CONIFEX

CONIFEX TIMBER INC.
SECOND QUARTER 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 13, 2024

*This Management's Discussion and Analysis ("**MD&A**") provides a review of the financial condition and results of operations of Conifex Timber Inc. ("**Conifex**", "**us**", "**we**", or "**our**"), on a consolidated basis, for the quarter ended June 30, 2024, relative to the quarters ended March 31, 2024, and June 30, 2023. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarter ended June 30, 2024 and 2023 and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") as issued by the International Accounting Standards Board (IFRS Accounting Standards) and filed on SEDAR+ at www.sedarplus.com.*

In this MD&A, reference is made to "EBITDA". EBITDA 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 not a generally accepted earnings measure under IFRS and does not have a standardized meaning prescribed by IFRS, it may not be comparable to EBITDA calculated by other companies. In addition, EBITDA is not a substitute for net earnings or cash flow, as determined in accordance with IFRS, and therefore readers should consider those measures in evaluating our performance.

In this interim MD&A, all references to "$" are to Canadian dollars and references to "US$" are to US dollars.

Forward-Looking Statements

This interim MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: the availability and use of credit facilities or proceeds therefrom; our level of liquidity and our ability to service our debt; 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; future capital expenditures; 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 new home construction in the US will continue to see favourable demographics; 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.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties 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 2023 annual information form dated March 28, 2024 and our 2023 annual MD&A dated March 27, 2024 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. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

BUSINESS OVERVIEW

We are a British Columbia forestry and independent power company that produces lumber and bioenergy. Our lumber operations are primarily involved in the manufacture, sale, and distribution of dimension lumber through our sawmill located in Mackenzie, British Columbia. Our bioenergy facility is located adjacent to our Mackenzie sawmill.

We operate a two-line sawmill in Mackenzie, British Columbia (the “**Mackenzie Mill**”). At June 30, 2024, we hold a forest licence in the timber supply area ("**TSA**") in and around Mackenzie with an allowable annual cut ("**AAC**") of 632,500 cubic metres, and own 50% of a joint venture which holds a forest licence with an AAC of 300,000 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis.

We operate a 36-megawatt ("**MW**") biomass power generation plant in Mackenzie, British Columbia (the “**Power Plant**”), located at the site of our Mackenzie Mill. Our Power Plant's output capacity is in excess of 230 gigawatt hours ("**GWh**") of electricity per year. We have an electricity purchase agreement ("**EPA**") and a related load displacement agreement ("**LDA**") with the British Columbia Hydro and Power Authority ("**BC Hydro**"). Under the EPA, BC Hydro agreed to purchase approximately 200 GWh of electrical energy annually over a 20-year term for a fixed price, and under the LDA we agreed to supply the energy requirements of our Mackenzie Mill over the same 20-year term.

While our core focus is the operation of the Mackenzie Mill and the Power Plant, we are continuously reviewing strategic opportunities that may increase shareholder value.

RECENT DEVELOPMENTS

Revenue Diversification Opportunity

In 2021, BC Hydro was encouraging prospective customers to establish data centers and cryptocurrency mining facilities in interior BC communities. We viewed this as an opportunity to capitalize on the expertise we have gained designing, building, and operating large scale electric power infrastructure in northern BC. Accordingly, we successfully completed a trial program using 2.5 MW of power to service a high-performance computing ("**HPC**") data centre.

Based on the success of the trial program, we worked collaboratively with BC Hydro to identify further suitable locations at which HPC data centres could be established and serviced. In June 2022, with BC Hydro's support, we entered into System Impact Study Agreements for two HPC data centres, each interconnecting 150 MW of power (the "**Sites**").

In December 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 (the "**Temporary Suspension**").

In January 2023, BC Hydro informed Conifex that the projects at the Sites were paused under the Temporary Suspension. Conifex was removed from BC Hydro's interconnection queue, disregarding that our requests for interconnection were to serve data center customers in HPC and artificial intelligence ("**AI**") use cases, rather than cryptocurrency miners.

