CONIFEX

CONIFEX TIMBER INC.
FIRST QUARTER 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

May 11, 2021

*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 March 31, 2021 relative to the quarters ended December 31, 2020 and March 31, 2020. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2021 and 2020, and our 2020 annual MD&A and our December 31, 2020 audited consolidated financial statements and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and filed on SEDAR at www.sedar.com.*

In this MD&A, reference is made to "EBITDA" and "adjusted EBITDA". EBITDA represents earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items that are not ongoing and do not reflect our ongoing operations. Adjusted EBITDA excludes foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets. We disclose EBITDA and adjusted EBITDA as it is a measure used by analysts and by our management to evaluate our performance. As EBITDA and adjusted EBITDA are not generally accepted earnings measures under IFRS, and neither has a standardized meaning prescribed by IFRS, they may not be comparable to EBITDA and adjusted EBITDA calculated by other companies. In addition, EBITDA and adjusted EBITDA are not substitutes for net earnings or cash flow, as determined in accordance with IFRS, and therefore readers should consider those measures in evaluating our performance.

In February 2020, we sold our US Sawmill Business (as defined herein). In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for the US Sawmill Business were restated as discontinued operations for the relevant periods and separated from our continuing operations. Unless otherwise indicated, our discussion and analysis herein reflects our continuing operations. In accordance with IFRS 8, Operating Segments, we also combined our previous reporting segments, including our lumber and bioenergy operating segments, into a single reportable segment. Accordingly, all previously segmented information has been restated to conform to the current presentation for all periods presented. For further information, refer to Note 6 to our consolidated financial statements for the years ended December 31, 2020 and 2019.

In this interim MD&A, all references to "$" are to Canadian dollars and references to "US$" are to United States 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 realization of expected benefits of completed, current and any contemplated capital projects and the expected timing and budgets for such projects; the growth and future prospects of our business, including the impact of COVID-19 thereon; 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 for wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the U.S.; 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 Aboriginal 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; the availability and use of credit facilities or proceeds therefrom; and future capital expenditures.*

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 continue to improve; 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.

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 2020 annual MD&A dated March 2, 2021 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. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

RECENT DEVELOPMENTS

Normal Course Issuer Bid

In December 2020, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB, we may purchase up to a maximum of 2,944,320 of our outstanding common shares. Pursuant to the NCIB, we may not repurchase more than (i) $5 million of our common shares between the period of November 30, 2020 and September 30, 2021 and (ii) $5 million of our common shares between the period of October 1, 2021 and the expiry of the bid. Any common shares acquired under the NCIB will be purchased at the market price up to a daily maximum of 12,500 common shares, being 25% of the average daily trading volume for the six months prior to the bid, subject to the block purchase exemption. All common shares acquired by us under the NCIB will be cancelled following purchase. The NCIB will terminate on November 30, 2021 or earlier if we have completed our purchases of the securities subject to the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. In March 2021, we purchased and cancelled 338,400 shares under the NCIB, for a total of 922,800 shares purchased and cancelled since the inception of the NCIB.

COVID-19 Pandemic

In response to the COVID-19 pandemic, we instituted certain measures to protect the health and safety of our employees in March 2020. This included adopting a pandemic contingency plan which includes restricting access to our offices and operation sites, restricting business travel for employees, mandating self-isolation for any staff exhibiting symptoms or having been exposed to the virus, practicing appropriate social distancing at our premises and increasing the frequency and emphasis on cleaning and sanitizing.

Given the continuing and dynamic nature of the COVID-19 pandemic, it is challenging to predict the ongoing impact on our business. The extent of any future impacts on our business will depend on new developments related to the virus, including any resurgence of COVID-19 as restrictions are eased or lifted, government and private actions taken to address its impact and new information that may emerge concerning the spread and severity of COVID-19.

SUMMARY

Continuing operations for the comparative periods discussed in this MD&A primarily comprise operating results from our Mackenzie sawmill, power plant and, as applicable, our previously sold sawmill in Fort St. James, British Columbia, which was largely curtailed in May 2019 and sold in November 2019.

Operating and financial results in 2020 were materially impacted by the curtailment of our Mackenzie sawmill from April 6 to July 6, 2020.

