



CONIFEX TIMBER INC.

NEWS RELEASE: via MARKETWIRE

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Conifex Announces First Quarter 2023 Results

May 9, 2023, Vancouver, B.C. - Conifex Timber Inc. (“Conifex”, “we” or “us”) (TSX: CFF) today reported results for the first quarter ended March 31, 2023. EBITDA* was negative \$6.9 million for the quarter compared to EBITDA of \$20.1 million in the first quarter of 2022. Net loss was \$8.1 million or \$0.20 per share for the quarter versus net income of \$11.4 million or \$0.28 per share in the year-earlier quarter. The results reflect reduced operating earnings on lower lumber prices and reduced shipments reflecting transportation challenges which impacted lumber production.

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)	Q1 2023	Q4 2022	Q1 2022
Revenue			
Lumber – Conifex produced	26.0	22.1	52.6
Lumber – wholesale	1.0	1.6	8.4
By-products and other	8.4	2.8	2.8
Bioenergy	4.5	0.2	8.0
	39.9	26.7	71.8
Operating income (loss)	(11.5)	(8.5)	17.1
EBITDA ⁽¹⁾	(6.9)	2.3	20.1
Net income (loss)	(8.1)	(0.2)	11.4
Basic and diluted earnings (loss) per share	(0.20)	-	0.28
Cash dividends per shares	-	-	-
Shares outstanding – weighted average (millions)	39.8	39.9	40.1
Reconciliation of EBITDA to net income (loss)			
Net income (loss)	(8.1)	(0.2)	11.4
Add: Finance costs	1.2	1.0	1.1
Amortization	2.5	1.4	3.2
Deferred income tax expense (recovery)	(2.5)	0.1	4.3
EBITDA ⁽¹⁾	(6.9)	2.3	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, 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 2023	Q4 2022	Q1 2022
Production – WSPF lumber (MMfbm) ⁽²⁾	41.2	27.9	47.1
Shipments – WSPF lumber (MMfbm) ⁽²⁾	40.6	31.6	42.5
Shipments – wholesale lumber (MMfbm) ⁽²⁾	1.0	1.5	4.9
Electricity production (GWh)	34.6	-	53.9
Average exchange rate – \$/US ⁽³⁾	0.740	0.736	0.790
Average WSPF 2x4 #2 & Btr lumber (US\$) ⁽⁴⁾	\$384	\$402	\$1,288
Average WSPF 2x4 #2 & Btr lumber price(\$) ⁽⁵⁾	\$519	\$546	\$1,631

(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 First Quarter 2023 Results

Consolidated Net Earnings

During the first quarter of 2023, we incurred a net loss of \$8.1 million or \$0.20 per share compared to \$0.2 million or nil per share in the previous quarter and net income of \$11.4 million or \$0.28 per share in the first quarter of 2022.

Lumber Operations

North American lumber market prices continued to experience weakness in the first quarter of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$519 in the first quarter of 2023, decreased by 5% or \$27 from the previous quarter and by 68% or \$1,112 from the first quarter of 2022¹. The market price decline was fueled by a slowdown in new home construction demand in the US from higher mortgage rates and reduced affordability and an overall over-supply in the market. US housing starts on a seasonally adjusted annual basis remained steady, averaging 1,280,000 in the first quarter of 2023, down 9% from the previous quarter and up 26% from the first quarter of 2022².

Our lumber production in the first quarter of 2023 totalled approximately 41.2 million board feet, representing operating rates of approximately 69% of annualized capacity. Lumber production in the quarter reflected a ten-day temporary curtailment to address unsustainable inventory levels. In the previous quarter, 27.9 million board feet of lumber was produced, which reflected a two-week curtailment of our Mackenzie sawmill, as well as production being affected by overall depressed operating rates. Lumber production of 47.1 million board feet or approximately 79% of operating capacity in the first quarter of 2022 benefited from continuous sawmill operations through the quarter and the easing of COVID-19 shift reductions.

Shipments of Conifex produced lumber totaled 40.6 million board feet in the first quarter of 2023, representing an increase of 28% from the 31.6 million board feet shipped in the previous quarter and a decrease of 4% from the 42.5 million board feet of lumber shipped in the first quarter of 2022. Shipments of Conifex produced lumber in the first quarter of 2023 increased relative to the previous quarter as a result of stronger lumber production and the easing of railcar supply constraints in the second half of the quarter and was in line with shipment volumes in the prior year comparative quarter.

