



**CONIFEX TIMBER INC.  
FIRST QUARTER 2024**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**May 9, 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 March 31, 2024, relative to the quarters ended December 31, 2023, and March 31, 2023. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarter ended March 31, 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") and filed on SEDAR+ at [www.sedarplus.com](http://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 the US housing market will continue to improve; that transportation services by third party providers will continue uninterrupted; our ability to ship our products in a timely manner; that there will be no additional unforeseen disruptions affecting the operation of our Mackenzie power plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.*

*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](http://www.sedarplus.com) and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. 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**”). 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 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 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**"), which OIC impacted two of our proposed high performance computing ("**HPC**") projects.

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. Arguments were made before the BCSC in October 2023. On February 2, 2024, we received notice that our petition was dismissed. We continue to believe that the moratorium to discriminate against a certain class of customers is unjustified and we have filed an appeal of the BCSC's decision. Concurrently with the filing of the petition, 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.

In April 2024, the Ministry of Energy, Mines and Low Carbon Innovation (the "**Ministry**") introduced amendments to the Utilities Commission Act to provide government with more specific regulation-making authority with regard to the provision of electricity service by public utilities for cryptocurrency mining projects, with the stated aim of developing a permanent Cryptocurrency Mining Policy. The Ministry has indicated that it intends to extend the Temporary Suspension by a further 18 month period to December 2025 to provide additional time for policy development.

### *Lending Agreement Amendments*

In March 2024, we executed a first amendment to credit agreement and accommodation agreement (the "**Amendment**") with Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") in respect of our amended and restated credit agreement dated March 20, 2023. Wells Fargo agreed, subject to certain terms and conditions, to amend our Revolving Credit Facility (as herein defined) and provide certain accommodations thereunder.

Pursuant to the Amendment, Wells Fargo agreed to provide additional short-term liquidity, continue funding the revolving loan and refrain from exercising certain of its rights under the Revolving Credit Facility until May 31, 2024, subject to certain terms and conditions. Following the Amendment, the Revolving Credit Facility is secured by substantially all of our lumber business assets. The Amendment follows Conifex's non-maintenance of the minimum excess availability and fixed charge coverage ratio required by the terms of the Revolving Credit Facility as at December 31, 2023. Among other conditions, we have commenced a process to secure replacement funding in an amount sufficient to repay in full the Revolving Credit Facility and have engaged Raymond James Ltd. to assist in this process.

Concurrent with the Amendment, our wholly owned subsidiary Conifex Power Limited Partnership ("**Conifex Power**") amended its outstanding Power Term Loan (as defined herein) to, among other things, release certain restricted cash thereunder, the proceeds of which were applied to pay down the Revolving Credit Facility. Following this amendment, the Power Term Loan bears interest at a stepped-up interest rate per annum commencing at 7.35%. In connection with the Amendment, we are reviewing the long-term financing of our power business, which may include new or replacement lenders, and may be impacted by, among other things, potential business initiatives we are pursuing. We expect the foregoing to be completed by or about the second quarter of next year.

We are working collaboratively with our lenders as we work to implement the refinancing process. However, there can be no assurance that it will result in or we will be able to successfully conclude any refinancing or replacement funding on terms acceptable to us or at all.

## SUMMARY

The following table summarizes our operating results.

### Selected Financial Information

(unaudited, in millions of dollars, except share and exchange rate information)

	Q1 2024	Q4 2023	Q1 2023
<b>Revenue</b>			
Lumber – Conifex produced	29.5	23.9	26.0
Lumber – wholesale	0.0	0.9	1.0
By-products and other	3.0	2.7	8.4
Bioenergy	8.2	7.7	4.5
	40.7	35.2	39.9
Operating income (loss)	(7.1)	(6.6)	(11.5)
EBITDA <sup>(1)</sup>	(0.5)	(3.5)	(6.9)
<b>Net income (loss)</b>	<b>(4.5)</b>	<b>(5.3)</b>	<b>(8.1)</b>
<b>Basic and diluted earnings (loss) per share</b>	<b>(0.11)</b>	<b>(0.14)</b>	<b>(0.20)</b>
<b>Cash dividends paid per share</b>	-	-	-
Shares outstanding – weighted average (millions)	40.4	40.4	39.8
<b>Reconciliation of EBITDA to net income (loss)</b>			
Net income (loss)	(4.5)	(5.3)	(8.1)
Add: Finance costs	1.3	1.3	1.2
Amortization	3.2	3.0	2.5
Deferred income tax expense (recovery)	(0.5)	(2.5)	(2.5)
EBITDA <sup>(1)</sup>	(0.5)	(3.5)	(6.9)