As a result, in April 2023, we filed a petition in the Supreme Court of British Columbia (the "**BCSC**") seeking judicial review of the OIC and an order quashing and setting aside the OIC as unauthorized or otherwise invalid. Concurrently, we filed a notice of civil claim with the BCSC requiring BC Hydro to supply service to the Sites.

In October 2023, arguments in respect of the judicial review were made before the BCSC. On February 2, 2024, we received notice that our petition was dismissed. We continue to believe that both the moratorium to discriminate against a certain class of customers and our removal from the interconnection queue are unjustified and we have filed an appeal of the BCSC's decision. We have also advised BC Hydro of our intention to develop data center infrastructure of interest to customers that focus on HPC and AI use cases.

Securing Debt Capital for our Lumber Business

In June 2024, we completed a $25 million secured term loan (the "**PenderFund Term Loan**") with Pender Corporate Bond Fund ("**PenderFund**"). A portion of the PenderFund Term Loan was used to repay and retire our existing lumber segment credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Wells Fargo Facility**") in the amount of approximately $11 million. The balance of the PenderFund Term Loan was available for working capital and general corporate purposes, including the payment of outstanding payables. One attractive feature of the PenderFund Term Loan is that it provides for asset coverage covenant in lieu of a fixed charge coverage ratio covenant. The value of our tenures and sawmill complex comfortably exceeds the value of the loan.

In the event of a sustained market downturn, Conifex maintains flexibility to significantly reduce expenditures and working capital levels and to proactively adjust its lumber production to match demand. At present, we are working collaboratively with our existing lenders to fund our heightened working capital requirements now that two-shift operations have resumed at our sawmill complex. We are also evaluating additional financing opportunities, including a working capital facility, to help ensure that we retain sufficient liquidity to fund log and lumber inventories and receivables from the sale of lumber and residual chips as well as a potential sale of duty deposits.

SUMMARY

The following table summarizes our operating results.

Selected Financial Information

(unaudited, in millions of dollars, except share and exchange rate information)	**Q2 2024**	**Q1 2024**	**Q2 2023**
Revenue			
Lumber – Conifex produced	25.0	29.5	18.8
Lumber – wholesale	0.0	0.0	1.0
By-products and other	2.3	3.0	2.7
Bioenergy	4.5	8.2	4.8
	31.8	40.7	27.2
Operating income (loss)	(9.6)	(7.1)	(11.0)
EBITDA(1)	(7.1)	(0.5)	(8.7)
Net income (loss)	**(9.7)**	**(4.5)**	**(9.2)**
Basic earnings (loss) per share	**(0.24)**	**(0.11)**	**(0.23)**
Diluted earnings (loss) per share	(0.22)	-	-
Shares outstanding – weighted average (millions)	40.4	40.4	39.8
Reconciliation of EBITDA to net income (loss)			
Net income (loss)	(9.7)	(4.5)	(9.2)
Add: Finance costs	2.8	1.3	1.3
Amortization	2.5	3.2	2.4
Deferred income tax expense (recovery)	(2.7)	(0.5)	(3.2)
EBITDA(1)	(7.1)	(0.5)	(8.7)

Selected Operating Information

Production – WSPF lumber (MMfbm)(2)	34.0	44.5	32.5
Shipments – WSPF lumber (MMfbm)(2)	38.5	44.5	31.1
Shipments – wholesale lumber (MMfbm)(2)	0.0	0.0	1.1
Electricity production (GWh)	38.0	56.0	43.5
Average exchange rate –$/US$(3)	0.731	0.741	0.745
Average WSPF 2x4 #2 & Btr lumber price (US$)(4)	$386	$446	$363
Average WSPF 2x4 #2 & Btr lumber price ($)(5)	$528	$601	$487

(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.

