CONIFEX

CONIFEX TIMBER INC.
THIRD QUARTER 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 9, 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 September 30, 2021, relative to the quarters ended June 30, 2021 and September 30, 2020. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2021 and 2020, and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2020, 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, including the build-out of any high-performance computing or data center operations; 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

Substantial Issuer Bid

On November 8, 2021, our Board of Directors approved the commencement of a substantial issuer bid (the "**Offer**") for our common shares. Under the Offer, we expect to offer to purchase from shareholders for cancellation up to 4,000,000 common shares at a purchase price of $2.25 per common share. The Offer will be for up to approximately 9.1% of the total number of our issued and outstanding common shares, while the purchase price represents a 27.8% premium over the closing price on the Toronto Stock Exchange on November 8, 2021.

The Offer is expected to commence on November 12, 2021 and expire on December 20, 2021, unless extended or withdrawn. Shares properly tendered as of the expiration date under the Offer will receive the purchase price, payable in cash. In the event that more than 4,000,000 common shares are tendered, common shares will be purchased on a pro-rata basis according to the number of common shares validly tendered. We plan to fund the purchase of common shares through available cash on hand.

We believe the substantial issuer bid represents an equitable and efficient means of returning capital to shareholders who elect to tender under the Offer, while at the same time proportionately increasing the equity interest in Conifex for those shareholders who do not elect to tender.

Normal Course Issuer Bid

In December 2020, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB, we were entitled to purchase up to a maximum of 2,944,320 of our outstanding common shares. The NCIB was to terminate on November 30, 2021 or earlier if we had completed our purchases of the securities subject to the NCIB. Common shares acquired under the NCIB were purchased at the market price up to a daily maximum of 12,500 common shares, subject to the block purchase exemption. All common shares acquired by us under the NCIB were cancelled following purchase.

In the three-month period ended September 30, 2021, we purchased and cancelled 564,520 shares under the NCIB, for a total of 2,944,320 shares purchased and cancelled since the inception of the NCIB. As the maximum allowable purchases of securities under the NCIB was completed on September 24, 2021, the NCIB was terminated.

Revenue Diversification Opportunity

Over the past two years, our management and board have been exploring additional opportunities to utilize the unique attributes of our power generation asset base to strengthen Conifex. Given our location in a relatively cool climate, the availability of affordable and renewable power from BC Hydro and Power Authority (“**BC Hydro**”), our large property relative to the size of our power generation facility and our highly flexible and technical work force at the power generation facility site, we concluded that our site is ideally suited to host data center or other high-performance computing (“**HPC**”) operations, such as cryptocurrency mining. The electrical expertise of our existing power plant engineers and employee base, combined with familiarity of continuous operations are applicable to providing hosting services for HPC operators.

Before the end of 2021, in partnership with the Tsay Keh Dene First Nation, we intend to host approximately 3 megawatts of bitcoin mining capacity on a trial basis. Should the trial prove successful, we plan to host a larger data center operation. We expect the initial capital outlays will be modest as we will redeploy the legacy power infrastructure at our site. We have identified a partner with relevant industry experience who wishes to invest in, operate, and maintain the HPC operations equipment. The potential exists to build out our hosting business in phases and utilize the cash flow generated from the initial phases to fund the development of additional hosting capacity. Additional information on the HPC opportunity will be provided to our shareholders when available. There is no assurance that we will establish any data center operation in the time contemplated or at all.

