subject to the block purchase exemption. All common shares acquired by us under the NCIB are cancelled following purchase. The NCIB will terminate on November 30, 2021 or earlier if we have completed our purchases of the securities subject to the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. In the three month period ended June 30, 2021, we purchased and cancelled 1,457,000 shares under the NCIB, for a total of 2,379,800 shares purchased and cancelled since the inception of the NCIB.

Subsequent to the period end, we amended our Revolving Credit Facility to revise the NCIB Limitations so that we may repurchase not more than (i) \$7.0 million of our common shares between the period of November 30, 2020 and September 30, 2021 and (ii) \$9.0 million of our common shares between the period of October 1, 2021 and September 30, 2022.

## Conference Call

We have scheduled a conference call on Tuesday, August 10, 2021 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the first quarter financial and operating results. To participate in the call, please dial 416-340-2217 or toll free 1-800-806-5484 and entering participant passcode 4819125#. The call will also be available on instant replay access until September 10, 2021 by dialling 905-694-9451 or 1-800-408-3053 and entering participant pass code 9723038#.

Our management's discussion and analysis and financial statements for the quarter ended June 30, 2021 are available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

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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, 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; expectations regarding the operation of the Mackenzie power plant; expectations regarding our liquidity levels; plans for purchases under our NCIB; 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 management's discussion and analysis for the year ended December 31, 2020 and the quarter ended March 31, 2021, each of which is 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 Conifex undertakes no obligation to publicly revise them to reflect subsequent events or circumstances, except as required by law.