REVIEW OF SECOND QUARTER 2024 FINANCIAL RESULTS

During the second quarter of 2024, we incurred a net loss of $9.7 million or $0.24 per share compared to a net loss of $4.5 million or $0.11 per share in the previous quarter and net loss of $9.2 million or $0.23 per share in the second quarter of 2023.

North American lumber market prices saw a decline in the second quarter of 2024 relative to the first quarter and rose relative to the second quarter of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir ("**WSPF**") prices, which averaged $525 in the second quarter of 2024, decreased by 13% or $76 from the previous quarter and increased by 8% or $38 from the second quarter of 2023[1]. The market price in the second quarter of 2024 was negatively impacted by weakened demand side economics primarily as a result of persistently high inflation having resulted in an ongoing period of elevated interest

[1] Source: Random Lengths Publications Inc.

rates. Elevated interest rates negatively impact housing affordability and soften the demand for new housing, repairs and remodelling. US housing starts on a seasonally adjusted annual basis averaged 1.348 million in the second quarter of 2024, down 4.2% from the first quarter of 2024 and down 7.4% from the second quarter of 2023.

Lumber Operations

Our lumber production in the second quarter of 2024 totalled approximately 34 million board feet, representing operating rates of approximately 57% of annualized capacity. Second quarter production was negatively impacted by a scheduled two-week curtailment at the end the quarter, as well as intermittent periods of reduced shifting capacity, reflecting the wet May and June months which negatively impacted log deliveries. Lumber production of 44.5 million board feet of lumber in the previous quarter reflected more operating days due to stronger lumber pricing and more robust log inventories to support increased operating capacity. Lumber production in the second quarter of 2023 was 32.5 million board feet or approximately 54% of annualized capacity, primarily due to a 4-week production curtailment combined with lower throughput.

Shipments of Conifex-produced lumber totaled 38.5 million board feet in the second quarter of 2024, representing a decrease of 13% from the 44.5 million board feet shipped in the previous quarter due to less operating days and an increase of 24% from the 31.1 million board feet of lumber shipped in the second quarter of 2023 due to more operating days.

Our wholesale lumber shipments dropped to nil in the first and second quarters of 2024 relative to approximately 1.1 million board feet in the second quarter of 2023, as we did not engage in wholesale lumber sales after the fourth quarter of 2023.

Revenues from lumber products were $25.0 million in the second quarter of 2024 representing a decrease of 15% from the previous quarter and an increase of 33% from the second quarter of 2023. Compared to the previous quarter, lower shipment volumes due to a reduced operating configuration and lower mill net realizations on lower lumber market prices contributed to the lower revenue. The revenue increase in the current quarter over the same period in the prior year was largely a result of higher shipment volumes and higher mill net realizations.

Cost of goods sold in the second quarter of 2024 decreased by 14% from the previous quarter and increased by 8% from the second quarter of 2023. The decrease in cost of goods sold from the prior quarter was mainly due to decreased shipment volumes, and the increase in cost of goods sold from the second quarter of 2023 from increased shipments. Unit manufacturing costs in the second quarter of 2024 increased in comparison to the previous quarter as a result of a lower mill production to scale costs over and decreased in comparison to the second quarter of 2023 as a result of lower log costs slightly offset by higher conversion costs. We recorded inventory valuation reserves of $0.7 million in the second quarter of 2024 compared to $1.1 million in the first quarter of 2024 and $0.7 million in second quarter of 2023. Inventory valuation reserves decreased in comparison to the previous quarter primarily due to a decrease in total inventory volume.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of $1.1 million in the second quarter of 2024, $1.4 million in the previous quarter and $1.0 in the second quarter of 2023. The duty deposits were based on a combined rate of 8.05%. The export taxes during the second quarter of 2024 were lower than the previous quarter due to a decrease in overall shipped volume and lumber prices, while the proportion of volume shipped into the US remained relatively unchanged.