Selected Financial Information(1)

(unaudited, in millions of dollars, except share and exchange rate information)	Q1 2021	Q4 2020	Q1 2020
Sales			
Lumber – Conifex produced	39.9	42.0	20.9
Lumber – wholesale	0.6	1.7	-
By-products	2.4	-	1.7
Bioenergy	3.7	6.1	8.0
	46.6	49.8	30.6
Operating income (loss)	8.7	4.6	(6.8)
EBITDA from continuing operations(2)	9.7	6.8	(3.5)
Net income (loss) from continuing operations	4.5	2.2	(8.2)
Net income (loss) from discontinued operations	-	0.1	0.5
Net income (loss)	4.5	2.3	(7.7)
Basic and diluted earnings (loss) per share			
Continuing operations	0.10	0.05	(0.18)
Discontinued operations	-	-	0.01
Total basic and diluted earnings (loss) per share	0.10	0.05	(0.17)
Shares outstanding – weighted average (millions)	46.4	47.0	46.9
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	4.5	2.2	(8.2)
Add: Finance costs	1.1	1.3	3.5
Amortization	2.2	2.8	2.9
Deferred income tax expense (recovery)	1.9	0.5	(1.7)
EBITDA from continuing operations(2)	9.7	6.8	(3.5)

Selected Operating Information

Production – WSPF lumber (MMfbm)(3)	51.0	48.3	38.2
Shipments – WSPF lumber (MMfbm)(3)	37.8	49.1	37.6
Shipments – wholesale lumber (MMfbm)(3)	0.7	1.8	-
Electricity production (GWh)	25.0	41.7	54.8
Average exchange rate –$/US$(4)	0.790	0.767	0.744
Average WSPF 2x4 #2 & Btr lumber price (US$)(5)	$982	$700	$399
Average WSPF 2x4 #2 & Btr lumber price ($)(6)	$1,244	$912	$536

(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.

REVIEW OF FIRST QUARTER 2021 FINANCIAL RESULTS

During the first quarter of 2021, we recognized net income from continuing operations of $4.5 million, or $0.10 per share compared to $2.2 million or $0.05 per share in the previous quarter and a net loss of $8.2 million or $0.18 per share in the first quarter of 2020.

North American lumber market prices remain at historically elevated levels, fuelled by North American home construction and repair and remodelling activities. US housing starts on a seasonally adjusted annual basis averaged 1,613,000 in the first quarter of 2021, up 2% from the previous quarter and 9% from the first quarter of 2020. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family housing starts.

The US dollar averaged US$0.790 for each Canadian dollar during the first quarter of 2021, a level which represented a strengthening of the Canadian dollar over the previous quarter[1]. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir ("**WSPF**") prices, which averaged $1,244 in the first quarter of 2021, increased by 36% or $332 from the previous quarter and by 132% or $708 from the first quarter of 2020. The increase in lumber demand, coupled with the impact of supply disruptions caused by COVID-19 response measures, resulted in a significant increase to the benchmark WSPF lumber price during the quarter.

Lumber Operations

Our lumber production in the first quarter of 2021 totalled approximately 51.0 million board feet, representing operating rates of approximately 85% of annualized capacity. In the previous quarter, 48.3 million board feet of lumber was produced which reflected a short period of downtime arising from challenging logging conditions. In the first quarter of 2020, we produced 38.2 million board feet of lumber as a result of a reduced daily operating configuration.

Shipments of Conifex produced lumber totaled 37.8 million board feet in the first quarter of 2021, representing a decrease of 23% from the 49.1 million board feet shipped in the previous quarter and an increase of 1% from the 37.6 million board feet of lumber shipped in the first quarter of 2020. The lower shipments of Conifex produced lumber in the quarter were primarily due to ongoing railcar supply challenges. Our wholesale lumber program shipped 0.7 million board feet in the first quarter of 2021.

Revenues from lumber products were $40.5 million in the first quarter of 2021 representing a decrease of 7% from the previous quarter and an increase of 94% from the first quarter of 2020. Compared to the previous quarter, the lower revenues were driven by lower shipment volumes, offset partially by higher realized lumber prices in the current quarter. Increased revenues from the first quarter of 2020 were driven by higher mill net realizations. Our lumber is typically sold 2-4 weeks in advance of its shipment date, resulting in a lag in our realized lumber prices when compared to concurrent reported lumber prices. As a result, a portion of the significant lumber price increase during March 2021 will be realized in the second quarter of 2021.

Cost of goods sold in the first quarter of 2021 decreased by 14% from the previous quarter and increased by 3% from the first quarter of 2020. The decrease in cost of goods sold from the prior quarter is due to lower overall shipments in the current quarter, offset partially by higher log costs. Unit manufacturing costs decreased in comparison to the previous quarter and were significantly below the first quarter of 2020 as a result of a reduced operating format in the prior year.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of $2.5 million in the first quarter of 2021, $4.6 million in the previous quarter and $2.0 million in the first quarter of 2020. The duty deposits were based on a combined rate of 20.23% until December 1, 2020 and 8.99% thereafter. The export taxes during the first quarter of 2021 were significantly lower than the previous quarter due to the reduced

[1] Bank of Canada, www.bankofcanada.ca

combined duty rate and tempered by the increased proportion of lumber shipments made to the stronger US market.

