



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Second Quarter 2022 Results and Normal Course Issuer Bid

August 9, 2022, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the second quarter ended June 30, 2022. EBITDA* was \$20.1 million for the quarter compared to EBITDA of \$37.8 million in the second quarter of 2021. Net income was \$12.3 million or \$0.31 per share for the year versus \$26.1 million or \$0.56 per share in the year-earlier quarter.

Selected Financial Highlights

The following table summarizes our selected financial information for the comparative periods.

Selected Financial Information⁽¹⁾

(unaudited, in millions of dollars, except earnings per share and share information)

	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Sales					
Lumber – Conifex produced	66.4	52.6	119.0	80.1	120.0
Lumber – wholesale	2.3	8.4	10.7	9.0	9.6
By-products and other	11.6	2.8	14.4	2.7	5.1
Bioenergy	4.8	8.0	12.8	4.7	8.4
	85.1	71.8	156.9	96.5	143.1
Operating income	17.6	17.1	34.7	33.5	42.2
EBITDA from continuing operations ⁽²⁾	20.1	20.1	40.2	37.8	47.5
Net income from continuing operations	12.3	11.4	23.7	26.1	30.6
Basic and diluted earnings per share					
Continuing operations	0.31	0.28	0.59	0.56	0.66
Shares outstanding – weighted average (millions)	40.2	40.1	40.2	46.3	46.2
Reconciliation of EBITDA to net income					
Net income from continuing operations	12.3	11.4	23.7	26.1	30.6
Add: Finance costs	1.1	1.1	2.2	1.1	2.3
Amortization	2.0	3.2	5.2	2.1	4.2
Income tax expense	4.7	4.3	9.0	8.5	10.4
EBITDA from continuing operations ⁽²⁾	20.1	20.1	40.2	37.8	47.5

* 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

	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
Production – WSPF lumber (MMfbm) ⁽³⁾	51.4	47.1	98.5	49.0	100.0
Shipments – WSPF lumber (MMfbm) ⁽³⁾	55.5	42.5	98.0	55.5	93.3
Shipments – wholesale lumber (MMfbm) ⁽³⁾	1.2	4.9	6.1	5.8	6.5
Electricity production (GWh)	54.6	53.9	108.5	50.9	75.9
Average exchange rate – \$/US\$ ⁽⁴⁾	0.783	0.790	0.787	0.814	0.802
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁵⁾	\$827	\$1,288	\$1,057	\$1,290	\$1,136
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁶⁾	\$1,056	\$1,631	\$1,343	\$1,584	\$1,414

- (1) Reflects results of continuing operations, except where otherwise noted.
(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and 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 Second Quarter 2022 Results

Consolidated Net Earnings

During the second quarter of 2022, we generated net income of \$12.3 million or \$0.31 per share compared to net income of \$11.4 million or \$0.28 per share in the previous quarter and \$26.1 million or \$0.56 per share in the second quarter of 2021.

Lumber Operations

North American lumber market prices declined in the second quarter of 2022 following the elevated lumber prices seen in the first quarter of the year. Canadian dollar-denominated benchmark Western Spruce / Pine / Fir (“WSPF”) prices ¹, which averaged \$1,056 in the second quarter of 2022, decreased by 35% or \$575 from the previous quarter and by 33% or \$528 from the second quarter of 2021. Market prices experienced a slide from the record-high levels driven largely by a slowdown in new home construction demand in the U.S. due to higher mortgage rates and reduced affordability. U.S. housing starts on a seasonally adjusted annual basis remained steady, averaging 1,677,000 in the second quarter of 2022, down 4% from the previous quarter and up 6% from the second quarter of 2021 ².

Our lumber production in the second quarter of 2022 totalled approximately 51.4 million board feet, representing operating rates of approximately 86% of annualized capacity. In the previous quarter, 47.1 million board feet of lumber was produced. The increase in lumber production for the second quarter was largely due to operations not being affected by the COVID-19 shift reductions and operational impacts of severe winter weather experienced during the previous quarter. While lumber production in the current quarter was higher, production was negatively impacted by multiple power outages in June 2022. In the second quarter of 2021, 49.0 million board feet was produced, representing operating rates of approximately 82% of annualized capacity.