### Selected Operating Information

Production – WSPF lumber (MMfbm) <sup>(2)</sup>	44.5	33.2	41.2
Shipments – WSPF lumber (MMfbm) <sup>(2)</sup>	44.5	39.1	40.6
Shipments – wholesale lumber (MMfbm) <sup>(2)</sup>	0.0	1.1	1.0
Electricity production (GWh)	56.0	43.5	34.6
Average exchange rate –\$/US\$ <sup>(3)</sup>	0.741	0.734	0.740
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(4)</sup>	\$446	\$402	\$384
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(5)</sup>	\$601	\$547	\$519

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(2) MMfbm represents million board feet.

(3) Bank of Canada, [www.bankofcanada.ca](http://www.bankofcanada.ca).

(4) Random Lengths Publications Inc.

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

## REVIEW OF FIRST QUARTER 2024 FINANCIAL RESULTS

During the first quarter of 2024, we incurred a net loss of \$4.5 million or \$0.11 per share compared to a net loss of \$5.3 million or \$0.14 per share in the previous quarter and net loss of \$8.1 million or \$0.20 per share in the first quarter of 2023.

North American lumber market prices saw a recovery in the first quarter of 2024 and rose relative to the fourth and first quarters of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$601 in the first quarter of 2024, increased by 10% or \$54 from the previous quarter and increased by 16% or \$82 from the first quarter of 2023<sup>1</sup>. The market price increase in the first quarter of 2024 was positively impacted by continued reports of a more resilient US housing market from anticipated rate cuts and moderation of European supply to the North American Market. Despite that,

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

US housing starts on a seasonally adjusted annual basis averaged 1,415,000 in the first quarter of 2024, down 2% from the fourth quarter of 2023 and up 11% from the first quarter of 2023.

### ***Lumber Operations***

Our lumber production in the first quarter of 2024 totalled approximately 44.5 million board feet, representing operating rates of approximately 74% of annualized capacity. Lumber production of 33.2 million board feet of lumber in the previous quarter reflected production curtailments due to an overall reduced demand for lumber amid challenging economic conditions. Lumber production in the first quarter of 2023 was 41.2 million board feet or approximately 69% of annualized capacity, primarily due to a 1-week production curtailment combined with lower throughput.

Shipments of Conifex-produced lumber totaled 44.5 million board feet in the first quarter of 2024, representing an increase of 14% from the 39.1 million board feet shipped in the previous quarter and an increase of 10% from the 40.6 million board feet of lumber shipped in the first quarter of 2023. Shipments of Conifex-produced lumber in the first quarter of 2024 were greater than those in the referenced previous quarters as a result of more operational days due to no scheduled market related curtailments.

Our wholesale lumber shipments dropped to nil for the first quarter of 2024 relative to approximately 1 million board feet in the fourth and first quarters of 2023.

Revenues from lumber products were \$29.5 million in the first quarter of 2024 representing an increase of 18% from the previous quarter and an increase of 8% from the first quarter of 2023. Compared to the previous quarter, higher shipment volumes and mill net realizations on higher lumber market prices contributed to the higher revenue. The revenue increase in the current quarter over the same period in the prior year was largely a result of similar factors, higher shipment volumes and higher mill net realizations from higher lumber market prices.

Cost of goods sold in the first quarter of 2024 increased by 15% from the previous quarter and decreased by 7% from the first quarter of 2023. The increase in cost of goods sold from the prior quarter was mainly due to increased shipment volumes in the current quarter. The cost of goods sold in the first quarter of 2023 was higher than the current quarter as a result of higher unit costs, primarily around logs. Unit manufacturing costs in the first quarter of 2024 decreased in comparison to the previous reference quarters as a result of a significantly lower consumed log cost. We recorded inventory valuation reserves of \$1.1 million in the first quarter of 2024, respectively, compared to \$1.3 million in the fourth quarter of 2023 and \$2.3 million in first quarter of 2023. Inventory valuation reserves decreased in comparison to the previous quarter due to an increase in projected lumber sales value and decrease in inventory carrying values.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$1.4 million in the first quarter of 2024, \$1.1 million in the previous quarter and \$1.2 in the first quarter of 2023. The duty deposits were based on a combined rate of 8.05%. The export taxes during the first quarter of 2024 were higher than the previous quarters due to an increase 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 56.0 GWh of electricity under our EPA with BC Hydro in the first quarter of 2024 representing approximately 102% of targeted operating rates. Our Power Plant sold 43.5 and 34.6 GWh of electricity in the fourth quarter and first quarter of 2023, respectively. Production in the first quarter of 2024 was higher than the fourth quarter of 2023 due to an increased number of operating days in the first quarter of 2024 as well as higher generation rates, and higher than the first quarter of 2023 due to the temporary shutdown into mid January for turbine repairs that occurred in 2022.