Bioenergy Operations

Our Mackenzie power plant sold 25.0 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro and Power Authority ("**BC Hydro**") in the first quarter of 2021, representing approximately 46% of targeted operating rates. The Mackenzie power plant sold 41.7 and 54.8 gigawatt hours of electricity in the previous quarter and first quarter of 2020, respectively. The decrease in production in the first quarter of 2021 and fourth quarter of 2020 was driven by a disruption in December 2020 caused by damage to the plant's generator, resulting in 80 days of unplanned downtime. A replacement for the failed component of the power plant was procured from the original equipment manufacturer and installed in February 2021. The power plant was successfully recommissioned and began producing electricity at normalized rates on February 21, 2021.

We are finalizing our insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator 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.

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 2021, BC Hydro issued a dispatch order for 61 days, from May 1 to June 30, 2021. In 2020, our power plant was dispatched for 117 days, from April 24 to August 19, 2020. 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.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs were $2.2 million in the first quarter of 2021, $1.1 million in the previous quarter and $1.7 million in the first quarter of 2020. The higher SG&A costs in the current quarter were primarily attributable to variable compensation costs, including equity-based compensation.

Finance Costs and Accretion

Finance costs and accretion totaled $1.1 million in the first quarter of 2021, $1.3 million in the previous quarter and $3.5 million in the first quarter of 2020. Finance costs in the first quarter of 2020 included $2.2 related to our previous secured credit facility that supported our lumber mills (the "**Retired Lumber Credit Facility**") which was repaid in full on February 1, 2020. Finance costs and accretion subsequent to February 1, 2020 relate primarily to our term loan supporting our bioenergy operations (the "**Power Term Loan**").

Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period. We entered into lumber futures contracts for downside price protection on a small percentage of our estimated second and third quarter 2021 production. Due to lumber market conditions characterized by rapidly rising prices from January to March 2021, we recorded a loss from lumber derivative instruments of $0.9 million in the first quarter of 2021, nil in the previous quarter and nil in the first quarter of 2020.

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. We recorded a foreign exchange translation loss of $0.3 million in the first quarter of 2021, a loss of $0.6 million in the previous quarter and a gain of $2.5 million in the first quarter of 2020. In the first quarter of 2020, we also recorded a foreign exchange loss of $2.1 million on our previous US dollar-denominated Retired Lumber Credit Facility due to the change in exchange rates during the period.

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 a deferred income tax expense of $1.9 million in the first quarter of 2021 and $0.6 million in the previous quarter, respectively, and a deferred income tax recovery of $1.7 million in the first quarter of 2020. As at March 31, 2021, we have recognized deferred income tax assets of $8.0 million.

Discontinued Operations

In February 2020, we sold our US sawmill business, consisting of our El Dorado, Cross City and Glenwood sawmills and related operations (the "**US Sawmill Business**") for US$172.8 million, including net working capital of US$9.8 million. In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for the US Sawmill Business were restated as discontinued operations for the relevant periods and separated from our continuing operations.

Net income from discontinued operations was nil in the first quarter of 2021, compared to $0.1 million in the previous quarter and $0.5 million in the first quarter of 2020.

For further information on discontinued operations, see Note 6 of the consolidated financial statements for the years ended December 31, 2020 and 2019 available on SEDAR at www.sedar.com.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	Q1 2021	Q4 2020	Q1 2020
Cash	6.4	11.2	12.1
Cash – restricted	5.6	3.6	6.5
Operating working capital[(1)]	23.1	14.7	8.8
Current portion of revolver and long-term debt	(4.4)	(4.5)	(4.5)
Net current assets	30.7	25.0	22.9
Property, plant and equipment	129.5	130.0	134.6
Other long-term assets	35.9	37.9	39.5
	196.1	192.9	197.0
Non-interesting bearing long-term liabilities	18.2	17.6	18.9
Long-term debt – Power Term Loan	55.8	57.0	59.1
Long-term debt – other[(2)]	1.7	1.9	2.7
Shareholders' equity	120.4	116.4	116.3
	196.1	192.9	197.0
Ratio of current assets to current liabilities	2.1	2.0	1.7
Net debt to capitalization	29%	29%	29%
Net debt to capitalization excluding Power Term Loan	(3%)	(3%)	2%

(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 leases in 2021 and 2020.