SUMMARY

The following table summarizes our net operating results. 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 earnings per share and share information)	**Q3 2021**	**Q2 2021**	**YTD 2021**	**Q3 2020**	**YTD 2020**
Sales					
Lumber – Conifex produced	25.9	80.1	145.9	30.7	56.3
Lumber – wholesale	12.5	9.0	22.1	0.5	1.7
By-products	2.1	2.7	7.2	0.4	2.3
Bioenergy	7.1	4.7	15.5	6.0	18.7
	47.6	96.5	190.7	37.6	79.0
Operating income (loss)	(0.7)	33.5	41.4	7.0	(1.2)
EBITDA from continuing operations(2)	3.3	37.8	50.7	7.6	7.0
Net income (loss) from continuing operations	(0.9)	26.1	29.7	2.0	(8.9)
Net income (loss) from discontinued operations	-	-	-	-	0.2
Net income (loss)	(0.9)	26.1	29.7	2.0	(8.8)
Basic and diluted earnings (loss) per share					
Continuing operations	(0.02)	0.56	0.65	0.04	(0.19)
Discontinued operations	-	-	-	-	-
Total basic and diluted earnings (loss) per share	(0.02)	0.56	0.65	0.04	(0.19)
Shares outstanding – weighted average (millions)	44.6	46.0	45.7	47.0	47.0
Reconciliation of EBITDA to net income (loss)					
Net income (loss) from continuing operations	(0.9)	26.1	29.7	2.0	(8.9)
Add: Finance costs	1.1	1.1	3.4	1.2	5.9
Amortization	3.4	2.1	7.6	2.9	6.9
Income tax expense (recovery)	(0.3)	8.5	10.0	1.5	(1.0)
EBITDA from continuing operations(2)	3.3	37.8	50.7	7.6	2.9

Selected Operating Information

Production – WSPF lumber (MMfbm)(3)	40.1	49.0	140.1	48.0	88.6
Shipments – WSPF lumber (MMfbm) (3)	34.1	55.5	127.4	39.2	85.3
Shipments – wholesale lumber (MMfbm)(3)	6.0	5.8	12.5	0.7	2.3
Electricity production (GWh)	53.7	50.9	129.6	54.9	160.8
Average exchange rate – \$/US\$(4)	0.794	0.814	0.799	0.751	0.739
Average WSPF 2x4 #2 & Btr lumber price (US\$)(5)	\$478	\$1,290	\$917	\$768	\$508
Average WSFP 2x4 #2 & Btr lumber price (\$)(6)	\$602	\$1,584	\$1,144	\$1,023	\$684

(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 THIRD QUARTER 2021 FINANCIAL RESULTS

During the third quarter of 2021, we incurred a net loss from continuing operations of $0.9 million or $0.02 per share compared to net income of $26.1 million or $0.56 per share in the previous quarter and $2.0 million or $0.04 per share in the third quarter of 2020.

North American lumber market prices declined sharply in the first half of the third quarter of 2021 following the elevated lumber prices seen in the first half of the year. Market prices experienced a slide from the record-high levels driven by a slowdown in North American repair and remodelling activities and elevated lumber inventory supply in the market. US housing starts on a seasonally adjusted annual basis remained steady, averaging 1,565,000 in the third quarter of 2021, up 1% from the previous quarter and up 9% from the third quarter of 2020[1]. With the recovery of the repair and remodelling demand towards the end of the quarter, lumber market prices saw a gradual recovery, improving from a low of US$385 in mid-August 2021 to US$533 at the end of September 2021[2].

The US dollar averaged US$0.794 for each Canadian dollar during the third quarter of 2021, a level which represented a weakening of the Canadian dollar over the previous quarter[3]. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir ("**WSPF**") prices, which averaged $602 in the third quarter of 2021, decreased by 62% or $982 from the previous quarter and by 41% or $421 from the third quarter of 2020.

Lumber Operations

Our lumber production in the third quarter of 2021 totalled approximately 40.1 million board feet, representing operating rates of approximately 67% of annualized capacity. In the previous quarter, 49.0 million board feet of lumber was produced. The decrease in lumber production for the third quarter was largely driven by the temporary curtailment of lumber production operations for two weeks in August 2021. This curtailment was necessitated by the combined impact of record high delivered log costs and a collapse in lumber prices following the record high peak in pricing seen in the second quarter. In the third quarter of 2020, 48.0 million board feet of lumber was produced, reflecting the gradual ramp-up to normalized operating levels following a pandemic-related curtailment.