Our wholesale lumber program shipped 1.0 million board feet in the first quarter of 2023, representing a decrease of 33% from the 1.5 million board feet shipped in the fourth quarter of 2022 and a decrease of 80% from the 4.9 million board feet shipped in the first quarter of 2022. Wholesale lumber shipments were negatively impacted by a slowdown in construction activity in Asia.

¹ Source: Random Lengths Publications Inc.

² Source: Forest Economic Advisors, LLC.

Revenues from lumber products were \$27.0 million in the first quarter of 2023 representing an increase of 14% from the previous quarter and a decrease of 56% from the first quarter of 2022. Compared to the previous quarter, higher shipment volumes offset the softer mill net realizations on lower lumber market prices. 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 first quarter of 2023 increased by 47% from the previous quarter and by 1% from the first quarter of 2022. The increase in cost of goods sold from the prior quarter was mainly due to higher shipment volumes in the current quarter and higher unit log costs. Unit manufacturing costs decreased in comparison to the previous quarter as a result of improved operating rates leading to lower fixed cost absorption as production challenges and mechanical issues experienced in the fourth quarter of 2022 were largely resolved. We recorded inventory valuation reserves of \$0.2 million and \$1.8 million in the current and previous quarter, respectively, as a result of the decline in lumber pricing at the end of the respective quarters which adversely impacted cost of goods sold.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$1.2 million in the first quarter of 2023, \$1.1 million in the previous quarter and \$5.0 million in the first 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 first quarter of 2023 were higher than the previous quarter due to the lumber shipment volumes made to the US market and were significantly lower than the first quarter of 2022 largely due to the decreased lumber market price and cash deposit rate in effect.

Bioenergy Operations

Our Mackenzie power plant sold 34.6 gigawatt (“**GWh**”) hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with British Columbia Hydro and Power Authority (“**BC Hydro**”) in the first quarter of 2023 representing approximately 60% of targeted operating rates. Our power plant sold nil and 53.9 GWh of electricity in the previous quarter and first quarter of 2022, respectively. Production in the first quarter of 2023 and the fourth quarter of 2022 was negatively affected by a temporary shutdown of the power plant caused by damage to the power plant’s turbine discovered in July 2022, which was successfully recommissioned on January 31, 2023.

Electricity production contributed revenues of \$4.5 million in the first quarter of 2023, \$0.2 million in the previous quarter and \$8.0 million in the first quarter of 2022. Due to the power plant being inoperable from the second half of 2022 to January 31, 2023, electricity production revenue for the current and previous quarters were significantly reduced.

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 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 by the third quarter of 2023.

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 with BC Hydro.

Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs were \$3.2 million in the first quarter of 2023, \$1.4 million in the previous quarter and \$3.3 million in the first quarter of 2022. The higher SG&A costs relative to the previous quarter are primarily attributable to higher salary and wages to adequately support our operations and variable compensation costs, including non-cash equity-based compensation, and legal costs associated with the legal action we commenced in connection with our high-performance computing (“**HPC**”) business. SG&A costs for the current quarter were comparable to the first quarter of 2022.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.2 million in the first quarter of 2023, \$1.0 million in the previous quarter and \$1.1 million in the first 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 other income of \$2.2 million in the first quarter of 2023, \$9.6 million in the previous quarter and nil in the first quarter of 2022. Other income primarily consists of our business interruption claim in respect of the turbine failure at the power plant.

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\$0.740 for each Canadian dollar during the first 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 nil in the first quarter of 2023, compared to a foreign exchange translation loss of \$0.2 million in the previous quarter and \$0.2 million in the first quarter of 2022.

Income Tax

We recorded income tax recovery of \$2.5 million in the first quarter of 2023, and income tax expense of \$0.1 million in the previous quarter and \$4.3 million in the first 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 March 31, 2023, we have recognized a deferred income tax liability of \$6.4 million.

Financial Position and Liquidity

Overall debt was \$67.4 million at March 31, 2023 compared to \$62.7 million at December 31, 2022, with the change mainly driven by the \$6.0 million drawn against our \$25.0 million 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 \$0.2 million and Power Term Loan payments of \$1.3 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, 2023, we had \$52.6 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.2 million.