Shipments of Conifex produced lumber totaled 55.5 million board feet in the second quarter of 2022, representing an increase of 31% from the 42.5 million board feet shipped in the previous quarter and consistent with the 55.5 million board feet of lumber shipped in the second quarter of 2021. Shipments of Conifex produced lumber in the second quarter of 2022 benefited from a modest improvement of railcar supply. Our wholesale lumber program shipped 1.2 million board feet in the second quarter of 2022, representing a decrease of 76% from the 4.9 million board feet shipped in the first quarter of 2022 and 79%

¹ Source: Random Lengths Publications Inc.

² Source: Forest Economic Advisors, LLC

from the 5.8 million board feet shipped in the second quarter of 2021 as a global shortage of wood experienced in 2021 eased.

Revenues from lumber products were \$68.7 million in the second quarter of 2022 representing an increase of 13% from the previous quarter and a decrease of 23% from the second quarter of 2021. Compared to the previous quarter, the higher revenues in the current quarter were driven by increased shipment volumes, partially offset by reduced realized lumber prices. The revenue decrease in the current quarter over the same period in the prior year is largely the result of lower benchmark lumber prices.

Cost of goods sold in the second quarter of 2022 increased by 21% from the previous quarter and by 4% from the second quarter of 2021. The increase in cost of goods sold from the prior quarter is mainly due to higher overall shipments in the current quarter. Unit manufacturing costs decreased in comparison to the previous quarter as a result of increased lumber production and reduced fixed costs.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$7.2 million in the second quarter of 2022, \$5.0 million in the previous quarter and \$5.3 million in the second quarter of 2021. The duty deposits were based on a combined rate of 8.99% until December 1, 2021 and 17.91% thereafter. The export taxes during the second quarter of 2022 were higher than the previous quarter due to increased lumber shipment volumes in the current quarter and were higher than the second quarter of 2021 largely due to the higher cash deposit rate in effect on lumber shipment volumes made to the U.S. market.

Bioenergy Operations

Our Mackenzie power plant sold 54.6 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro in the second quarter of 2022 representing approximately 96% of targeted operating rates. Our Mackenzie power plant sold 53.9 and 50.9 gigawatt hours of electricity in the previous quarter and second quarter of 2021, 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 2022, BC Hydro issued a dispatch order for 61 days, from May 5 to July 4, 2022. In 2021, our power plant was dispatched for 61 days, from May 1 to June 30, 2021. 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 and Power Authority (“**BC Hydro**”).

Electricity production contributed revenues of \$4.8 million in the second quarter of 2022, a decrease of 40% from the previous quarter and an increase of 2% from the second quarter of 2021. In comparison to the previous quarter, revenues were lower due to a “time of delivery factor” that adds a seasonal effect to quarterly revenues. In comparison to the second quarter of 2021, revenues were higher due to higher billable gigawatt hours generated.

Following the end of the dispatch period in July 2022, our Mackenzie power plant had a scheduled outage to perform annual major maintenance work. During the course of maintenance work, damage to the power plant’s turbine was discovered and delayed the restart of the plant. We continue to work with the original equipment manufacturer to assess the required work plan. While we do not anticipate the power plant to be operational during the third quarter of 2022, until the assessment and work plan are completed, no definitive timeline may be provided as to when the power plant will recommence operations. We expect the property damage and business interruption will be covered by our insurance, subject to customary deductibles and limits.

An insurance claim was submitted for physical damage to our equipment and for loss of revenues from the interruption of operations from December 2020 to February 2021 arising from the previous failure of the power plant’s generator. We recognized \$3.5 million as other income on our statement of net income and comprehensive income in 2021 to reflect the settlement for lost income under our business interruption policy. Final settlement of the physical damage and business interruption claim was received in July 2022.

Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs were \$3.1 million in the second quarter of 2022, \$3.3 million in the previous quarter and \$3.0 million in the second quarter of 2021. The reduced SG&A costs were primarily attributable to lower selling costs associated with wholesale lumber shipments as shipment volumes declined relative to the previous quarter and comparative quarter in the preceding year.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.1 million in the second quarter of 2022 and in each comparative quarter. 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

We enter into lumber future contracts at times to manage our commodity lumber price exposures. 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 had no outstanding futures contracts in place as at June 30, 2022.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of U.S. dollar-denominated cash and working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the period end rate.