Bioenergy Operations

Our Power Plant sold 38.0 GWh of electricity under our EPA with BC Hydro in the second quarter of 2024 representing approximately 70% of targeted operating rates. Our Power Plant sold 56.0 in the first quarter of 2024 and 43.5 GWh of electricity in the second quarter of 2023. Production in the second quarter of 2024 was lower than in the first quarter of 2024 because of a three-week extension to the planned annual shutdown relative to the annual shutdown executed in 2023. The extension was a result of found work that was identified during the regular planned outage.

Electricity production contributed revenues of $4.5 million in the second quarter of 2024, $8.2 million in the previous quarter and $4.8 million in the second quarter of 2023. Lower production and seasonally lower rates per MWh in the second quarter of 2024 relative to the first quarter of 2024 resulted in lower revenues.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs decreased between the second quarter and first quarter of 2024 and decreased between the second quarter of 2024 and the second quarter of 2023. SG&A costs were $1.9 million in the second quarter of 2024, $2.6 million in the previous quarter and $3.3 million in the second quarter of 2023. The decrease in SG&A costs relative to the previous quarter was largely due to a decrease in outstanding share based compensation, and the decrease in SG&A costs relative to the second quarter of 2023 was due to decrease in outstanding share based compensation and a reduction in overhead costs.

Finance Costs and Accretion

Finance costs and accretion totaled $2.8 million in the second quarter of 2024, $1.3 million in the previous quarter and $1.3 million in the second quarter of 2023. The increase in finance costs quarter over quarter and year over year were primarily due to costs associated with the repayment and retirement of the Wells Fargo Facility.

Gain or Loss on Derivative Financial Instruments

From time to time, we may enter lumber future contracts at times to manage our commodity lumber price or foreign exchange exposures. Gains or losses on 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 June 30, 2024.

Other Income

We recognized minimal other income in the second quarter of 2024 and in the comparative quarter of 2023. In the first quarter of 2024, we recognized $3.0 million in other income for insurance proceeds from the loss of our Osilinka logging camp. Insurance proceeds were received in the second quarter of 2024.

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$0.731 for each Canadian dollar during the second quarter of 2024, a level which represented a modest weakening of the Canadian dollar over the previous quarter[2].

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 nominal foreign exchange translation gain in the second quarter of 2024, compared to a foreign exchange translation gain of $0.3 million in the previous quarter and a loss of $0.3 million in the second quarter of 2023.

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[2] Source: Bank of Canada, www.bankofcanada.ca

Income Tax

We recorded income tax recovery of $2.7 million in the second quarter of 2024, $0.5 million in the previous quarter and $3.2 million in the second quarter of 2023. The increase in recovery in the second quarter of 2024 relative to the first quarter of 2024 is due to an increase in the net loss from the previous quarter, and the decrease in recovery in the second quarter of 2024 relative to the second quarter of 2023 is due to a decrease in the net loss.

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, 2024, we have recognized deferred income tax assets of $6.7 million.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	Q2 2024	Q1 2024	Q2 2023
Cash	10.9	4.2	4.6
Cash – restricted	5.5	3.6	8.5
Operating working capital(1)	12.8	22.0	41.0
Operating loan	(0.0)	(10.6)	(11.5)
Current portion of long-term debt	(4.9)	(4.7)	(4.8)
Net current assets	24.3	14.5	37.8
Property, plant and equipment	120.7	120.4	129.0
Other long-term assets	43.0	39.7	33.6
	188.0	174.6	200.4
Non-interesting bearing long-term liabilities	17.6	17.0	20.3
Long-term debt – Power Term Loan	44.5	46.4	48.4
Long-term debt – other(2)	24.7	0.1	1.1
Shareholders' equity	101.2	111.1	130.6
	188.0	174.6	200.4
Ratio of current assets to current liabilities	1.8	1.3	2.2
Net debt to capitalization	36%	32%	32%
Net debt to capitalization excluding Power Term Loan	13%	9%	9%

(1) Calculated as the aggregate of trade and other receivables, prepaid expenses and deposits and inventories less the aggregate of trade payables, accrued liabilities and other payables, the current portion of reforestation obligations and employee liabilities.
(2) Consists of PenderFund Term Loan and equipment and vehicle leases expiring between 2024 and 2029.