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

At March 31, 2023, we had total liquidity of \$17.7 million, compared to \$16.9 million at December 31, 2022 and \$23.3 million at March 31, 2022. Liquidity at March 31, 2023 was comprised of unrestricted cash of \$5.2 million and unused availability of \$12.5 million under our 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\$32.2 million paid by us, net of sales of the right to certain refunds, since the inception of the current trade dispute remain held in trust by the US pending administrative reviews and the conclusion of all appeals of US decisions. We expect future cash 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 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 have 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 sawmill, we expect to see an increase in lumber production over 2022, with the expectation of achieving annualized operating rates of approximately 85% for the remaining nine months of 2023 on improved sawmill operating rates. We anticipate an 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. We are optimistic that we will realize a high volume of lumber shipments in 2023 that matches our sawmill production as the transportation challenges faced in 2022 have largely been resolved.

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 BC Hydro may not exercise its turn down option in 2023 based on anticipated energy requirements and expect that our power plant will largely be generating electricity continuously through 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 exploring the potential development of our HPC business.

Annual Allowable Cut (“AAC”) Determination Released

On May 4, 2023, the Chief Forester's *Rationale for Allowable Annual Cut (AAC) Determination for the Mackenzie Timber Supply Area* was released. Effective from the release date, the new AAC for the Mackenzie Timber Supply Area (“TSA”) will be 2.39 million cubic metres per year. This AAC will remain in effect until a new AAC determination is made, which generally must take place within ten years of this determination.

The new AAC for the Mackenzie TSA is below the current AAC and the base case harvest projection released in July 2022. However, the actual harvest within the Mackenzie TSA over the past 20 years averaged 2.5 million cubic metres per year, which is in line with the current AAC determination. Further, the abolition of a biological or salvage partition means our harvest will be directed entirely at a "green" timber profile. The Chief Forester has also set a maximum of 1.17 million cubic metres that may be harvested in the southwestern area of the Mackenzie TSA (the area that is west of Williston Reservoir and south of Omineca Provincial Park and Omineca Arm). We believe the specified partition should assist the economic sustainability of our lumber manufacturing and power plant operations.

The harvest level determination also implies sawlog surpluses are likely to persist in Mackenzie relative to current local milling capacity and sawlog demand. This fact is unique compared to other TSAs in the BC interior, where sawlog availability is insufficient to support capacity operations at converting facilities. As a result, we have the potential to grow our traditional forestry business in Mackenzie by modernizing and expanding our sawmill complex once the Ministry of Forest's apportionment and related regulatory decisions, if any, are settled.

Revenue Diversification Opportunity

In March 2023, we entered into a hosting services agreement with Greenidge Generation Holdings Inc. ("**Greenidge**"), a NASDAQ listed datacenter and power generation company. Tsay Keh Dene Nation is collaborating with us in supplying hosting services to Greenidge. Under the agreement, we expect to host 750 miners at our 3-megawatt HPC site located on our Mackenzie property. Our hosting services include the supply, maintenance and operation of critical electrical infrastructure and the performance of certain datacenter services related to security, safety, information technology and ongoing operations. In return for our services, we will be paid a hosting fee and a market-based performance fee.

On December 21, 2022, the Lieutenant-Governor in Council for the Province of British Columbia ("**LGIC**") issued an order in council (the "**OIC**") directing the British Columbia Utilities Commission to, among other things, accept BC Hydro's request to suspend its obligation to supply service to certain new cryptocurrency mining projects in British Columbia for a period of 18 months.

Two of our proposed HPC projects were impacted by the OIC. As a result, in April 2023, we filed a petition in the Supreme Court of British Columbia seeking judicial review of the OIC. We believe that the OIC exceeds the statutory powers granted to the LGIC under the *Utilities Commission Act*, is discriminatory and breaches statutory and common law restraints on the LGIC's delegated power. We are seeking an order quashing and setting aside the OIC as unauthorized or otherwise invalid.

Concurrently, we filed a notice of civil claim against BC Hydro in the Supreme Court of British Columbia seeking an order requiring BC Hydro to supply service to our HPC projects. The claim also seeks general damages. The notice of civil claim alleges that BC Hydro's failure and refusal to supply service to our HPC projects is in breach of BC Hydro's common law obligation to supply electricity and unfairly discriminates against Conifex *vis-à-vis* other commercial customers.

Conference Call

We have scheduled a conference call on Tuesday, May 9 at 2:00 PM Pacific time / 5:00 PM Eastern time to discuss the first quarter 2023 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 9831403#. The call will also be available on instant replay access until June 8, 2023 by dialling 905-694-9451 or 1-800-408-3053 and entering participant passcode 7214513#.

Our management's discussion and analysis and financial statements for the quarter ended March 31, 2023 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: 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; 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; that we could be negatively impacted by the 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 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; 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.sedar.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.