Shipments of Conifex produced lumber totaled 34.1 million board feet in the third quarter of 2021, representing a decrease of 39% from the 55.5 million board feet shipped in the previous quarter and 13% from the 39.2 million board feet of lumber shipped in the third quarter of 2020. Shipments of Conifex produced lumber in the third quarter of 2021 were affected by the temporary curtailment at our Mackenzie sawmill and a shift in focus to offshore markets to minimize the impact of the depressed lumber pricing. Our wholesale lumber program shipped 6.0 million board feet in the third quarter of 2021, representing an increase of 3% from the 5.8 million board feet shipped in the second quarter of 2021 and 757% from the 0.7 million board feet shipped in the third quarter of 2020.

Revenues from lumber products were $38.4 million in the third quarter of 2021 representing a decrease of 57% from the previous quarter and an increase of 23% from the third quarter of 2020. Compared to the previous quarter, the lower revenues in the current quarter were driven by lower shipment volumes and significantly reduced realized lumber prices. The revenue increase in the current quarter over the same period in the prior year is largely the result of the higher proportion of premium grade lumber shipped and sold.

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[1] Source: Forest Economic Advisors, LLC

[2] Source: Random Lengths Publications Inc.

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

Cost of goods sold in the third quarter of 2021 decreased by 23% from the previous quarter and increased by 58% from the third quarter of 2020. The decrease in cost of goods sold from the prior quarter is mainly due to lower overall shipments in the current quarter, offset partially by higher log costs. Unit manufacturing costs increased in comparison to the previous quarter and the third quarter of 2020 as a result of fixed costs incurred during the temporary curtailment at our Mackenzie sawmill.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of $1.3 million in the third quarter of 2021, $5.3 million in the previous quarter and $3.7 million in the third 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 third quarter of 2021 were significantly lower than the previous quarter due to the sharp decline in lumber shipment volumes made to the US market.

Bioenergy Operations

Our Mackenzie power plant sold 53.7 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro in the third quarter of 2021 representing approximately 96% of targeted operating rates. Our Mackenzie power plant sold 50.9 and 54.9 gigawatt hours of electricity in the previous quarter and third quarter of 2020, respectively.

Our EPA with BC Hydro, similar to other electricity purchase agreements, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order". In April 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.

Electricity production contributed revenues of $7.0 million in the third quarter of 2021, an increase of 48% from the previous quarter and an increase of 18% from the third quarter of 2020. In comparison to the previous quarter and comparable quarter of 2020, revenues were higher due to higher billable gigawatt hours at full rates under the EPA.

In the second quarter of 2021, we submitted an insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations from December 2020 to February 2021. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator, subject to deductible amounts, and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the recommencement of the power plant. We recognized $2.8 million as other income in the previous quarter to reflect the preliminary settlement for lost income under our business interruption policy.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs were $2.3 million in the third quarter of 2021, $3.0 million in the previous quarter and $1.8 million in the third quarter of 2020. SG&A costs for the nine months ended September 30, 2021 were $7.6 million compared to $5.4 million in the same period last year. The year-over-year increase is primarily attributable to higher variable compensation costs, including equity-based compensation, and an increased commitment for First Nations and community donations.

Finance Costs and Accretion

Finance costs and accretion totaled $1.1 million in the third quarter of 2021, $1.1 million in the previous quarter and $1.2 million in the third quarter of 2020. Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the "**Power Term Loan**").

Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period. In the previous quarter, 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 April through May 2021, we closed out all our futures contracts and recorded a loss from lumber derivative instruments of $0.7 million in the second quarter of 2021. There were no outstanding futures contracts in place as at September 30, 2021.

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 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 $0.6 million in the third quarter of 2021, compared to $0.1 million in the previous quarter and $0.3 million in the third quarter of 2020.

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 recovery of $0.3 million in the third quarter of 2021 and a deferred income tax expense of $8.5 million in the previous quarter and $1.5 million in the third quarter of 2020, respectively. As at September 30, 2021, we have recognized deferred income tax liability of $0.2 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.