Electricity production contributed revenues of \$8.2 million in the first quarter of 2024, \$7.7 million in the previous quarter and \$4.5 million in the first quarter of 2023.

### ***Selling, General and Administrative Costs***

Selling, general and administrative (“**SG&A**”) costs increased between the current quarter and previous quarter and decreased from the current quarter and prior year comparative period. SG&A costs were \$2.6 million in the first quarter of 2024, \$0.6 million in the previous quarter and \$3.2 million in the first quarter of 2023. The reduction in SG&A costs in the previous quarter was largely due to the revaluation of long-term incentive awards. The reduction in SG&A costs relative to the previous year comparative is a result of a reduction in corporate overhead.

### ***Finance Costs and Accretion***

Finance costs and accretion totaled \$1.3 million in the first quarter of 2024, \$1.3 million in the previous quarter and \$1.2 million in the first quarter of 2023. Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the “**Power Term Loan**”) as well as the drawn portion of our Revolving Credit 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 March 31, 2024.

### ***Other Income***

We recognized \$3.0 million in other income in the first quarter of 2024 to reflect insurance proceeds from the fire that destroyed our Osilinka logging camp. Insurance proceeds were received in the second quarter of 2024. In the fourth quarter of 2023 we recognized minimal other income while in the first quarter of 2023 we recognized \$2.2 million for the final tranche of funds received related to the insurance claim on the Power Plant turbine failure from 2022.

### ***Foreign Exchange Translation Gain or Loss***

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash and working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The US dollar averaged US\$0.741 for each Canadian dollar during the first quarter of 2024, a level which represented a modest strengthening of the Canadian dollar over the previous quarter<sup>2</sup>.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation gain of \$0.3 million in the first quarter of 2024, compared to a foreign exchange translation loss of \$0.3 million in the previous quarter and a loss of nil in the first quarter of 2023.

### ***Income Tax***

We recorded income tax recovery of \$0.5 million in the first quarter of 2024, and income tax recovery of \$2.5 million in the previous quarter and income tax recovery of \$2.5 million in the first quarter of 2023. The decrease in the recovery is due to an increase in net income from the previous quarter.

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

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, 2024, we have recognized deferred income tax assets of \$3.5 million.

## SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)				
		Q1 2024	Q4 2023	Q1 2023
Cash	4.2	4.2	5.2	
Cash – restricted	3.6	5.5	6.5	
Operating working capital <sup>(1)</sup>	22.0	24.3	56.1	
Operating loan	(10.6)	(11.5)	(12.5)	
Current portion of long-term debt	(4.7)	(4.8)	(4.8)	
Net current assets	14.5	17.7	50.5	
Property, plant and equipment	120.4	123.1	128.6	
Other long-term assets	39.7	38.8	34.0	
	174.6	179.6	213.1	
Non-interesting bearing long-term liabilities	17.0	16.6	23.6	
Long-term debt – Power Term Loan	46.4	46.4	48.9	
Long-term debt – other <sup>(2)</sup>	0.1	1.2	1.2	
Shareholders' equity	111.1	115.5	139.4	
	174.6	179.7	213.1	
Ratio of current assets to current liabilities	1.3	1.5	2.2	
Net debt to capitalization	32%	31%	29%	
Net debt to capitalization excluding Power Term Loan	9%	8%	8%	

(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 equipment and vehicle leases expiring between 2023 and 2026.

Operating working capital decreased by \$2.3 million over the fourth quarter of 2023 due primarily to an increase in trade payables and accrued liabilities, increase in employee liabilities, partially offset by an increase in trade receivables, and in increase in inventories necessary to continue sawmill operations through the logging breakup in the second quarter of 2024. Operating working capital decreased by \$34.1 million compared to the first quarter of 2023 due to significantly lower inventories and a higher trade payables balance.

