



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

Conifex Announces Second Quarter 2023 Results

August 9, 2023, Vancouver, B.C. - Conifex Timber Inc. ("Conifex", "we" or "us") (TSX: CFF) today reported results for the second quarter ended June 30, 2023. EBITDA* was negative \$8.7 million for the quarter compared to EBITDA of \$20.1 million in the second quarter of 2022. Net loss was \$9.2 million or \$0.23 per share for the quarter versus net income of \$12.3 million or \$0.31 per share in the year-earlier quarter. The results reflect reduced operating earnings on lower lumber prices and reduced shipments reflecting a curtailment of our Mackenzie sawmill for June.

Selected Financial Highlights

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

Selected Financial Information

(unaudited, in millions of dollars, except share and exchange rate information)	Q2 2023	Q1 2023	Q2 2022
Revenue			
Lumber – Conifex produced	18.8	26.0	66.4
Lumber – wholesale	1.0	1.0	2.3
By-products and other	2.7	8.4	11.6
Bioenergy	4.8	4.5	4.8
	27.2	39.9	85.1
Operating income (loss)	(11.0)	(11.5)	17.6
EBITDA ⁽¹⁾	(8.7)	(6.9)	20.1
Net income (loss)	(9.2)	(8.1)	12.3
Basic and diluted earnings (loss) per share	(0.23)	(0.20)	0.31
Cash dividends per shares	-	-	-
Shares outstanding – weighted average (millions)	39.8	39.8	40.2
Reconciliation of EBITDA to net income (loss)			
Net income (loss)	(9.2)	(8.1)	12.3
Add: Finance costs	1.3	1.2	1.1
Amortization	2.4	2.5	2.0
Deferred income tax expense (recovery)	(3.2)	(2.5)	4.7
EBITDA ⁽¹⁾	(8.7)	(6.9)	20.1

* 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 ("IFRS"), it may not be comparable to EBITDA calculated by others and is not a substitute for net earnings or cash flows, as determined in accordance with IFRS, and therefore readers should consider those measures in evaluating our performance.

Selected Operating Information

	Q2 2023	Q1 2022	Q2 2022
Production – WSPF lumber (MMfbm) ⁽²⁾	32.5	41.2	51.4
Shipments – WSPF lumber (MMfbm) ⁽²⁾	31.1	40.6	55.5
Shipments – wholesale lumber (MMfbm) ⁽²⁾	1.1	1.0	1.2
Electricity production (GWh)	43.5	34.6	54.6
Average exchange rate – \$/US ⁽³⁾	0.745	0.740	0.783
Average WSPF 2x4 #2 & Btr lumber (US\$) ⁽⁴⁾	\$363	\$384	\$827
Average WSPF 2x4 #2 & Btr lumber price(\$) ⁽⁵⁾	\$487	\$519	\$1,056

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(2) MMfbm represents million board feet.

(3) Bank of Canada, www.bankofcanada.ca.

(4) Random Lengths Publications Inc.

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

Summary of Second Quarter 2023 Results

Consolidated Net Earnings

During the second quarter of 2023, we incurred a net loss of \$9.2 million or \$0.23 per share compared to a net loss of \$8.1 million or \$0.20 per share in the previous quarter and net income of \$12.3 million or \$0.31 per share in the second quarter of 2022.

Lumber Operations

North American lumber market prices continued to experience weakness in the second quarter of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$487 in the second quarter of 2023, decreased by 6% or \$32 from the previous quarter and by 54% or \$569 from the second quarter of 2022.¹ The market price decline in the second quarter of 2023 was primarily fueled by the continued overall reduced demand for lumber. US housing starts on a seasonally adjusted annual basis averaged 1,451,000 in the second quarter of 2023, up 2% from the previous quarter and down 13% from the second quarter of 2022.²

Our lumber production in the second quarter of 2023 totalled approximately 32.5 million board feet, representing operating rates of approximately 54% of annualized capacity. Lumber production in the quarter reflected 20 days of unscheduled downtime to address low reservoir levels forecasted in the Williston Reservoir and an overall reduced demand for lumber amid challenging economic conditions. In the previous quarter, 41.2 million board feet of lumber was produced, which reflected a ten-day curtailment of our Mackenzie mill, as well as production being affected by overall depressed operating rates. Lumber production in the second quarter of 2022, which was not impacted by shift reductions, was 51.4 million board feet or approximately 86% of annualized capacity.

Shipments of Conifex-produced lumber totaled 31.1 million board feet in the second quarter of 2023, representing a decrease of 23% from the 40.6 million board feet shipped in the previous quarter and a decrease of 44% from the 55.5 million board feet of lumber shipped in the second quarter of 2022. Shipments of Conifex-produced lumber in the second quarter of 2023 decreased relative to the previous quarter as a result of the aforementioned unscheduled downtime, and decreased relative to the second quarter of 2022, which period was not impacted by shift reductions and benefitted from a build up of dressed lumber that was drawn down during the quarter.

¹ Source: Random Lengths Publications Inc.

² Source: Forest Economic Advisors, LLC.