Operating working capital decreased by $9.2 million over the first quarter of 2024 due primarily to a decrease in log and lumber inventory totalling approximately $10.5 million. Log deliveries were held back in June due to a high degree of rainfall inhibiting log hauling. Lumber inventory was drawn down as the Mackenzie Mill entered its scheduled two-week curtailment at the end of the second quarter of 2024. Operating working capital decreased by $28.3 million compared to the second quarter of 2023 due to significantly lower inventories and a higher trade payables balance.

Overall debt was $73.8 million at June 30, 2024 compared to $61.7 million at March 31, 2024 and $65.9 million at June 30, 2023. The increase in overall debt between the second and first quarter was driven by the closing of the PenderFund Term Loan in June with total allowable borrowings of $25 million with $22.5 million drawn, offset by the repayment of the outstanding amount on the Wells Fargo Facility in the amount of $10.6 million, combined with payments against our term loan supporting our bioenergy operations (the "**Power Term Loan**") and monthly lease payments. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents a substantial portion of our outstanding long term debt. At June 30, 2024, we had $48.5 million outstanding on our Power Term Loan, while our remaining long term debt consisting of leases, was $2.2 million.

The ratio of current assets to current liabilities was 1.8:1 at June 30, 2024 compared to 1.3:1 at March 31, 2024 and 2.2:1 at June 30, 2023. The year-over-year change was primarily attributable to lower inventory levels and a higher trade payables balance compared to the previous period. The change from prior quarter primarily relates to an increase in cash from the proceeds of the PenderFund Term Loan combined with a decrease in accounts payable and a decrease in the current portion of the Wells Fargo Facility to nil.

As at June 30, 2024, $94.1 million of our consolidated property, plant and equipment was attributable to our power operations, compared to $94.8 million at March 31, 2024 and $100.2 million at June 30, 2023. The decrease is attributed to amortization expense exceeding additions to property plant and equipment.

We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as interest-bearing debt less cash. Total capitalization is calculated as the sum of net debt and equity. Net debt at June 30, 2024 increased by $3.5 million to $57.4 million from $53.9 million at March 31, 2024. The net debt to capitalization ratio was approximately 36% at June 30, 2024, 33% at March 31, 2024 and 29% at June 30, 2023.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)	**Q2 2024**	**Q1 2024**	**Q2 2023**
Cash generated from (used in)			
Operating activities	1.9	2.0	4.9
Investing activities	(2.7)	(0.5)	(1.4)
Financing activities	7.5	(1.5)	(4.1)
Increase (decrease) in cash	6.7	(0.0)	(0.6)

Operating Activities

We operate in a cyclical industry. Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and prices, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie Mill during the shoulder seasons. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates can impact the level of lumber inventories. We believe our practices with respect to working capital conform to common business practices in our industry.

Operating activities before changes in non-cash working capital provided net cash generation of $1.9 million in the second quarter of 2024, compared to $2.1 million in the first quarter of 2024 and net cash generation of $4.9 million in the second quarter of 2023. The decrease in operating cash flows in the second quarter of 2024 compared to the first quarter of 2024 and to the second quarter of 2023 largely reflects a decrease in accounts payable, partially offset by a decrease in inventories and accounts receivable.

Investing Activities

Investing activities utilized cash of $2.7 million in the second quarter of 2024, $0.5 million in the first quarter of 2024 and $1.4 million in the second quarter of 2023. In the second quarter of 2024, investments in property plant and equipment included investments in power assets, and in 2023, included upgrades to both our Power Plant and sawmilling complex.

Financing Activities

Our financing activities generated $7.5 million in the second quarter of 2024, used $1.5 million in the previous quarter and used $4.1 million in the second quarter of 2023. The net cash generated from financing activities in the current quarter primarily relates to the closing of the PenderFund Term Loan for $22.5

million, offset by payments against the Wells Fargo Facility of $10.6 million, repayment of power operations restricted cash for $1.9 million, and financing fees of $2.9 million.