For further information on discontinued operations, see Note 6 of our 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)	**Q3 2021**	**Q4 2020**	**Q3 2020**
Cash	23.4	11.2	6.4
Cash – restricted	6.6	3.6	3.7
Operating working capital(1)	35.5	14.7	14.9
Current portion of revolver and long-term debt	(4.6)	(4.5)	(4.4)
Net current assets	60.9	25.0	20.6
Property, plant and equipment	127.2	130.0	131.9
Other long-term assets	27.7	37.9	38.6
	215.8	192.9	191.1
Non-interesting bearing long-term liabilities	18.2	17.6	15.1
Long-term debt – Power Term Loan	54.8	57.0	58.2
Long-term debt – other(2)	1.3	1.9	2.2
Shareholders' equity	141.5	116.4	115.6
	215.8	192.9	191.1
Ratio of current assets to current liabilities	2.9	2.0	1.8
Net debt to capitalization	18%	29%	32%
Net debt to capitalization excluding Power Term Loan	(14%)	(3%)	(3%)

(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 $20.8 million over the first nine months of 2021 due primarily to an increase in inventory of $29.9 million and an increase in trade, partially offset by a reduction in trade and other receivables of $1.8 million and an increase in trade payables and employee liabilities of $7.3 million. Inventory levels were higher due to a larger volume of log and lumber inventory held at September 30, 2021 compared to December 31, 2020.

Overall debt was $60.8 million at September 30, 2021 compared to $63.4 million at December 31, 2020. The reduction of $2.6 million in debt comprised net lease repayments of $0.6 million and Power Term Loan payments of $2.0 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At September 30, 2021, we had $58.3 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was $2.5 million.

The ratio of current assets to current liabilities was 2.9:1 at September 30, 2021 compared to 2.0:1 at December 31, 2020 and 1.8:1 at September 30, 2020. The year-over-year change was primarily attributable to an increase in inventory and cash on hand as at September 30, 2021.

As at September 30, 2021, $101.9 million of our consolidated property, plant and equipment was attributable to our power operations, compared to $103.1 million at December 31, 2020.

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 September 30, 2021 decreased by $17.8 million to $30.8 million from $48.6 million at December 31, 2020. The net debt to capitalization ratio was approximately 18% at September 30, 2021, 29% at December 31, 2020 and 32% at September 30, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)	Q3 2021	Q2 2021	YTD 2021	Q3 2020	YTD 2020
Cash generated from (used in)					
Operating activities	(7.0)	35.6	30.6	(4.0)	(15.4)
Investing activities	(1.6)	(1.4)	(4.6)	(1.2)	222.3
Financing activities	(3.8)	(4.8)	(13.8)	0.1	(200.7)
Increase (decrease) in cash	(12.4)	29.4	12.2	(5.1)	6.1

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 $30.6 million of cash in the first nine months of 2021, compared to net cash usage of $15.4 million in the first nine months of 2020. Changes in non-cash working capital used $21.2 million of cash in the first nine months of 2021 and used $17.8 million in the comparative nine month period of 2020. The increase in operating cash flows in the first three quarters of 2021 compared to 2020 primarily reflects the positive earnings in the period arising from the market price of lumber, partially offset by the increase in log and lumber inventories.

Investing Activities

Investing activities utilized cash of $4.6 million in the first nine months of 2021 and generated cash of $222.3 million in the comparative nine-month period in 2020. Investing activities in the first nine months of 2021 were comprised of investments in property, plant and equipment. Investing activities in the first nine months 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 $13.8 million in the first nine months of 2021 and utilized $200.7 million in the first nine months of 2020. Net cash usage in the nine-month period ended September 30, 2021 was primarily comprised of Power Term Loan payments, payment of finance expenses and purchases of our common shares under the NCIB. In the first nine months of 2020, financing activities included $191.8 million to repay in full our previous lumber credit facility and payment of finance expenses of $8.8 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. The Revolving Credit Facility is undrawn.

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

At September 30, 2021, we had total liquidity of $33.4 million, compared to $21.2 million at December 31, 2020 and $6.4 million at September 30, 2020. Liquidity at September 30, 2021 was comprised of unrestricted cash of $23.4 million and unused availability of $10.0 million under the Revolving Credit Facility.