Our wholesale lumber shipments were generally consistent in the current quarter compared to each comparative period. Our wholesale lumber program shipped 1.1 million board feet in the second quarter of 2023, 1.0 million board feet in the previous quarter and 1.2 million board feet in the second quarter of 2022.

Revenues from lumber products were \$19.8 million in the second quarter of 2023 representing a decrease of 27% from the previous quarter and a decrease of 71% from the second quarter of 2022. Compared to the previous quarter, lower shipment volumes and softer mill net realizations on lower lumber market prices contributed to the lower revenue. The revenue decrease in the current quarter over the same period in the prior year was largely the result of both weaker benchmark lumber prices and decreased lumber shipments.

Cost of goods sold in the second quarter of 2023 decreased by 29% from the previous quarter and by 40% from the second quarter of 2022. The decrease in cost of goods sold from the prior quarter and the second quarter of 2022 is mainly due to lower shipment volumes in the current quarter. Unit manufacturing costs increased in comparison to each of the comparative quarters as a result of lower operating rates from the June downtime. We recorded inventory valuation reserves of -\$0.7 million and \$0.2 million in the current and previous quarters, respectively, compared to nil in the second quarter of 2022. Inventory valuation reserves decreased in comparison to the previous quarter due to a reduction in dressed lumber coupled with increased lumber prices.

We expensed countervailing (“CV”) and anti-dumping (“AD”) duty deposits of \$1.0 million in the second quarter of 2023, \$1.2 million in the previous quarter and \$7.2 million in the second quarter of 2022. The duty deposits were based on a combined rate of 17.91% until August 8, 2022 and 8.59% thereafter. The export taxes during the second quarter of 2023 were lower than the previous quarter due to decreased lumber shipment volumes made to the US market in the current quarter, and were significantly lower than the second quarter of 2022 largely due to the decreased lumber market price and lower cash deposit rate in effect in the current quarter.

Bioenergy Operations

Our power plant sold 43.5 GWh of electricity under our Electricity Purchase Agreement with BC Hydro in the second quarter of 2023 representing approximately 79% of targeted operating rates. Our power plant sold 34.6 and 54.6 GWh of electricity in the previous quarter and second quarter of 2022, respectively. Production in the second quarter of 2023 was higher than the first quarter of 2023 due to an increased number of operating days in the second quarter of 2023, and lower than the second quarter of 2022 due to annual maintenance scheduled in the second quarter of 2023.

Electricity production contributed revenues of \$4.8 million in the second quarter of 2023, \$4.5 million in the previous quarter and \$4.8 million in the second quarter of 2022.

The power plant was temporarily shut down in July 2022 due to the discovery of damage to its turbine, and successfully recommissioned on January 31, 2023. We submitted an insurance claim for physical damage to our equipment and for loss of revenues from the interruption of operations as a result of the turbine damage. We expect to be fully reimbursed for capital expenditures related to the repair of the turbine, subject to customary 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 recommencement of the power plant. We recognized \$2.2 million as other income on our statement of net income and comprehensive income in the first quarter of 2023 and \$9.6 million in 2022 to reflect the estimated settlement for lost income under our business interruption policy. Final settlements of the physical damage and business interruption claims are anticipated to be completed in the third quarter of 2023.

Selling, General and Administrative Costs

Selling, general and administrative costs were comparable between the current quarter and each comparative period. Selling, general and administrative costs were \$3.3 million in the second quarter of 2023, \$3.2 million in the previous quarter and \$3.1 million in the second quarter of 2022.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.3 million in the second quarter of 2023, \$1.2 million in the previous quarter and \$1.1 million in the second quarter of 2022. Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the "Power Term Loan").

Other Income

We did not recognize any other income in the second quarter of 2023 or in the second quarter of 2022. We recognized other income of \$2.2 million in the first quarter of 2023 which primarily consisted of our business interruption claim in respect of the turbine failure at the power plant. See "*Summary of Second Quarter 2023 Results – Bioenergy Operations*" above for additional information on the power plant disruption.

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 US 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. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The US dollar averaged US\$0.745 for each Canadian dollar during the second quarter of 2023, a level which represented a modest strengthening of the Canadian dollar over the previous quarter.³

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 loss of \$0.3 million in the second quarter of 2023, compared to a foreign exchange translation loss of nil in the previous quarter and a gain of \$0.5 million in the second quarter of 2022.

Income Tax

We recorded income tax recovery of \$3.2 million in the second quarter of 2023, and income tax recovery of \$2.5 million in the previous quarter and income tax expense of \$4.7 million in the second quarter of 2022.

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. As at June 30, 2023, we have recognized a deferred income tax liability of \$3.2 million.

Financial Position and Liquidity

Overall debt was \$65.8 million at June 30, 2023 compared to \$67.4 million at March 31, 2023 and \$57.5 million at June 30, 2022. The decrease in overall debt between the second and first quarters of 2023 was mainly driven by the payment of \$1.0 million against our Revolving Credit Facility in the second quarter of 2023. The increase in overall debt at June 30, 2023 relative to June 30, 2022 was due to an increase in the amount drawn against our Revolving Credit Facility of \$11.5 million, partially offset by payments against our Power Term Loan and monthly lease payments. 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, 2023, we had \$52.2 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.1 million.