Overall debt was \$61.8 million at March 31, 2024 compared to \$63.8 million at December 31, 2023 and \$67.4 million at March 31, 2023. The decrease in overall debt between the first quarter of 2024 and the fourth quarter of 2023 was mainly driven by a repayment of approximately \$0.9 million against our secured revolving credit facility with Wells Fargo (the "**Revolving Credit Facility**"), combined by principal and interest payments against the Power Term Loan in the first quarter of 2024. The decrease in overall debt at March 31, 2024 relative to March 31, 2023 was due to a decrease in the amount drawn against our Revolving Credit Facility of \$12.5 million down to \$10.6 million, combined with payments against our Power Term Loan and monthly lease payments. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At March 31, 2024, we had \$49.0 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.9 million.

The ratio of current assets to current liabilities was 1.3:1 at March 31, 2024 compared to 1.5:1 at December 31, 2023 and 2.2:1 at March 31, 2023. The year-over-year change was primarily attributable to more lower inventory levels and a higher trade payables balance compared to the previous period.

As at March 31, 2024, \$94.8 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$96.3 million at December 31, 2023 and \$99.7 million at March 31, 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 March 31, 2024 increased by \$0.8 million to \$54.9 million from \$54.2 million at December 31, 2023. The net debt to capitalization ratio was approximately 32% at March 31, 2024, 32% at December 31, 2023 and 29% at March 31, 2023.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flows

(unaudited, in millions of dollars)	Q1 2024	Q4 2023	Q1 2023
<b>Cash generated from (used in)</b>			
Operating activities	2.0	3.6	(5.7)
Investing activities	(0.5)	(5.2)	(1.1)
Financing activities	(1.5)	(2.7)	3.6
<b>Increase (decrease) in cash</b>	<b>(0.0)</b>	<b>(4.2)</b>	<b>(3.2)</b>

### 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 \$2.0 million in the first quarter of 2024, compared to \$3.6 million in the fourth quarter of 2023 and net cash depletion of \$5.7 million in the first quarter of 2023. The decrease in operating cash flows in the first quarter of 2024 compared to the fourth quarter of 2023 largely reflects a buildup of trade receivables and inventories, partially offset by an increase in trade payables. The increase in operating cash flows in the first quarter of 2024 compared to 2023 primarily reflects a greatly lower operating loss combined with a higher payables balance.

### Investing Activities

Investing activities utilized cash of \$0.5 million in the first quarter of 2024, \$5.2 million in the fourth quarter of 2023 and \$1.1 million in the first quarter of 2023. In the first quarter of 2024, investments in property plant and equipment included investments in sawmilling assets, and in 2023, included upgrades to both our Power Plant and sawmilling complex.

### Financing Activities

Our financing activities used \$1.5 million in the first quarter of 2024, used \$2.7 million in the previous quarter and generated \$3.6 million in the first quarter of 2023. The net cash consumed from financing activities in the current quarter largely related to repayments against the Revolving Credit Facility less our Power Term Loan and operating lease payments and finance charges, partially offset by a release of \$1.8 million of restricted cash under the Power Term Loan. Net cash usage in the previous quarter was similar in terms of distribution to the current quarter, offset by a lower release on restricted cash. The larger release of restricted cash in the previous year was attributed to insurance proceeds.



## ***Liquidity***

Our principal sources of funds are cash on hand, cash flows from operations and cash available under our Revolving Credit Facility. As at March 31, 2024, we have drawn \$5.6 million against the Revolving Credit Facility compared to \$11.5 million at December 31, 2023 and \$12.5 at March 31, 2023. We also have a term loan with Wells Fargo in the amount of \$5 million.

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, 2024, after completion of the Amendment, we had available liquidity of \$10.2 million comprised of unrestricted cash of \$4.2 million and \$6 million available under the Revolving Credit Facility, subject to the terms of the Revolving Credit Facility.

The change in liquidity in the first quarter of 2024 compared to the first quarter of 2023 due primarily to the extension of the Revolving Credit Facility from \$15 to \$25 million. Our material contractual obligations remain substantially unchanged from those described in our 2023 annual MD&A and consolidated financial statements for the years ended December 31, 2023 and 2022.

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\$35.4 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.

