



**CONIFEX TIMBER INC.**

NEWS RELEASE: via MARKETWIRE

FOR IMMEDIATE RELEASE

**Conifex Announces Third Quarter 2023 Results**

November 7, 2023, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the third quarter ended September 30, 2023. EBITDA\* was negative \$6.7 million for the quarter compared to EBITDA of \$4.2 million in the third quarter of 2022. The third quarter results were favourably impacted by \$1.7 million in recoveries of duty deposit overpayments which were more than offset by \$2.4 million in further inventory write-downs that were taken in response to lower lumber prices and after disposing of a logging camp that was lost in a wildfire this summer for \$0.6 million. Net loss was \$8.0 million or \$0.20 per share for the quarter versus net income of \$0.9 million or \$0.02 per share in the year-earlier quarter. The results reflect reduced operating earnings on lower lumber prices.

**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)

|  | <b>Q3<br/>2023</b> | <b>Q2<br/>2023</b> | <b>Q3<br/>2022</b> |
|--|--------------------|--------------------|--------------------|
| <b>Revenue</b>                                       |                    |                    |                    |
| Lumber – Conifex produced                            | 26.6               | 18.8               | 35.5               |
| Lumber – wholesale                                   | 0.8                | 1.0                | 3.8                |
| By-products and other                                | 4.3                | 2.7                | 7.9                |
| Bioenergy  | 7.1                | 4.8                | 0.4                |
|  | <b>38.7</b>        | <b>27.2</b>        | <b>47.7</b>        |
| Operating income (loss)                              | (10.1)             | (11.0)             | 1.3                |
| EBITDA <sup>(1)</sup>                                | (6.7)              | (8.7)              | 4.2                |
| ADJUSTED EBITDA                                      | (6.1)              | (8.8)              | 4.2                |
| <b>Net income (loss)</b>                             | <b>(8.0)</b>       | <b>(9.2)</b>       | <b>0.9</b>         |
| <b>Basic and diluted earnings (loss) per share</b>   | <b>(0.20)</b>      | <b>(0.23)</b>      | <b>0.02</b>        |
| <b>Cash dividends paid per share</b>                 | <b>-</b>           | <b>-</b>           | <b>-</b>           |
| Shares outstanding – weighted average (millions)     | 40.2               | 39.8               | 40.2               |
| <b>Reconciliation of EBITDA to net income (loss)</b> |                    |                    |                    |
| Net income (loss)                                    | (8.0)              | (9.2)              | 0.9                |
| Add: Finance costs                                   | 1.2                | 1.3                | 1.1                |
| Amortization   | 3.8                | 2.4                | 1.8                |
| Deferred income tax expense (recovery)               | (3.7)              | (3.2)              | 0.4                |
| EBITDA <sup>(1)</sup>                                | (6.7)              | (8.7)              | 4.2                |

\* 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

|   | Q3<br>2023 | Q2<br>2023 | Q3<br>2022 |
|---|------------|------------|------------|
| Production – WSPF lumber (MMfbm) <sup>(2)</sup>           | 48.9       | 32.5       | 39.5       |
| Shipments – WSPF lumber (MMfbm) <sup>(2)</sup>            | 41.9       | 31.1       | 44.7       |
| Shipments – wholesale lumber (MMfbm) <sup>(2)</sup>       | 0.9        | 1.1        | 3.0        |
| Electricity production (GWh)                              | 56.0       | 43.5       | 1.2        |
| Average exchange rate – \$/US <sup>(3)</sup>              | 0.746      | 0.745      | 0.766      |
| Average WSPF 2x4 #2 & Btr lumber (US\$) <sup>(4)</sup>    | \$417      | \$363      | \$568      |
| Average WSPF 2x4 #2 & Btr lumber price(\$) <sup>(5)</sup> | \$559      | \$487      | \$742      |

(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](http://www.bankofcanada.ca).

(4) Random Lengths Publications Inc.

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

## Summary of Third Quarter 2023 Results

### Consolidated Net Earnings

During the third quarter of 2023, we incurred a net loss of \$8.0 million or \$0.20 per share compared to a net loss of \$9.2 million or \$0.23 per share in the previous quarter and net income of \$0.9 million or \$0.02 per share in the third quarter of 2022.

