



CONIFEX TIMBER INC.

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Conifex Announces First Quarter 2022 Results

May 10, 2022, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the first quarter ended March 31, 2022. EBITDA* from continuing operations was \$20.1 million for the quarter compared to EBITDA of \$9.7 million in the first quarter of 2021. Net income was \$11.4 million or \$0.28 per share for the year versus \$4.5 million or \$0.10 per share in the year-earlier quarter. The results reflect higher lumber prices, partially offset by reduced shipments reflecting ongoing transportation challenges.

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 share and exchange rate information)

	Q1 2022	Q4 2021	Q1 2021
Sales			
Lumber – Conifex produced	52.6	34.5	39.9
Lumber – wholesale	8.4	14.7	0.6
By-products and other	2.8	2.7	2.4
Bioenergy	8.0	8.0	3.7
	71.8	59.9	46.6
Operating income (loss)	17.1	(3.0)	8.7
EBITDA from continuing operations ⁽²⁾	20.1	1.0	9.7
Net income (loss) from continuing operations	11.4	(2.5)	4.5
Basic and diluted earnings (loss) per share			
Continuing operations	0.28	(0.06)	0.10
Shares outstanding – weighted average (millions)	40.1	43.8	46.4
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	11.4	(2.5)	4.5
Add: Finance costs	1.1	1.2	1.1
Amortization	3.2	3.1	2.2
Deferred income tax expense (recovery)	4.3	(0.8)	1.9
EBITDA from continuing operations ⁽²⁾	20.1	1.0	9.7

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

Selected Operating Information

	Q1 2022	Q4 2021	Q1 2021
Production – WSPF lumber (MMfbm) ⁽³⁾	47.1	44.0	51.0
Shipments – WSPF lumber (MMfbm) ⁽³⁾	42.5	44.7	37.8
Shipments – wholesale lumber (MMfbm) ⁽³⁾	4.9	6.1	0.7
Electricity production (GWh)	53.9	54.9	25.0
Average exchange rate – \$/US ⁽⁴⁾	0.790	0.794	0.790
Average WSPF 2x4 #2 & Btr lumber (US\$) ⁽⁵⁾	\$1,288	\$739	\$982
Average WSPF 2x4 #2 & Btr lumber price(\$) ⁽⁶⁾	\$1,631	\$931	\$1,244

(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 First Quarter 2022 Results

Consolidated Net Earnings

During the first quarter of 2022, we generated net income from continuing operations of \$11.4 million or \$0.28 per share compared to a net loss of \$2.5 million or \$0.06 per share in the previous quarter and net income of \$4.5 million or \$0.10 per share in the first quarter of 2021.

Lumber Operations

North American lumber market prices rose steadily in the first quarter of 2022. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$1,631 in the first quarter of 2022, increased by 75% or \$700 from the previous quarter and by 31% or \$387 from the first quarter of 2021¹. The market price increase was fueled by steady demand from repair and remodelling activities, strong new home construction activity in the US and continuing industry supply chain challenges driven by rail and truck service disruptions. US housing starts on a seasonally adjusted annual basis remained steady, averaging 1,683,000 in the first quarter of 2022, up 2% from the previous quarter and up 5% from the first quarter of 2021².

Our lumber production in the first quarter of 2022 totalled approximately 47.1 million board feet, representing operating rates of approximately 78% of annualized capacity. In the previous quarter, 44.0 million board feet of lumber was produced. Lumber production in the first quarter of this year increased as COVID-19 shift reductions and severe winter weather that affected operations in the prior quarter and continued through the first half of this quarter gradually eased towards the end of the quarter.

Shipments of Conifex produced lumber totaled 42.5 million board feet in the first quarter of 2022, representing a decrease of 5% from the 44.7 million board feet shipped in the previous quarter and an increase of 12% from the 37.8 million board feet of lumber shipped in the first quarter of 2021. Shipments of Conifex produced lumber in the first quarter of 2022 was challenged by ongoing railcar and truck supply constraints. Railcar supply continued to persist at lower levels than before the November 2021 heavy rains and floods in the Province of British Columbia.

Our wholesale lumber program shipped 4.9 million board feet in the first quarter of 2022, representing a decrease of 20% from the 6.1 million board feet shipped in the fourth quarter of 2021 and an increase of 600% from the 0.7 million board feet shipped in the first quarter of 2021.

¹ Source: Random Lengths Publications Inc.

² Source: Forest Economic Advisors, LLC

Revenues from lumber products were \$61.0 million in the first quarter of 2022 representing an increase of 24% from the previous quarter and 51% from the first quarter of 2021. Compared to the previous quarter, higher mill net realizations on stronger lumber market prices offset the lower shipment volumes. The revenue increase in the current quarter over the same period in the prior year was largely the result of both higher benchmark lumber prices and increased lumber shipments.

Cost of goods sold in the first quarter of 2022 decreased by 22% from the previous quarter and increased by 41% from the first quarter of 2021. The decrease in cost of goods sold from the prior quarter is largely related to a reduction in overall costs on lower Conifex produced lumber and wholesale lumber program shipments. Unit manufacturing costs increased in comparison to the previous quarter and the first quarter of 2021 due to increased fixed costs as a result of the severe winter weather experienced in the first half of the quarter.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$5.0 million in the first quarter of 2022, \$2.5 million in the previous quarter and \$2.5 million in the first 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 first quarter of 2022 were significantly higher than the previous quarter and the first quarter of 2021 largely due to the increased cash deposit rate in effect on lumber shipment volumes made to the US market.