Operating working capital increased by $8.4 million over the first quarter of 2021 due primarily to an increase in inventory of $13.5 million in the quarter, offset by an increase in trade payables. Inventory levels were higher than the preceding quarter due to higher levels of log and lumber inventory held at March 31, 2021.

Overall debt was $61.9 million at March 31, 2021 compared to $63.4 million at December 31, 2020. The reduction of $1.5 million in debt comprised 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, 2021, we had $59.2 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was $2.8 million.

The ratio of current assets to current liabilities was 2.1:1 at March 31, 2021 compared to 2.0:1 at December 31, 2020 and 1.7:1 at March 31, 2020. The year-over-year change was primarily attributable to an increase in inventory and reduced cash on hand and trade payables as at March 31, 2021.

As at March 31, 2021, $103.2 million of our consolidated property, plant and equipment was attributable to our power operations.

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 March 31, 2021 increased by $1.3 million to $49.9 million from $48.6 million at December 31, 2020. The net debt to capitalization ratio was approximately 29% at March 31, 2021, December 31, 2020 and March 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars, unaudited)	Q1 2021	Q4 2020	Q1 2020
Cash generated from (used in)			
Operating activities	2.0	9.1	(13.0)
Investing activities	(1.5)	(0.8)	224.2
Financing activities	(5.2)	(3.6)	(199.4)
Increase (decrease) in cash	(4.7)	4.7	11.8

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 sawmill during the spring months. 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 generated $11.3 million of cash in the first quarter of 2021, compared to $8.2 million in the previous quarter and net cash usage of $2.3 million in the first quarter of 2020. Changes in non-cash working capital used $9.2 million of cash in the first quarter of 2021, generated $0.9 million in the previous quarter and used $10.6 million in the first quarter of 2020. The decrease in operating cash flows from the previous quarter primarily reflects an increase in log and lumber inventories.

Investing Activities

Investing activities utilized cash of $1.5 million in the first quarter of 2021, $0.8 million in the fourth quarter of 2020 and generated cash of $224.2 million in the first quarter of 2020. Investing activities in the current and previous quarter were comprised primarily of investments in property, plant and equipment. Investing activities in the first quarter of 2020 were comprised primarily of the receipt of $223.6 million from the sale of our US Sawmill Business.

Financing Activities

Our financing activities used net cash of $5.2 million in the first quarter of 2021, $3.6 million in the fourth quarter of 2020, and $199.4 million in the first quarter of 2020. Net cash usage in the first quarter of 2021 and the fourth quarter of 2020 was primarily comprised of Power Term Loan payments, payment of finance expenses and purchases of our common shares under the NCIB. In the first quarter of 2020, financing activities included $191.8 million to repay in full the Retired Lumber Credit Facility and payment of finance expenses of $6.3 million.

Liquidity

Our principal sources of funds are cash on hand, cash flows from operations and cash available under our $10.0 million secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Revolving Credit Facility**"), which was completed in October 2020. The Revolving Credit Facility is available for a term of 3 years and is substantially secured by our lumber inventory, equipment and accounts receivable. Our principal uses of funds consist of operating expenditures, capital expenditures, interest payments and repayment of principal on our Power Term Loan.

At March 31, 2021, we had total liquidity of $16.4 million, compared to $21.2 million at December 31, 2020 and $12.1 million at March 31, 2020. Liquidity at March 31, 2021 was comprised of unrestricted cash of $6.4 million and unused availability of $10.0 million under the Revolving Credit Facility.

The decrease in our liquidity in the first quarter of 2021 compared to the previous quarter was primarily from the increase in non-cash working capital driven by escalating log costs at our Mackenzie sawmill and higher overall inventory levels. Compared to the first quarter of 2020, the increase in our liquidity was primarily from the addition of the Revolving Credit Facility. Our material contractual obligations remain substantially unchanged from those described in our 2020 annual MD&A and consolidated financial statements for the years ended December 31, 2020 and 2019.

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$12.3 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. 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.