The increase in our liquidity in the first nine months of 2021 compared to December 31, 2020 was due primarily to the sustained rise in lumber prices, offset partially by the decrease in non-cash working capital driven by escalating log costs at our Mackenzie sawmill and higher overall inventory levels. Compared to the first nine months of 2020, the increase in our liquidity was largely from the addition of the Revolving Credit Facility and the cash flows generated from operating activities which reflected substantially higher lumber prices year-over-year. 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$17.3 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 administrative reviews and the 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. 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 September 30, 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 our Revolving Credit Facility will be adequate to meet our obligations over the next twelve months.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at September 30, 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 third quarter of 2021 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Continuing operations for the comparative periods presented in the following table primarily comprise operating results from our Mackenzie sawmill, our power plant and, as applicable, our previously sold sawmill in Fort St. James, British Columbia ("BC"), which was largely curtailed in May 2019 and sold in November 2019.

Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	2021 Q3	2021 Q2	2021 Q1	2020 Q4	2020 Q3	2020 Q2	2020 Q1	2019 Q4
Sales	47.6	96.5	46.6	49.8	37.6	10.8	30.6	27.7
Operating income (loss)	(0.7)	33.5	8.7	4.6	7.0	(1.4)	(6.8)	(11.5)
Net income (loss) from continuing operations	(0.9)	26.1	4.5	2.2	2.0	(2.7)	(8.2)	(10.2)
Net income (loss) – total operations	(0.9)	26.1	4.5	2.3	2.0	(3.0)	(7.7)	(162.9)
Net income (loss) per share – basic and diluted from continuing operations	(0.02)	0.56	0.10	0.05	0.04	(0.05)	(0.18)	(0.22)
Net income (loss) per share – basic and diluted – total operations	(0.02)	0.56	0.10	0.05	0.04	(0.06)	(0.17)	(3.47)
Adjusted EBITDA from continuing operations[(1)]	3.3	37.8	9.7	6.8	7.6	(1.1)	0.5	(3.9)
Shares outstanding – weighted average (in millions)	44.6	46.0	46.4	47.0	47.0	46.9	46.9	46.9
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	40.1	49.0	51.0	48.3	48.0	2.4	38.2	37.8
Shipments – WSPF lumber	34.1	55.5	37.8	49.1	39.2	8.5	37.6	38.0
Shipments – wholesale lumber	6.0	5.8	0.7	1.8	0.7	1.6	-	-
Electricity production – GWh	53.7	50.9	25.0	41.7	54.9	51.2	54.8	55.1
Average exchange rate – US$/$[(2)]	0.794	0.814	0.790	0.767	0.751	0.722	0.744	0.758
Average WSPF 2x4 #2 & Btr lumber price (US$)[(3)]	$478	$1,290	$982	$700	$768	$357	$399	$380
Average WSPF 2x4 #2 & Btr lumber price ($)[(4)]	$602	$1,584	$1,244	$912	$1,023	$494	$536	$502
Reconciliation of Adjusted EBITDA to net income (loss)								
Net income (loss) from continuing operations	(0.9)	26.1	4.5	2.2	2.0	(2.7)	(8.2)	(10.2)
Add: Finance costs	1.1	1.1	1.1	1.3	1.2	1.2	3.5	21.7
Amortization	3.4	2.1	2.2	2.8	2.9	1.1	2.9	4.8
Deferred income tax expense (recovery)	(0.3)	8.5	1.9	0.5	1.5	(0.8)	(1.7)	(3.8)
EBITDA[(5)]	3.3	37.8	9.7	6.8	7.6	(1.2)	(3.5)	12.5
Add: Foreign exchange (gain) loss on long-term debt	-	-	-	-	-	-	2.1	(2.4)
Restructuring costs	-	-	-	-	-	0.1	1.9	2.6
Proceeds from insurance claim	-	-	-	-	-	-	-	(1.1)
Gain on sale of assets	-	-	-	-	-	-	-	(15.5)
Adjusted EBITDA from continuing operations	3.3	37.8	9.7	6.8	7.6	(1.1)	0.5	(3.9)

(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, despite recent lumber market price volatility in the past quarter, supported by steady demand from US housing starts and continued strengthening of activities in the repair and remodelling sector. At our Mackenzie sawmill, we expect to see an increase in lumber production over the last quarter, with the expectation of achieving annualized operating rates of approximately 88% in the fourth quarter for the year. Our Mackenzie power plant is forecasted to operate at full capacity and continue to generate a steady and diversified source of cash flow, with seasonally stronger EBITDA contributions expected in the closing quarter of 2021.