Bioenergy Operations

Our Mackenzie power plant sold 53.9 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro and Power Authority (“**BC Hydro**”) in the first quarter of 2022 representing approximately 99% of targeted operating rates. Our Mackenzie power plant sold 54.9 and 25.0 gigawatt hours of electricity in the previous quarter and first 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.

Electricity production contributed revenues of \$8.0 million in the first quarter of 2022, unchanged from the previous quarter and an increase of 116% from the first quarter of 2021. In comparison to the comparable quarter of 2021, revenues were higher as a result of 49 days of unplanned downtime during the first quarter of 2021 arising from a disruption caused by damage to the plant’s generator, which has since been replaced.

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. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator, subject to deductible amounts, and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the recommencement of the power plant. We recognized \$3.5 million as other income on our statement of net income and comprehensive income in 2021 to reflect the estimated settlement for lost income under our business interruption policy. Final settlement of the physical damage and business interruption claim is anticipated to be completed in the first half of 2022.

Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs were \$3.3 million in the first quarter of 2022, \$2.4 million in the previous quarter and \$2.2 million in the first quarter of 2021. The higher SG&A costs are primarily attributable to increased selling costs on wholesale lumber shipments and higher overall compensation costs, including equity-based compensation.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.1 million in the first quarter of 2022, \$1.2 million in the previous quarter and \$1.1 million in the first quarter of 2021. 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.

There were no outstanding futures contracts in place as at March 31, 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\$0.790 for each Canadian dollar during the first 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 loss of \$0.2 million in the first quarter of 2022, compared to a foreign exchange translation gain of \$0.1 million in the previous quarter and a loss of \$0.3 million in the first quarter of 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 deferred income tax expense of \$4.3 million in the first quarter of 2022 and deferred income tax recovery of \$0.8 million in the previous quarter and deferred tax expense of \$1.9 million in the first quarter of 2021. As at March 31, 2022, we have recognized a deferred income tax liability of \$3.7 million.

Financial Position and Liquidity

Overall debt was \$64.4 million at March 31, 2022 compared to \$59.4 million at December 31, 2021, with the change mainly driven by the \$6.5 million drawn against our secured revolving credit facility with Wells Fargo Finance Corporation Canada (the “**Revolving Credit Facility**”) in the quarter to bolster operating working capital. The increase in debt was partially offset by net lease repayments of \$0.3 million and Power Term Loan payments of \$1.2 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At March 31, 2022, we had \$56.0 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.9 million.

At March 31, 2022, we had total liquidity of \$23.3 million, compared to \$16.4 million at December 31, 2021 and \$16.4 million at March 31, 2021. Liquidity at March 31, 2022 was comprised of unrestricted cash of \$14.8 million and unused availability of \$8.5 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\$23.3 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 the administrative reviews and conclusion of all appeals of US decisions.

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

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 to remain elevated through 2022, despite recent lumber market price volatility in the past month, supported by steady demand from US housing starts as home demand continues to outpace supply despite recent mortgage rate hikes. At our Mackenzie sawmill, we expect to see an increase in lumber production over the first quarter of 2022, with the expectation of achieving annualized operating rates in excess of 90% for the remainder of 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, subject to the “turn down” notice received from BC Hydro for the latter half of the second quarter of 2022.

We anticipate a quarter-over-quarter increase in lumber shipments in the second quarter of 2022, as we unwind lumber inventory accumulated, as transportation challenges related to rail and truck supply shortages improve. While we are unable to estimate when full transportation service will resume, we continue to utilize alternative transportation routes and methods to facilitate shipments to our customers. While we expect more moderate mill net realizations, the anticipated increase in the volume of lumber shipments indicate that the second quarter operating results are expected to be at least comparable to the results achieved in the first quarter of 2022. Since lumber prices have firmed and held steady in recent weeks, we could realize stronger results for the second quarter than anticipated.

Our liquidity and financial position are forecasted to continue to remain strong throughout 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 market volatility, if any, that may arise in the remainder of 2022.

Revenue Diversification Opportunity

Over the past two years, our management and board of directors have been exploring opportunities to utilize the unique attributes of our power generation asset base to strengthen Conifex. Given the Mackenzie site’s location in a relatively cool climate, the availability of affordable and renewable power from 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, we concluded that our site was ideally suited to host a data center or other high-performance computing (“HPC”) operations, such as digital asset mining. The electrical expertise of our existing power plant engineers and employee base, combined with familiarity of continuous operations are important components to providing hosting services for HPC operators.

In November 2021, we announced our intention to host 3 megawatts of digital asset mining capacity on a trial basis. In partnership with the Tsay Keh Dene First Nations, we commenced hosting an initial 1.5 megawatts of capacity in December 2021 and an additional 1.5 megawatts of capacity in early March 2022. Through the trial, we have gained valuable experience operating an HPC data center. The results from the 3 megawatt trial have been encouraging and we continue to monitor and evaluate this opportunity.

As we review the results of our trial program, we are continuing to develop plans to host additional data center operation capacity at our Mackenzie site. We expect the capital outlays for this phase of HPC operations will be relatively modest as we plan to redeploy the legacy power infrastructure at our site. We have identified partners with relevant industry experience who may utilize our Mackenzie hosting services for digital asset mining. The potential exists to build out our hosting business in phases and utilize cash flow generated from the initial phases to fund the development of additional hosting capacity. There is no assurance that we will establish any data center operation in the time contemplated by our management or at all.

Conference Call

We have scheduled a conference call on Tuesday, May 10 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the fourth quarter and 2021 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 2847052#. The call will also be available on instant replay access until June 10, 2022 by dialling 905-694-9451 or 1-800-408-3053 and entering participant passcode 3779823#.

Our management's discussion and analysis and financial statements for the quarter ended March 31, 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: 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; 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 March 31, 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.