The U.S. dollar averaged US\$0.783 for each Canadian dollar during the second quarter of 2022, a level which represented a weakening of the Canadian dollar over the previous quarter³.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation gain of \$0.5 million in the second quarter of 2022, compared to foreign exchange translation loss of \$0.2 million in the previous quarter and a gain of \$0.1 million in the second quarter of 2021.

Income Tax

The current quarter results include a current income tax expense of \$1.5 million, compared to nil in each of the comparative quarters.

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 \$3.3 million in the second quarter of 2022, \$4.3 million in the previous quarter and \$8.5 million in the second quarter of 2021. As at June 30, 2022, we have recognized a deferred income tax liability of \$6.9 million.

The effective tax rate was 28% in the current quarter, compared to 27% in the previous quarter and 25% in the second quarter of 2021.

Financial Position and Liquidity

Overall debt was \$57.5 million at June 30, 2022 compared to \$59.4 million at December 31, 2021. The reduction of \$1.9 million in debt comprised net lease repayments of \$0.3 million and Power Term Loan payments of \$1.6 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, 2022, we had \$55.7 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.8 million.

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

At June 30, 2022, we had total liquidity of \$55.4 million, compared to \$16.4 million at December 31, 2021 and \$45.8 million at June 30, 2021. Liquidity at June 30, 2022 was comprised of unrestricted cash of \$40.4 million and unused availability of \$15.0 million under the \$15.0 million secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Revolving Credit Facility**").

Like other Canadian lumber producers, we began depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$29.1 million paid by us, net of our sales of certain refunds, since the inception of the current trade dispute remain held in trust by the U.S. pending administrative reviews and the conclusion of all appeals of U.S. 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 prices in the remainder of 2022 to be elevated from the lows seen in June 2022. While demand for new home construction may be reduced in the near-term as a result of recent mortgage rate hikes, we anticipate repair and remodelling activities will continue to support demand for lumber products. We anticipate lumber shipments in the second half of 2022 to continue to be challenged by transportation issues as rail supply shortages continue to persist.

At our Mackenzie sawmill, we expect to see a gradual increase in lumber production compared to the first half of 2022, with the expectation of achieving annualized operating rates in excess of 90% in the second half of the year. Our Mackenzie power plant is forecasted to resume operations at full capacity in the fourth quarter and to generate a steady and diversified source of cash flow, with seasonally stronger EBITDA contributions expected upon resumption. We expect our third quarter results to be shaped by lower lumber prices, the reduction in duty deposit rates from 17.91% to 8.59% following publication in the U.S. Federal Register and the delayed restart of our power plant which could result in consolidated EBITDA that is materially lower than the first half of the year, but to remain positive.

Our liquidity and financial position are forecasted to continue to remain strong through the second half of 2022. We continue to prioritize funding quick payback sawmill upgrades and exploring potential allocations of capital to enhance shareholder value as we believe that the market price of our common shares does not reflect the underlying value of our business and future prospects. We believe that our strong liquidity position will allow us to manage the delayed resumption of power plant operations and market volatility, if any, that may arise in the latter half of 2022.

Normal Course Issuer Bid

On August 9, 2022, our board of directors approved a normal course issuer bid (the "**NCIB**") for the purchase of up to such number of our common shares (the "**Common Shares**") equal to 10% of the public float. Subject to approval from the Toronto Stock Exchange, we expect to be permitted to make purchases under the NCIB commencing September 1, 2022.

Public Discussion Paper Released

On July 15, 2022, the British Columbia Ministry of Forests (the "**MOF**") released its Public Discussion Paper (the "**PDP**") which provides a summary of the results of the timber supply review for the Mackenzie Timber Supply Area ("**TSA**") initiated in the spring of 2019. Although further analysis will be completed prior to the chief forester's allowable annual cut ("**AAC**") determination and provided the chief forester will consider a wide range of information prior to determining a new AAC, the PDP provides up-to-date information about fibre availability and quality in the Mackenzie TSA. The AAC is the maximum volume of timber available for harvesting each year, usually expressed as cubic metres of wood.