### Lumber Operations

North American lumber market prices continued to experience softness in the third quarter of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$559 in the third quarter of 2023, increased by 15% or \$72 from the previous quarter and decreased by 25% or from \$742 from the third quarter of 2022<sup>1</sup>. The market price increase in the third quarter of 2023 was positively impacted by continued reports of a resilient US housing market and moderation of European supply to the North American Market. Despite that, US housing starts on a seasonally adjusted annual basis averaged 1,359,000 in the third quarter of 2023, down 6% from the previous quarter and down 10% from the third quarter of 2022.

Our lumber production in the third quarter of 2023 totalled approximately 48.9 million board feet, representing operating rates of approximately 80% of annualized capacity. Lumber production of 32.5 million board feet of lumber in the previous 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. Lumber production in the third quarter of 2022 was 39.5 million board feet or approximately 66% of annualized capacity, primarily due to the Mackenzie Mill running on a single shift basis for the last month of the quarter.

Shipments of Conifex-produced lumber totaled 41.9 million board feet in the third quarter of 2023, representing an increase of 35% from the 31.1 million board feet shipped in the previous quarter and a decrease of 6% from the 44.7 million board feet of lumber shipped in the third quarter of 2022. Shipments of Conifex-produced lumber in the third quarter of 2023 were greater than those in the previous quarter as a result of the unscheduled downtime in the previous quarter and decreased relative to the third quarter of 2022 due to a build up of rough lumber inventories in the current quarter.

Our wholesale lumber shipments were generally consistent in the current quarter compared to the previous quarter and decreased relative to the third quarter of 2022 due to reduced demand from Japan. Our wholesale lumber program shipped 0.9 million board feet in the third quarter of 2023, 1.1 million board feet in the previous quarter and 3.0 million board feet in the third quarter of 2022.

<sup>1</sup> Source: Random Lengths Publications Inc.

Revenues from lumber products were \$27.4 million in the third quarter of 2023 representing an increase of 38% from the previous quarter and a decrease of 30% from the third quarter of 2022. Compared to the previous quarter, higher shipment volumes and mill net realizations on higher lumber market prices contributed to the higher 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 third quarter of 2023 increased by 42% from the previous quarter and by 3% from the third quarter of 2022. The increase in cost of goods sold from the prior quarter was mainly due to increased shipment volumes in the current quarter. The cost of goods sold in the third quarter of 2023 was comparable to the same quarter of 2022. Unit manufacturing costs in the third quarter of 2023 decreased in comparison the previous quarter as a result of higher operating rates from the June downtime and was comparable with the same period in 2022. We recorded inventory valuation reserves of \$2.4 million and \$(0.7 million) in the current and previous quarter, respectively, compared to \$0.3 million in the third quarter of 2022. Inventory valuation reserves increased in comparison to the previous quarter due to an increased lumber inventory coupled with decreased lumber prices.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$1.4 million in the third quarter of 2023 and reversed \$1.7 million in duty deposit over accruals related to the fourth administrative review's final rate for a net duty of \$(0.3 million) recorded for the period, \$1.0 million in the previous quarter and \$(3.6 million) in the third quarter of 2022. The duty deposits were based on a combined rate of 8.59% until August 31, 2022 and 8.05% thereafter. The export taxes during the third quarter of 2023 were lower than the previous quarter due to a reversal of the over accrual from the fourth administrative review's final determination and were significantly lower than the third quarter of 2022 largely due to the reversal of duty deposit from third administrative review's final determinations.

#### Bioenergy Operations

Our Power Plant sold 56.0 GWh of electricity under our EPA with BC Hydro in the third quarter of 2023 representing approximately 102% of targeted operating rates. Our Power Plant sold 43.5 and 1.2 GWh of electricity in the previous quarter and third quarter of 2022, respectively. Production in the third quarter of 2023 was higher than the second quarter of 2023 due to an increased number of operating days in the third quarter of 2023, and higher than the third quarter of 2022 due to the temporary shutdown for turbine repairs that occurred in 2022.

Electricity production contributed revenues of \$7.1 million in the third quarter of 2023, \$4.8 million in the previous quarter and \$0.4 million in the third 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 have since been fully reimbursed for capital expenditures related to the repair of the turbine, 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 recommencement of the Power Plant.

#### Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs decreased between the current quarter and each comparative period. SG&A costs were \$1.9 million in the third quarter of 2023, \$3.3 million in the previous quarter and \$3.2 million in the third quarter of 2022. Reductions in regional costs and reversal of certain share compensation over accruals resulted in the quarter-over-quarter improvement.