Liquidity

Our principal sources of funds are cash on hand and cash flows from operations. As at June 30, 2024, we have drawn $22.5 million against the PenderFund Term Loan with $2.5 million still available under a delayed draw feature. During the current quarter we repaid the Wells Fargo Facility, compared to $10.6 million drawn at March 30, 2024 and $11.5 million at June 30, 2023.

Our principal uses of funds consist of operating expenditures, capital expenditures, interest payments and repayment of principal on our Power Term Loan.

At June 30, 2024, after repaying the Wells Fargo Facility, we had available liquidity of $13.4 million comprised of unrestricted cash of $10.9 million and $2.5 million available under the PenderFund Term Loan. This is an increase from our available liquidity of $10.2 million as at March 30, 2024 and a decrease from our available liquidity of $18.1 million as at June 30, 2023. The change in liquidity in the second quarter of 2024 compared to the second quarter of 2023 is due primarily to the elimination of the Wells Fargo Facility of $25 million. Having re-commenced operations at our sawmill following a shutdown at the end of June, we anticipate a corresponding increase to our working capital needs for inventory build-up.

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$36.2 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.

Conifex is reviewing options to improve liquidity during a difficult macro environment for the lumber industry. We continue to manage controllable expenses to optimize liquidity and meet scheduled commitments. This includes minimizing discretionary capital expenditures, optimizing working capital levels, and adjusting operating configurations. We are also working to potentially monetize certain assets that are not core to our mid- and long-term business plans.

We monitor our expected liquidity levels and compliance with debt covenants under our Power Term Loan and PenderFund Term Loan by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments, and to sustain future business development. Our Power Term Loan also contains certain restrictions on the ability of our power subsidiaries to transfer funds outside of the power entities. We did not have any material commitments for capital expenditures at June 30, 2024. As at June 30, 2024, the Company had cash of $10.9 million and had drawn $22.5 million from the PenderFund Term Loan. After adjustments for working capital items, cash flow generated from operations totalled $1.9 million for the quarter ended June 30, 2024. Working capital as at June 30, 2024 was $24.3 million as compared to $14.5 million as at March 31, 2024 and $37.8 million at June 30, 2023. The Company expects to be able to meet its obligations as they become due in the normal course of business for at least twelve months from June 30, 2024.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at June 30, 2024 were comprised of standby letters of credit totalling $3.0 million posted by our subsidiary Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA in the event of failure to remit amounts owing to BC Hydro arising from default or termination of the agreements. The standby letters of credit are secured by customary performance bonds.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, we had no transactions between related parties in the second quarter of 2024 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, except where otherwise noted)	**2024**				**2023**		**2022**	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	31.8	40.8	35.3	38.7	27.2	39.9	26.7	47.7
Operating income (loss)	(11.0)	(7.1)	(6.6)	(10.1)	(11.0)	(11.5)	(8.5)	1.3
Net income (loss) from continuing operations	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9
Net income (loss) – total operations	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9
Net income (loss) per share – basic and diluted from continuing operations	(0.24) (0.22)	(0.11)	(0.14)	(0.20)	(0.23)	(0.20)	(0.0)	0.02
Net income (loss) per share – basic and diluted – total operations	(0.24) (0.22)	(0.11)	(0.14)	(0.20)	(0.23)	(0.20)	(0.0)	0.02
EBITDA[(1)]	(7.1)	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2
Shares outstanding – weighted average (in millions)	40.4	40.4	40.4	40.2	39.8	39.8	39.9	40.2
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	34.0	44.5	33.2	48.9	32.5	41.2	27.9	39.5
Shipments – WSPF lumber	38.5	44.5	39.1	41.9	31.1	40.6	31.6	44.7
Shipments – wholesale lumber	0.0	0.0	1.1	0.9	1.1	1.0	1.5	3.0
Electricity production – GWh	38.0	56.0	43.5	56.0	43.5	34.6	-	1.2
Average exchange rate – $/US$[(2)]	0.731	0.741	0.734	0.746	0.745	0.740	0.736	0.766
Average WSPF 2x4 #2 & Btr lumber price (US$)[(3)]	$386	$446	$402	$417	$363	$384	$402	$568
Average WSPF 2x4 #2 & Btr lumber price ($)[(4)]	$528	$601	$547	$559	$487	$519	$546	$742
Reconciliation of EBITDA to net income (loss)								
Net income (loss) from continuing operations	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9
Add: Finance costs	2.8	1.3	1.3	1.2	1.3	1.2	1.0	1.1
Amortization	2.5	3.2	3.0	3.8	2.4	2.5	1.4	1.8
Income tax expense (recovery)	(2.7)	(0.5)	(2.5)	(3.7)	(3.2)	(2.5)	0.1	0.4
EBITDA from continuing operations[(1)]	(7.1)	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.
(2) Bank of Canada, www.bankofcanada.ca.
(3) Random Lengths Publications Inc. (Western Spruce/Pine/Fir, per thousand board feet).
(4) Average WSPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the softwood lumber duty deposits rates on shipments to the US, stumpage rates and foreign exchange rates. Other micro-level factors that influence quarterly financial trends include operating rates, shipment volumes, raw material and manufacturing costs and transactions of a non-recurring nature. We rely primarily on third parties for transportation of our products as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact our operations, cost structure or shipment volumes.

