



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Third Quarter 2021 Results

November 9, 2021, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the third quarter ended September 30, 2021. EBITDA* from continuing operations was positive \$3.3 million compared to EBITDA of \$7.6 million in the third quarter of 2020. Net loss was \$0.9 million or \$0.02 per share in the quarter versus earnings in the year-earlier quarter of \$0.04 per share.

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.

(unaudited, in millions of dollars, except earnings per share and share information)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Sales					
Lumber – Conifex produced	25.9	80.1	145.9	30.7	56.3
Lumber – wholesale	12.5	9.0	22.1	0.5	1.7
By-products	2.1	2.7	7.2	0.4	2.3
Bioenergy	7.1	4.7	15.5	6.0	18.7
	47.6	96.5	190.7	37.6	79.0
Operating income (loss)	(0.7)	33.5	41.4	7.0	(1.2)
EBITDA from continuing operations ⁽²⁾	3.3	37.8	50.7	7.6	7.0
Net income (loss) from continuing operations	(0.9)	26.1	29.7	2.0	(8.9)
Net income (loss) from discontinued operations	-	-	-	-	0.2
Net income (loss)	(0.9)	26.1	29.7	2.0	(8.8)
Basic and diluted earnings (loss) per share					
Continuing operations	(0.02)	0.56	0.65	0.04	(0.19)
Discontinued operations	-	-	-	-	-
Total basic and diluted earnings (loss) per share	(0.02)	0.56	0.65	0.04	(0.19)
Shares outstanding – weighted average (millions)	44.6	46.0	45.7	47.0	47.0
Reconciliation of EBITDA to net income (loss)					
Net income (loss) from continuing operations	(0.9)	26.1	29.7	2.0	(8.9)
Add: Finance costs	1.1	1.1	3.4	1.2	5.9
Amortization	3.4	2.1	7.6	2.9	6.9
Income tax expense (recovery)	(0.3)	8.5	10.0	1.5	(1.0)
EBITDA from continuing operations ⁽²⁾	3.3	37.8	50.7	7.6	2.9

* 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

	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Production – WSPF lumber (MMfbm) ⁽³⁾	40.1	49.0	140.1	48.0	88.6
Shipments – WSPF lumber (MMfbm) ⁽³⁾	34.1	55.5	127.4	39.2	85.3
Shipments – wholesale lumber (MMfbm) ⁽³⁾	6.0	5.8	12.5	0.7	2.3
Electricity production (GWh)	53.7	50.9	129.6	54.9	160.8
Average exchange rate – \$/US\$ ⁽⁴⁾	0.794	0.814	0.799	0.751	0.739
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁵⁾	\$478	\$1,290	\$917	\$768	\$508
Average WSFP 2x4 #2 & Btr lumber price (\$) ⁽⁶⁾	\$602	\$1,584	\$1,144	\$1,023	\$684

(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.

(5) Random Lengths Publications Inc.

(6) Average SPF 2x4 #2 & Btr lumber prices (US\$) divided by average exchange rate.

Summary of Third Quarter 2021 Results

Consolidated Net Earnings

During the third quarter of 2021, we incurred a net loss from continuing operations of \$0.9 million or \$0.02 per share compared to net income of \$26.1 million or \$0.56 per share in the previous quarter and \$2.0 million or \$0.04 per share in the third quarter of 2020.

Lumber Operations

North American lumber market prices declined sharply in the first half of the third quarter of 2021 following the elevated lumber prices seen in the first half of the year. Market prices experienced a slide from the record-high 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 remained steady, averaging 1,565,000 in the third quarter of 2021, up 1% from the previous quarter and up 9% from the third quarter of 2020¹. With the recovery of the repair and remodelling demand towards the end of the quarter, lumber market prices saw a gradual recovery, improving from a low of US\$385 in mid-August 2021 to US\$533 at the end of September 2021².

The US dollar averaged US\$0.794 for each Canadian dollar during the third quarter of 2021, a level which represented a weakening of the Canadian dollar over the previous quarter³. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$602 in the third quarter of 2021, decreased by 62% or \$982 from the previous quarter and by 41% or \$421 from the third quarter of 2020.