The company is reviewing options to improve liquidity. We continue to manage controllable expenses to optimize liquidity. We are also implementing other options to help increase liquidity and meet scheduled commitments. This includes minimizing discretionary capital expenditures and optimizing working capital levels. 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 Revolving Credit Facility 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 March 31, 2024. As at March 31, 2024, the Company had cash of \$4.2 million and had drawn \$5.6 million from its \$25 million operating loan facility. After adjustments for working capital items, cash flow generated from operations totaled \$2.1 million for the quarter ended March 31, 2024. Working capital as at March 31, 2024 was \$14.5 million as compared to \$17.7 million as at December 31, 2023. The operating loan facility along with an additional \$5 million term loan with the same lender are due and payable on May 31, 2024. The Company is reviewing options to improve its liquidity including replacement lending facilities and liquidating non-core assets and is in discussions with other potential lenders with a view of replacing these facilities. 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 March 31, 2024, however, there can be no assurance that the Company will find replacement financing on terms acceptable to the Company.

## ***Off-Balance Sheet Arrangements***

Our off-balance sheet arrangements as at March 31, 2024 were comprised of standby letters of credit totalling \$3.4 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 first 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		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	40.8	35.3	38.7	27.2	39.9	26.7	47.7	85.1	71.8
Operating income (loss)	(7.1)	(6.6)	(10.1)	(11.0)	(11.5)	(8.5)	1.3	17.6	17.1
Net income (loss) from continuing operations	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Net income (loss) – total operations	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Net income (loss) per share – basic and diluted from continuing operations	(0.11)	(0.14)	(0.20)	(0.23)	(0.20)	(0.0)	0.02	0.31	0.28
Net income (loss) per share – basic and diluted – total operations	(0.11)	(0.14)	(0.20)	(0.23)	(0.20)	(0.0)	0.02	0.31	0.28
EBITDA from continuing operations <sup>(1)</sup>	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.1
Shares outstanding – weighted average (in millions)	40.4	40.4	40.2	39.8	39.8	39.9	40.2	40.2	40.1
<b>Statistics</b> (in millions, except rate, prices and GWh)									
Production – WSPF lumber	44.5	33.2	48.9	32.5	41.2	27.9	39.5	51.4	47.1
Shipments – WSPF lumber	44.5	39.1	41.9	31.1	40.6	31.6	44.7	55.5	42.5
Shipments – wholesale lumber	0.0	1.1	0.9	1.1	1.0	1.5	3.0	1.2	4.9
Electricity production – GWh	56.0	43.5	56.0	43.5	34.6	-	1.2	54.6	53.9
Average exchange rate – \$/US\$ <sup>(2)</sup>	0.741	0.734	0.746	0.745	0.740	0.736	0.766	0.783	0.790
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(3)</sup>	\$446	\$402	\$417	\$363	\$384	\$402	\$568	\$827	\$1,288
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(4)</sup>	\$601	\$547	\$559	\$487	\$519	\$546	\$742	\$1,056	\$1,631

#### Reconciliation of Adjusted EBITDA to net income (loss)

Net income (loss) from continuing operations	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Add: Finance costs	1.3	1.3	1.2	1.3	1.2	1.0	1.1	1.1	1.1
Amortization	3.2	3.0	3.8	2.4	2.5	1.4	1.8	2.0	3.2
Income tax expense (recovery)	(0.5)	(2.5)	(3.7)	(3.2)	(2.5)	0.1	0.4	4.7	4.3
EBITDA from continuing operations <sup>(1)</sup>	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.0

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

(2) Bank of Canada, [www.bankofcanada.ca](http://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**

Through the second quarter of 2024, we expect lumber prices to soften relative to the first quarter of 2024, before returning to a modestly higher range for the remainder of the year. We expect our lumber production and shipments in the remaining quarters of 2024 to be modestly higher than in the first quarter, subject to the impact of any market related re-configuration of operating schedules. Seasonally lower power prices are expected to be recorded in our power business over the next two quarters as we work through the runoff and summer periods before rising again in the winter season.

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 anticipate 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. Besides moving our Mackenzie Mill to a lower ranking on the lumber industry cost curve, these fibre supply related factors position us to improve EBITDA in 2024 even if lumber prices, exchange rates, and duty impositions average out at 2023 levels.

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

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

## **CRITICAL ACCOUNTING ESTIMATES**

We did not make any significant changes to our critical accounting estimates during the quarter ended March 31, 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](http://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](http://www.sedarplus.com).

### **OUTSTANDING SECURITIES**

As at May 9, 2024, we had 40,421,440 common shares and 2,589,375 long-term incentive plan awards outstanding.

### **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended March 31, 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](http://www.sedarplus.com).