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie Mill during the shoulder seasons when logging operations are generally largely curtailed due to unstable road and ground conditions. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The application of a "time of delivery factor" to the fixed price provided under the EPA generally results in a seasonal effect and considerable variability in quarterly revenues from electricity deliveries, with the lowest revenues generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary considerably between the strongest and weakest quarters. As a major portion of electricity production costs, as well as interest charges, are fixed in nature, quarterly bioenergy operating results reflect the variability in revenues.

OUTLOOK

As we are well into the third quarter of 2024, we believe that the bottom of lumber prices are behind us with the continued announcements of production curtailments from other lumber producers. We continue to responsibly evaluate our operating configuration in the sawmill to optimize working capital requirements with cashflows. With the length of our supply chain in the waterborne transport, northern region of the Mackenzie TSA we are closely managing our log inventories with the potential strike from our rail transportation providers.

Looking ahead to the back half of 2024 and into 2025, we agree with analysts' estimates calling for benchmark lumber prices to continue to improve. We expect an improved supply/demand balance in favour of lumber producers. 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 is expected to 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 Mill, we are capturing benefits from our ongoing transition to a green log diet. In May 2023, the Chief Forester ruled that the remaining dead pine stands in the Mackenzie TSA have lost their commercial value as sawlogs. Transitioning to a greener log diet has a direct correlation with improved sawmill performance, higher grade outturns, and stronger selling price realizations. We also expect to continue to benefit from lower stumpage charges through the remainder of 2024 relative to the 2023 fiscal year. We expect lumber prices to increase mainly due to supply contractions coupled with some strengthening in demand as interest rates moderate. We are expecting our third quarter EBITDA will improve slightly from second quarter, and fourth quarter EBITDA to be much improved over the third quarter.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended June 30, 2024. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2023, filed on SEDAR+ at www.sedarplus.com.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our 2023 annual information form dated March 28, 2024 and our 2023 annual MD&A dated March 27, 2024, and other filings with the Canadian regulatory authorities available on SEDAR+ at www.sedarplus.com.

OUTSTANDING SECURITIES

As at August 12, 2024, we had 40,767,710 common shares, 3,600,000 warrants convertible into 3,600,000 common shares and 1,979,375 long-term incentive plan awards outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2024, there were no changes that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information about our company, including our annual information form dated March 28, 2024, is available on SEDAR+ at www.sedarplus.com.