Our lumber production in the third quarter of 2021 totalled approximately 40.1 million board feet, representing operating rates of approximately 67% of annualized capacity. In the previous quarter, 49.0 million board feet of lumber was produced. The decrease in lumber production for the third quarter was largely driven by the temporary curtailment of lumber production operations for two weeks in August 2021. This curtailment was necessitated by the combined impact of record high delivered log costs and a collapse in lumber prices following the record high peak in pricing seen in the second quarter. In the third quarter of 2020, 48.0 million board feet of lumber was produced, reflecting the gradual ramp-up to normalized operating levels following a pandemic-related curtailment.

¹ Source: Forest Economic Advisors, LLC

² Source: Random Lengths Publications Inc.

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

Shipments of Conifex produced lumber totaled 34.1 million board feet in the third quarter of 2021, representing a decrease of 39% from the 55.5 million board feet shipped in the previous quarter and 13% from the 39.2 million board feet of lumber shipped in the third quarter of 2020. Shipments of Conifex produced lumber in the third quarter of 2021 were affected by the temporary curtailment at our Mackenzie sawmill and a shift in focus to offshore markets to minimize the impact of the depressed lumber pricing. Our wholesale lumber program shipped 6.0 million board feet in the third quarter of 2021, representing an increase of 3% from the 5.8 million board feet shipped in the second quarter of 2021 and 757% from the 0.7 million board feet shipped in the third quarter of 2020.

Revenues from lumber products were \$38.4 million in the third quarter of 2021 representing a decrease of 57% from the previous quarter and an increase of 23% from the third quarter of 2020. Compared to the previous quarter, the lower revenues in the current quarter were driven by lower shipment volumes and significantly reduced realized lumber prices. The revenue increase in the current quarter over the same period in the prior year is largely the result of the higher proportion of premium grade lumber shipped and sold.

Cost of goods sold in the third quarter of 2021 decreased by 23% from the previous quarter and increased by 58% from the third quarter of 2020. The decrease in cost of goods sold from the prior quarter is mainly due to lower overall shipments in the current quarter, offset partially by higher log costs. Unit manufacturing costs increased in comparison to the previous quarter and the third quarter of 2020 as a result of fixed costs incurred during the temporary curtailment at our Mackenzie sawmill.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$1.3 million in the third quarter of 2021, \$5.3 million in the previous quarter and \$3.7 million in the third 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 third quarter of 2021 were significantly lower than the previous quarter due to the sharp decline in lumber shipment volumes made to the US market.

Bioenergy Operations

Our Mackenzie power plant sold 53.7 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro in the third quarter of 2021 representing approximately 96% of targeted operating rates. Our Mackenzie power plant sold 50.9 and 54.9 gigawatt hours of electricity in the previous quarter and third quarter of 2020, respectively.

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 (“**LDA**”) with BC Hydro.

Electricity production contributed revenues of \$7.0 million in the third quarter of 2021, an increase of 48% from the previous quarter and an increase of 18% from the third quarter of 2020. In comparison to the previous quarter and comparable quarter of 2020, revenues were higher due to higher billable gigawatt hours at full rates under the EPA.

Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs were \$2.3 million in the third quarter of 2021, \$3.0 million in the previous quarter and \$1.8 million in the third quarter of 2020. SG&A costs for the nine months ended September 30, 2021 were \$7.6 million compared to \$5.4 million in the same period last year. The year-over-year increase is primarily attributable to higher 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 third quarter of 2021, \$1.1 million in the previous quarter and \$1.2 million in the third 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. In the previous quarter, 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 closed out all our futures contracts and recorded a loss from lumber derivative instruments of \$0.7 million in the second quarter of 2021. There were no outstanding futures contracts in place as at September 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 recovery of \$0.3 million in the third quarter of 2021 and a deferred income tax expense of \$8.5 million in the previous quarter and \$1.5 million in the third quarter of 2020, respectively. As at September 30, 2021, we have recognized deferred income tax liability of \$0.2 million.

Financial Position and Liquidity

Overall debt was \$60.8 million at September 30, 2021 compared to \$63.4 million at December 31, 2020. The reduction of \$2.6 million in debt comprised net lease repayments of \$0.6 million and Power Term Loan payments of \$2.0 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At September 30, 2021, we had \$58.3 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.5 million.