At June 30, 2023, we had total liquidity of \$18.1 million, compared to \$17.7 million at March 31, 2023 and \$55.4 million at June 30, 2022. Liquidity at June 30, 2023 was comprised of unrestricted cash of \$4.6 million and unused availability of \$13.5 million under 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\$32.6 million paid by us, net of sales of the right to certain refunds, since the inception of the trade dispute remain held in trust by the US pending administrative reviews and the conclusion of all appeals of US decisions. We

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

expect future cash flows 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 continue to experience weakness through the remainder of 2023 as global market conditions continue to evolve. The effect of inflationary pressures and higher interest rates affecting consumer spending in the housing and repairs and remodeling markets has resulted in weaker lumber market prices than seen in recent years and is expected to persist through the remainder of the year. While lagging US housing completions and tempered repair and remodeling activity, as well as elevated levels of offshore lumber imports have affected market demand for lumber products, demand and market prices are expected to see a gradual increase in the second half of 2023.

At our Mackenzie Mill, we expect to see an overall increase in lumber production over 2022, with the expectation of achieving annualized operating rates of approximately 85% for the remaining six months of 2023 on improved sawmill operating rates. We anticipate an overall improvement in operating costs in 2023 as a result of decreased unit fixed costs on higher lumber production volumes and availability of sufficient logs for continuous operations at our sawmill. Additionally, early in June 2023, stumpage rates decreased in British Columbia due to the monthly market-based adjustments related to lumber prices, the benefit of which was partially offset by higher fuel costs and inflationary pressures. Given the current commodity price environment, stumpage rates are expected to continue to decrease moderately through the third quarter of 2023 before increasing early in the fourth quarter of 2023 given the recent rise in commodity prices.

We expect that the volume of lumber shipments in 2023 will match our sawmill production as the transportation challenges faced in 2022 have largely been resolved. However, the labour dispute at the Ports of Vancouver and Prince Rupert that commenced on July 1, 2023 may have a negative impact on the already constrained logistics network in British Columbia.

Our power plant is forecasted to generate a steady and diversified source of cash flow throughout 2023 following its restart on January 31, 2023. We expect our power plant to average uptime in excess of 90% for the remainder of 2023. We anticipate that our power plant will largely be generating electricity continuously through the balance of 2023.

We anticipate maintaining high levels of working capital through the balance of 2023 and anticipate that operating cash flow levels and available liquidity will be supported by our working capital levels as we progress through the year. We continue to prioritize funding quick payback sawmill upgrades and continue exploring the potential development of our high-performance computing business.

AR4 Final Duty Rates

Subsequent to the end of the second quarter, the US Department of Commerce released the final duty rates related to the fourth administrative review. The combined duty rate applicable to Conifex was 7.99% as compared to the recent rate of 8.59%. Softwood lumber duty rates will now accrue at 7.99% until the completion of the next administrative review, which is scheduled to be completed in 2024. We estimate we will record an export duty recovery of approximately \$1.8 million in the third quarter of 2023 related to the finalization of the fourth administrative review.

Conference Call

We have scheduled a conference call on Wednesday, August 9 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the second quarter 2023 financial and operating results. To participate in the call, please dial 416-340-2217 or toll free 1-800-806-5484 and enter the participant passcode 6020746#. The call will also be available on instant replay access until September 9, 2023 by calling 1-800-408-3053 and entering the participant passcode 5198832#.

Our management's discussion and analysis and financial statements for the quarter ended June 30, 2023 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: 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 high-performance computing or data center operations; the growth and future prospects of our business; our expectations regarding our results of operations and performance; our planned operating format and expected operating rates; our perception of the industries or markets in which we operate and anticipated trends in such markets and in the countries in which we do business; fluctuations in stumpage rates; our ability to supply our manufacturing operations with wood fibre and our expected cost of wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the United States of America; potential negative impacts of duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; continued positive relations with Indigenous groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our ability to receive, under our insurance policies, full reimbursement of losses suffered from the disruption of operations at our Mackenzie power plant; the outcome of the labour dispute at the Ports of Vancouver and Prince Rupert; the outcome of any actual or potential litigation; the availability and use of credit facilities or proceeds therefrom; future capital expenditures; 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; our ability to obtain and maintain required governmental and community approvals; the impact of changing government regulations and shifting political climates; that the US housing market will continue to improve; that transportation services by third party providers will continue uninterrupted; our ability to ship our products in a timely manner; that there will be no additional unforeseen disruptions affecting the operation of our Mackenzie power 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 similar 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); and other risk factors detailed in our 2022 annual information form dated March 30, 2023 and our management's discussion and analysis for the year ended December 31, 2022 and the quarter ended March 31, 2023 available on SEDAR+ at www.sedarplus.com and other filings with the Canadian securities regulatory authorities. 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 applicable securities laws.