We anticipate a quarter-over-quarter increase in lumber shipments in the fourth quarter of 2021, as we unwind lumber inventory accumulated during the third quarter of the year. 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, while benchmark lumber prices have strengthened, we do not expect to realize the benefit of the higher mill nets in the fourth quarter that we achieved for shipments in July which reflected the high lumber prices from the second quarter. With the expected increase in duty deposit rates towards the end of the fourth quarter, combined with moderate mill net realizations and the anticipated reduction in the proportionate volume of shipments to offshore markets, we expect fourth quarter operating results to be in line with the results achieved in the third quarter of 2021.

Our liquidity and financial position are forecasted to continue to remain strong in the last quarter of 2021. We continue to prioritize funding quick payback sawmill upgrades. We anticipate cash flows from operations will support expected payments for common shares under the Offer and that we will continue to have sufficient financial resources and working capital to conduct our ongoing business.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended September 30, 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.

REGULATORY ENVIRONMENT

Old-Growth Logging Deferral

On November 2, 201, the BC Government (the “**Province**”) announced its intention to work in partnership with First Nations on the proposed deferral of harvesting in 2.6 million hectares of BC forests. The proposed deferrals have been identified as temporary, are subject to First Nations engagement and have not yet been implemented. The Province has stated that final decisions on deferral areas will be based on discussions between the Province and First Nations governments.

We require more specific information on the Province's proposed measures to meaningfully assess any potential impacts on our business. Determination of potential impacts will be subject to further dialogue with the First Nations on whose territories we operate and their government-to-government discussions.

We will continue to work with First Nations and government as these decisions are made, respecting the rights and title of First Nations.

Forest and Range Practices Act Amendments

On October 20, 2021, the Province introduced Bill 23, the *Forest Statutes Amendment Act, 2021*, to improve the framework for stakeholder engagement in long-term forest planning. Included in the amendments that are expected to come into effect through future regulation, is the switch from "forest stewardship plans" to "forest landscape plans". The intention of landscape-level plans developed in collaboration with First Nations is to guide increased consideration of ecological and cultural values of the forests in BC.

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.

COVID-19 Pandemic

Given the continuing and dynamic nature of the COVID-19 pandemic, it is challenging to predict its 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.

OUTSTANDING SECURITIES

As at November 8, 2021, we had 44,149,110 common shares, 2,312,875 long-term incentive plan awards and 3,500,000 warrants outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 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.

REVIEW OF FOREST MINISTRY DEVELOPMENTS

Under the *Ministry of Forests and Range Act,* the Minister of Forests, Lands, Natural Resources Operations and Rural Development (the "**Ministry**") is obligated to manage, protect, and conserve the forest and range resources of the government having regard to immediate and long-term economic and social benefits they confer on British Columbia. The Minister is also responsible to encourage a vigorous, efficient and world competitive timber processing industry. The Ministry's compliance with these obligations is a cornerstone tenet for investing in British Columbia's forest sector.

Trends in the availability, quality and cost of log supply are the main drivers of competitiveness and materially impact operating results, cash flow generation, financial position, and capital spending intentions. Since 2019, the competitiveness ranking of the forest sector in the Mackenzie Timber Supply Area ("**TSA**") has deteriorated. We believe recent developments could improve sawlog availability and timber quality, contribute to lower harvesting and manufacturing costs, and support higher grade outturns and lumber selling price realizations. The Timber Supply Review presently underway is expected to confirm that the pine beetle salvage harvest program is largely complete and licensees in the Mackenzie TSA will soon transition harvesting to higher quality, green fibre. Additionally, improved performance at B.C. Timber Sales ("**BCTS**") coupled with a transition to green stands further support expectations for improvements in sawlog availability and quality.