#### Finance Costs and Accretion

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

### Other Income

We recognized a small amount of other income in the third quarter of 2023 as a result of subletting excess office space, none in the second quarter of 2023 and none in the third quarter of 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 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\$0.746 for each Canadian dollar during the third quarter of 2023, a level which represented a modest strengthening of the Canadian dollar over the previous quarter<sup>2</sup>.

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 \$0.2 million in the third quarter of 2023, compared to a foreign exchange translation loss of \$0.3 million in the previous quarter and a gain of \$1.1 million in the third quarter of 2022.

### Income Tax

We recorded income tax recovery of \$3.7 million in the third quarter of 2023, and income tax recovery of \$3.2 million in the previous quarter and income tax recovery of \$0.7 million in the third 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 September 30, 2023, we have recognized a deferred income tax assets of \$0.5 million.

## **Financial Position and Liquidity**

Overall debt was \$65.6 million at September 30, 2023 compared to \$65.8 million at June 30, 2023 and \$57.8 million at September 30, 2022. The decrease in overall debt between the third and second quarters of 2023 was mainly driven by a fractional draw against our secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "Revolving Credit Facility"), offset by principal and interest payments against the Power Term Loan in the third quarter of 2023. The increase in overall debt at September 30, 2023 relative to September 30, 2022 was due to an increase in the amount drawn against our Revolving Credit Facility of \$12.2 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 September 30, 2023, we had \$51.6 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.9 million.

At September 30, 2023, we had total liquidity of \$16.0 million, compared to \$18.1 million at June 30, 2023 and \$36.0 million at September 30, 2022. Liquidity at September 30, 2023 was comprised of unrestricted cash of \$3.2 million and unused availability of \$12.8 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 US government in April 2017. Cumulative duties of US\$33.5 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 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.

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<sup>2</sup> Source: Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca)

## Outlook

Through the remainder of 2023, we expect lumber prices to remain consistent with year-to-date levels. We expect our lumber production and shipments in the closing quarter of 2023 to be modestly higher than in the third quarter. Seasonally higher power prices are expected to be recorded in our power business.

Looking ahead to 2024, we agree with analysts' estimates calling for benchmark lumber prices to improve by low double-digit percentages in 2024. We expect an improved supply/demand balance for lumber producers in 2024. The demand side is anticipated to benefit from some moderation in interest rates, a key driver of residential construction activity and lumber prices. The supply side will continue to reflect supply contractions in the interior region of B.C. In the northern interior region of B.C., where we operate, trailing 12-month lumber production has retreated by one-third, from 4.5 billion board feet early in 2021 to 3.0 billion board feet currently.

At our Mackenzie site, we anticipate capturing benefits from our transition to a green log diet. In May 2023, the Chief Forester ruled that the remaining dead pine stands in the Mackenzie Timber Supply Area have lost their commercial value as sawlogs. Transitioning to a greener log diet leads to improved sawmill performance, higher grade outturns, and stronger selling price realizations. We also expect to benefit from lower stumpage charges through the remainder of 2023 and the following year. Besides moving our Mackenzie site to a lower ranking on the lumber industry cost curve, these fibre supply related factors position us to improve EBITDA in 2024 even if lumber prices, exchange rates, and duty impositions average out at 2023 levels.

Our Power Plant is forecasted to generate a steady and diversified source of cash flow through 2024 and continue to reach or exceed 90% uptime.

We continue to prioritize funding quick payback sawmill upgrades and continue exploring the potential development of our high-performance computing business.

## Conference Call

We have scheduled a conference call on Tuesday, November 7, 2023 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the third quarter 2023 financial and operating results. To participate in the call, please dial toll free 1-800-806-5484 and enter the participant passcode 6592667#. The call will also be available on instant replay access until December 7, 2023 by calling 1-800-408-3053 and entering the participant passcode 8736529#.

Our management's discussion and analysis and financial statements for the quarter ended September 30, 2023 are available under our profile on SEDAR+.

For further information, please contact:

Trevor Pruden  
Chief Financial Officer  
(604) 216-2949

## 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, B.C.

## 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 US; 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 expectations about discussions with United Steelworkers concerning renewal of the collective labour agreement; 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 US 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 September 30, 2023 available on SEDAR+ at [www.sedarplus.com](http://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.