We monitor our expected liquidity levels and compliance with debt covenants under our Power Term Loan and Revolving Credit Facility by regularly preparing rolling cash flow forecasts to consider upcoming operational requirements, debt service commitments and future business development. We did not have any material commitments for capital expenditures at March 31, 2021. Based on our current level of operations and our present expectations for future periods in light of the existing economic environment, we believe that cash flow from operations, flexibility in levels of investment in operating working capital and availability under the Revolving Credit Facility will be adequate to meet our obligations over the next twelve months. Our Power Term Loan contains certain restrictions on the ability of our power subsidiaries to transfer funds outside of the power entities.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at March 31, 2021 were comprised of standby letters of credit totalling $5.6 million posted by our subsidiary, Conifex Power Limited Partnership. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

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 first quarter of 2021 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	**2021** Q1	**2020** Q4	Q3	Q2	Q1	**2019** Q4	Q3	Q2
Sales	46.6	49.8	37.6	10.8	30.6	27.7	22.9	40.1
Operating income (loss)	8.7	4.6	7.0	(1.4)	(6.8)	(11.5)	(8.6)	(11.7)
Net income (loss) from continuing operations	4.5	2.2	2.0	(2.7)	(8.2)	(10.2)	(11.6)	(1.1)
Net income (loss) – total operations	4.5	2.3	2.0	(3.0)	(7.7)	(162.6)	(16.6)	(9.1)
Net income (loss) per share – basic and diluted from continuing operations	0.10	0.05	0.04	(0.05)	(0.18)	(0.22)	(0.25)	(0.02)
Net income (loss) per share – basic and diluted – total operations	0.10	0.05	0.04	(0.06)	(0.17)	(3.47)	(0.35)	(0.19)
Adjusted EBITDA from continuing operations(1)	9.7	6.8	7.6	(1.1)	0.5	(3.9)	(7.0)	(9.1)
Shares outstanding – weighted average (in millions)	46.4	47.0	47.0	46.9	46.9	46.9	46.9	26.4
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	51.0	48.3	48.0	2.4	38.2	37.8	26.0	47.6
Shipments – WSPF lumber	37.8	49.1	39.2	8.5	37.6	38.0	34.8	60.4
Shipments – wholesale lumber	0.7	1.8	0.7	1.6	-	-	0.3	5.4
Electricity production – GWh	25.0	41.7	54.9	51.2	54.8	55.1	53.1	47.2
Average exchange rate – US$/$(2)	0.790	0.767	0.751	0.722	0.744	0.758	0.757	0.748
Average WSPF 2x4 #2 & Btr lumber price (US$)(3)	$982	$700	$768	$357	$399	$380	$356	$333
Average WSPF 2x4 #2 & Btr lumber price ($)(4)	$1,244	$912	$1,023	$494	$536	$502	$470	$445
Reconciliation of Adjusted EBITDA to net income (loss)								
Net income (loss) from continuing operations	4.5	2.2	2.0	(2.7)	(8.2)	(10.2)	(11.6)	(1.1)
Add: Finance costs	1.1	1.3	1.2	1.2	3.5	21.7	7.0	7.4
Amortization	2.2	2.8	2.9	1.1	2.9	4.8	1.8	2.5
Deferred income tax expense (recovery)	1.9	0.5	1.5	(0.8)	(1.7)	(3.8)	(4.0)	(0.9)
EBITDA(5)	9.7	6.8	7.6	(1.2)	(3.5)	12.5	(6.8)	7.9
Add: Foreign exchange (gain) loss on long-term debt	-	-	-	-	2.1	(2.4)	2.4	(4.4)
Restructuring costs	-	-	-	0.1	1.9	2.6	-	-
Proceeds from insurance claim	-	-	-	-	-	(1.1)	-	-
Gain on sale of assets	-	-	-	-	-	(15.5)	-	-
Gain on sale of right to duty refunds	-	-	-	-	-	-	(2.6)	(12.6)
Adjusted EBITDA from continuing operations	9.7	6.8	7.6	(1.1)	0.5	(3.9)	(7.0)	(9.1)

(1) Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets.
(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.
(5) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

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 sawmill during the spring months when logging operations are generally largely curtailed due to unstable road 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 on 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

We expect lumber markets to remain strong in 2021, supported by robust demand from US housing starts and continued strength in the repair and remodeling sector. At our Mackenzie sawmill, we expect to achieve annualized operating rates of approximately 96% in the remainder of 2021. 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 2021.

As our liquidity and financial position are forecasted to continue to strengthen in the second half of 2021, funding quick payback sawmill upgrades and our NCIB program remain key priorities.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended March 31, 2021. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2020, filed on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our 2020 annual MD&A dated March 2, 2021, and other filings with the Canadian regulatory authorities available on SEDAR at www.sedar.com.

OUTSTANDING SECURITIES

As at May 11, 2021, we had 46,153,630 common shares, 1,709,875 long-term incentive plan awards and 3,500,000 warrants outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended March 31, 2021, 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, is available on SEDAR at www.sedar.com.