The PDP discloses that its base case and alternative harvest projections are not AAC recommendations, but rather some of the many sources of information the chief forester will consider when setting the new

AAC. The starting level harvest in the base case for the Mackenzie TSA was defined as the maximum achievable for a live harvest projection. An initial harvest level was established in the base case at 2.97 million cubic metres per year to be maintained for 10 years before stepping down annually to 2.47 million cubic metres by the end of the third decade. Approximately 860,000 cubic metres of sawlog consumption is necessary to support two-shift capacity operations at our Mackenzie sawmill complex, the sole sawmill complex presently operating in the Mackenzie TSA. The harvest level projections in the base and alternative cases indicate that sawlog surpluses are likely to persist even after providing for the sawlog consumption required to sustain capacity operations at our Mackenzie sawmill complex.

Our Annual Information Form for the year ended December 31, 2021, available on SEDAR, disclosed that licensees in the Mackenzie TSA are presently required to source a majority of the annual AAC from dead stands while reserving green timber for harvesting after the salvage process ended. We also disclosed that accessing higher quality, green fibre would contribute to lower harvesting and manufacturing costs, produce higher lumber grade outturns, and enhance lumber selling price realizations. We anticipate that when the revised AAC determination scheduled for release later this year takes effect, the competitiveness of our Mackenzie sawmill complex will improve, and the facility will migrate to a lower position on the global lumber industry cost curve.

Investigating Diversification Opportunities

Our board of directors and leadership team remain committed to pursuing affordable investment opportunities with attractive potential returns on investment to stabilize and enhance cash flow generation while concurrently maintaining strong ESG credentials. In furtherance of these objectives, we are examining the feasibility of developing data center hosting operations in northern BC to consume surplus power supply that BC Hydro expects to have available in our operating region through 2030 and beyond. This potential opportunity to develop an additional complimentary revenue and cash flow stream leverages the knowledge and expertise we possess as a result of developing our power generation operations in Mackenzie, BC and operating the plant on a continuous twenty-four hours a day, seven days a week basis.

In November 2021, we advised BC Hydro that Conifex and Tsay Keh Dene First Nations entered into a milestone partnership agreement (the “**Partnership**”) to develop a new business hosting data center or other high-performance computing (“**HPC**”) customers such as digital assets miners. The Partnership commenced hosting an initial 1.5 megawatts of capacity in December 2021 on a trial basis and an additional 1.5 megawatts of capacity in early March 2022. The results from the 3 megawatt trial have been encouraging and the Partnership gained valuable experience hosting HPC operations under a variety of weather and operating conditions.

Besides validating our belief that the Conifex power and corporate service teams have the expertise required to successfully develop and operate sites serving HPC customers, the trial enabled the Partnership to gain experience and input necessary to evaluate the merits of significantly scaling HPC hosting operations.

The Partnership is now investigating the feasibility of building a hosting service business at other potential sites in northern BC. The Partnership has an opportunity to develop a hosting business in phases, utilizing cash flow generated from the initial phases to fund the development of subsequent phases.

We look forward to providing further details about our progress on this potential initiative in our third quarter 2022 earnings release. There is no assurance that the Partnership will establish a data center hosting business.

Conference Call

We have scheduled a conference call on Tuesday, August 9 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the second quarter 2022 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 6816136#. The call will also be available on instant replay access until September 9, 2022 by dialling 905-694-9451 or 1-800-408-3053 and entering participant passcode 9702453#.

Our management's discussion and analysis and financial statements for the quarter ended June 30, 2022 are available under our profile on SEDAR.

For further information, please contact:

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Chief Financial Officer
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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: our expectations with respect to the matters discussed in the PDP released by the MOF on July 15, 2022, including the chief forester's determination of the AAC in the Mackenzie TSA; the realization of expected benefits of completed, current and any contemplated capital projects and the expected timing and budgets for such projects, including the build-out of any HPC or data center operations; the 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; our ability to supply our manufacturing operations with wood fibre and our expected cost for wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the U.S.; that we could be negatively impacted by the duties or other protective measures on our products, such as AD or CV on softwood lumber; continued positive relations with Indigenous groups; expectations regarding the operation of the Mackenzie power plant; our ability to receive full reimbursement of losses suffered from the disruption at our Mackenzie power plant; expectations regarding our liquidity levels; 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; our ability to ship products in a timely manner; 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, 2021 and the quarter ended June 30, 2022, 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.