The Timber Supply Review for the Mackenzie TSA

The Mackenzie TSA was established in 1981 with an allowable annual cut ("**AAC**") of 2.9 million cubic metres and remained at similar levels in subsequent AAC determinations. Effective November 14, 2014, the Chief Forester set the AAC at 4.5 million cubic metres, an uplift of 1.5 million cubic metres to address the mountain pine beetle infestation. The Chief Forester assumed that mountain pine beetle impacted timber would remain economically operable for 15 years following attack, and that after 15 years the dead pine would decline in quality and not be sufficient to continue to be classified as sawlog fibre.

Effective February 14, 2019, the Chief Forester, based on an internal review, set an additional limit on the harvest of live, uninfested timber to re-focus the harvest on dead, dying and damaged timber in the short term while reserving green timber for harvesting after the salvage phase comes to an end.

In June 2019, a major licensee in the Mackenzie TSA publicly disclosed that it had reviewed the amended harvest partition and prepared a presentation to the Chief Forester to demonstrate the difficulty in achieving the partition requirements. In July 2019 the Ministry received an independent assessment it commissioned on the harvest partition. The independent assessment concluded that licensees would have difficulty meeting the AAC partition and that adhering to the partition would cause delivered log costs to increase which could lead to mill curtailments. The independent assessment recommended that work be done to better align assumptions related to the merchantability of dead timber within the Mackenzie TSA and confirm AAC partition limits that may be achievable.

Deteriorating competitiveness since 2019 has had a deep and profound impact on the people and families in the community of Mackenzie. In July 2019, Canfor Corporation's Mackenzie sawmill operations were indefinitely curtailed affecting 225 employees. In June 2020, Paper Excellence's Mackenzie pulp mill operations were indefinitely curtailed affecting over 250 employees.

In November 2020, the Ministry released its Data Package (the "**Ministry's Data Package**") for the Mackenzie TSA. The Ministry's Data Package disclosed that approximately 60 million cubic metres of dead pine remains to be harvested in the Mackenzie TSA, and that 70 percent of the dead volume could no longer be classified as sawlog fibre. The Ministry's Data Package disclosed that the 15-year shelf-life assumption employed in 2014 was abandoned and new assumptions about shelf-life will be employed in the AAC determination presently underway. The heavy salvage log requirement mandated by the Chief Forester in 2019 was not adjusted to align with the updated information on the economically available timber supply in the Mackenzie TSA set out in the Ministry Data Package.

With our ongoing commitment to sustainable harvest sourcing and responsible forest management, we complied fully with the salvage harvest partition requirement, even though much of the mountain pine beetle impacted timber we harvested and processed had passed the point of being economically viable. Doing so adversely impacted our performance and financial results on multiple fronts. Harvesting costs rose on a per unit basis due to the costs incurred processing increasing volumes of waste material at harvesting sites. Cumulative volume losses due to breakage of dead pine were high, since breakage occurs at the time of harvest, during road and water transport, and when the fibre is processed into lumber. Our lumber mill net sales realizations deteriorated because lumber grade outturns declined, and a higher portion of our production was sold at discounted prices. The cumulative effect of these factors forced us to implement several short-term production curtailments over the past three years when lower lumber prices produced operating losses that substantially exceeded shutdown costs. We greatly appreciate the support and encouragement we received from our employees, union representatives, the community of Mackenzie, contractors, suppliers, and local First Nations as we worked together to present the Ministry our ideas on a positive path forward for the forest sector in the Mackenzie TSA.

The Mackenzie TSA Coalition Process

In April 2019, the Premier of British Columbia requested that forest industry CEOs assemble local forest sector stakeholders (the "**Coalition**") to find a new way forward and develop a positive and forward-looking vision for the industry while concurrently maintaining community and economic stability and incorporating First Nations' interests. The Coalition met regularly and submitted 12 recommendations to the Premier and Minister in early 2021 designed to further the objectives established by the Premier. On June 23, 2021, the Minister concluded the Mackenzie TSA Coalition process but indicated three potential initiatives were under consideration with potential to improve forest sector competitiveness and sustainability in the Mackenzie TSA. We have not received any further correspondence in connection with the design or timing of implementation of the three potential initiatives.