At September 30, 2021, we had total liquidity of \$33.4 million, compared to \$21.2 million at December 31, 2020 and \$6.4 million at September 30, 2020. Liquidity at September 30, 2021 was comprised of unrestricted cash of \$23.4 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\$17.3 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 lumber markets to remain strong, despite recent lumber market price volatility in the past quarter, supported by steady demand from US housing starts and continued strengthening of activities in the repair and remodelling sector. At our Mackenzie sawmill, we expect to see an increase in lumber production over the last quarter, with the expectation of achieving annualized operating rates of approximately 88% in the fourth quarter for the year. 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.

We anticipate a quarter-over-quarter increase in lumber shipments in the fourth quarter of 2021, as we unwind lumber inventory accumulated during the third quarter of the year. 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, while benchmark lumber prices have strengthened, we do not expect to realize the benefit of the higher mill nets in the fourth quarter that we achieved for shipments in July which reflected the high lumber prices from the second quarter. With the expected increase in duty deposit rates towards the end of the fourth quarter, combined with moderate mill net realizations and the anticipated reduction in the proportionate volume of shipments to offshore markets, we expect fourth quarter operating results to be in line with the results achieved in the third quarter of 2021.

Our liquidity and financial position are forecasted to continue to remain strong in the last quarter of 2021. We continue to prioritize funding quick payback sawmill upgrades. We anticipate cash flows from operations will support expected payments for common shares under the Offer and that we will continue to have sufficient financial resources and working capital to conduct our ongoing business.

Substantial Issuer Bid

On November 8, 2021, our Board of Directors approved the commencement of a substantial issuer bid (the “**Offer**”) for our common shares. Under the Offer, we expect to offer to purchase from shareholders for cancellation up to 4,000,000 common shares at a purchase price of \$2.25 per common share. The Offer will be for up to approximately 9.1% of the total number of our issued and outstanding common shares, while the purchase price represents a 27.8% premium over the closing price on the Toronto Stock Exchange on November 8, 2021.

The Offer is expected to commence on November 12, 2021 and expire on December 20, 2021, unless extended or withdrawn. Shares properly tendered as of the expiration date under the Offer will receive the purchase price, payable in cash. In the event that more than 4,000,000 common shares are tendered, common shares will be purchased on a pro-rata basis according to the number of common shares validly tendered. We plan to fund the purchase of common shares through available cash on hand.

The Offer is optional for all shareholders, who are free to choose whether to participate and how many common shares to tender. We believe the substantial issuer bid represents an equitable and efficient means of returning capital to shareholders who elect to tender under the Offer, while at the same time proportionately increasing the equity interest in Conifex for those shareholders who do not elect to tender.

Details of the Offer, including instructions for tendering common shares, will be included in the formal offer to purchase and issuer bid circular, letter of transmittal, notice of guaranteed delivery and other related documents which will be mailed to shareholders and made available on SEDAR at www.sedar.com.

Revenue Diversification Opportunity

Over the past two years, our management and board have been exploring additional opportunities to utilize the unique attributes of our power generation asset base to strengthen Conifex. Given our location in a relatively cool climate, the availability of affordable and renewable power from BC Hydro and Power Authority (“**BC Hydro**”), our large property relative to the size of our power generation facility and our highly flexible and technical work force at the power generation facility site, we concluded that our site is ideally

suited to host data center or other high-performance computing (“HPC”) operations, such as cryptocurrency mining. The electrical expertise of our existing power plant engineers and employee base, combined with familiarity of continuous operations are applicable to providing hosting services for HPC operators.

Before the end of 2021, in partnership with the Tsay Keh Dene First Nation, we intend to host approximately 3 megawatts of bitcoin mining capacity on a trial basis. Should the trial prove successful, we plan to host a larger data center operation. We expect the initial capital outlays will be modest as we will redeploy the legacy power infrastructure at our site. We have identified a partner with relevant industry experience who wishes to invest in, operate, and maintain the HPC operations equipment. The potential exists to build out our hosting business in phases and utilize the cash flow generated from the initial phases to fund the development of additional hosting capacity. Additional information on the HPC opportunity will be provided to our shareholders when available. There is no assurance that we will establish any data center operation in the time contemplated or at all.

Conference Call

We have scheduled a conference call on Tuesday, November 9, 2021 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the third 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 7234039#. The call will also be available on instant replay access until December 9, 2021 by dialling 905-694-9451 or 1-800-408-3053 and entering participant passcode 8954280#.

Our management's discussion and analysis and financial statements for the quarter ended September 30, 2021 are available under our profile on SEDAR.

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, 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, including the build-out of any HPC or data center operations; 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 September 30, 2021, 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.