B. C. Timber Sales

BCTS is responsible for managing the harvesting and reforestation of approximately 20 percent of the timber available for harvest from British Columbia's public land where sustainable timber harvesting is allowed and economically feasible. The stated goal of BCTS is to provide credible representative price and cost benchmark data for the market pricing system through auctions of timber harvested from public lands in BC. BCTS acknowledges that it is also important that the amount of timber BCTS auctions be sufficient (in a statistically significant sense) to accurately support the market pricing system. BCTS adds that the optimum amount (as determined by world-leading experts in auction theory) is between 20 to 30 percent of the overall amount of public timber harvested each year. This range of activity provides enough data to adequately support the market pricing system but not so much to influence the market.

In the most recent six-month period, BCTS auction volume in the Prince George and Mackenzie TSAs was equivalent to approximately 2% of the combined AAC, well short of the 10% of AAC that would be expected over a six-month period if BCTS auctioned timber on an even flow basis. Low auction volumes exacerbate fibre shortages, directly increase the competition for and the cost of auctioned wood and may contribute to artificially high stumpage rate impositions on tenured wood supply.

For BCTS data to be credible and representative, it also needs to cover a similar range of timber types and operating conditions to what non-BCTS forest tenure holders experience. Over the past decade, BCTS failed to auction any sawlogs from the northern half of the Mackenzie TSA, a timber land base that is larger than the timber land base for 10 other TSAs in the interior region of BC. BCTS now plans to auction sawlogs from this region.

Given its obligations under trade agreements to establish credible representative benchmark cost and pricing data, we expect BCTS will endeavour to increase the volume of sawlogs available for auction across the entire Mackenzie TSA in 2022 and beyond.

Forests and Range Practices Act Amendments

On October 20, 2021, the Province introduced *Bill 23,* the *Forest Statutes Amendment Act, 2021,* to improve the framework for stakeholder engagement in long-term forest planning.

Old Growth Logging Deferral

On November 2, 2021, the Province announced its intention to work in partnership with First Nations on the proposed deferral of harvesting in 2.6 million hectares of B. C. forests. The proposed deferrals have been identified as temporary, are subject to First Nations engagement, and have not yet been implemented. The Province has stated that final decisions on deferral areas will be based on discussions between the Province and First Nations governments.

We require additional information on the above two items to assess how sawlog availability, quality and costs may be impacted in the Mackenzie TSA. We believe we have been proactive developing positive and mutually respectful working relationships with the First Nations on whose territories we operate. We look forward to working with First Nations and their management of a greater portion of the forest land base in the Mackenzie TSA.

Looking Forward

We are encouraged with the disclosure in the Ministry Data Package that provincial timber management goals continue to be to promote resilient and diverse forest ecosystems that will provide a sustainable flow of economically valuable timber that generates public revenues, supports robust communities and healthy economies that provide an opportunity for a vigorous efficient and world competitive timber processing industry.

We anticipate that the final AAC determination issued by the Chief Forester may reduce the AAC in the Mackenzie TSA by around 50% from the uplifted determination currently in effect. The Ministry's Data Package indicates that operating at capacity our sawmill complex has an annual sawlog requirement of 875,000 cubic metres. When the new lower AAC is determined, we anticipate that the supply available from our own tenures combined with the purchase volumes available from First Nations tenure holders, BCTS auctions, and the community forest will be sufficient to support capacity operations at our Mackenzie sawmill complex. We also expect that log quality and costs will improve once the salvage harvest program has run its course and we shift over to a green harvest.

Until we are in receipt of the AAC determination and have had an opportunity to assess recent regulatory developments, capital expenditures at our sawmill complex are likely to remain at modest levels to ensure compliance with safety and environmental obligations and to fund quick payback projects designed to enhance reliability. Although preliminary design work has been completed, we are not prepared to consider a final investment decision to modernize and upgrade our sawmill complex until there is concrete evidence forest sector competitiveness in the Mackenzie TSA has been restored and aligns with the requirements set out in the *Ministry of Forests and Range Act*.