



**CONIFEX TIMBER INC.
THIRD QUARTER 2023**

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 7, 2023

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, 2023, relative to the quarters ended June 30, 2023, and September 30, 2022. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2023 and 2022 and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2022, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR+ at www.sedarplus.com.

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

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

Forward-Looking Statements

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

credit facilities or proceeds therefrom; future capital expenditures; expectations regarding our liquidity levels; 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 2022 annual information form dated March 30, 2023 and our 2022 annual MD&A dated March 7, 2023 available on SEDAR+ at www.sedarplus.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

BUSINESS OVERVIEW

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

We operate a two-line sawmill in Mackenzie, British Columbia (the "**Mackenzie Mill**"). 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

Fourth Administrative Review Final Duty Rates

During the third quarter, the US Department of Commerce released the final duty rates related to the fourth administrative review. The combined duty rate applicable to Conifex was 7.99% as compared to the recent rate of 8.59%, which was subsequently adjusted to 8.05% effective August 31, 2022 until the completion of the next administrative review, which is scheduled to be completed in 2024. We recorded an export duty recovery of approximately \$1.7 million in the third quarter of 2023 related to the finalization of the fourth administrative review.

Annual Allowable Cut and Apportionment

In May 2023, the Chief Forester determined that the AAC for the Mackenzie TSA will be 2.39 million cubic metres per year. This AAC will remain in effect until a new AAC determination is made, which generally must take place within ten years of this determination. The British Columbia Ministry of Forests is currently conducting its review for an upcoming apportionment decision that is the next step of the Timber Supply Review process.

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, 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 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 Supreme Court of British Columbia in October and a decision is expected to follow by or about year-end.

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.

Normal Course Issuer Bid

On September 1, 2022, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB we were authorized to make purchases for a period of one year of up to a maximum of 2,461,754 common shares, representing 10% of our "public float" at the commencement of the bid. The NCIB terminated on August 31, 2023, Conifex having purchased a total of 480,020 common shares and paid an average price of \$1.69 per share under the NCIB.

SUMMARY

The following table summarizes our operating results.

Selected Financial Information	Q3 2023	Q2 2023	Q3 2022
<small>(unaudited, in millions of dollars, except share and exchange rate information)</small>			
Revenue			
Lumber – Conifex produced	26.6	18.8	35.5
Lumber – wholesale	0.8	1.0	3.8
By-products and other	4.3	2.7	7.9
Bioenergy	7.1	4.8	0.4
	38.7	27.2	47.7
Operating income (loss)	(10.1)	(11.0)	1.3
EBITDA ⁽¹⁾	(6.7)	(8.7)	4.2
Net income (loss)	(8.0)	(9.2)	0.9
Basic and diluted earnings (loss) per share	(0.20)	(0.23)	0.02
Cash dividends paid per share	-	-	-
Shares outstanding – weighted average (millions)	40.2	39.8	40.2
Reconciliation of EBITDA to net income (loss)			
Net income (loss)	(8.0)	(9.2)	0.9
Add: Finance costs	1.2	1.3	1.1
Amortization	3.8	2.4	1.8
Deferred income tax expense (recovery)	(3.7)	(3.2)	0.4
EBITDA ⁽¹⁾	(6.7)	(8.7)	4.2
Selected Operating Information			
Production – WSPF lumber (MMfbm) ⁽²⁾	48.9	32.5	39.5
Shipments – WSPF lumber (MMfbm) ⁽²⁾	41.9	31.1	44.7
Shipments – wholesale lumber (MMfbm) ⁽²⁾	0.9	1.1	3.0
Electricity production (GWh)	56.0	43.5	1.2
Average exchange rate –\$/US\$ ⁽³⁾	0.746	0.745	0.766
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁴⁾	\$417	\$363	\$568
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁵⁾	\$559	\$487	\$742

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

(2) MMfbm represents million board feet.

(3) Bank of Canada, www.bankofcanada.ca.

(4) Random Lengths Publications Inc.

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

REVIEW OF THIRD QUARTER 2023 FINANCIAL RESULTS

During the third quarter of 2023, we incurred a net loss of \$8.0 million or \$0.20 per share compared to a net loss of \$9.2 million or \$0.23 per share in the previous quarter and net income of \$0.9 million or \$0.02 per share in the third quarter of 2022.

North American lumber market prices continued to experience softness in the third quarter of 2023. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$559 in the third quarter of 2023, increased by 15% or \$72 from the previous quarter and decreased by 25% or from \$742 from the third quarter of 2022¹. The market price increase in the third quarter of 2023 was positively impacted by continued reports of a resilient US housing market and moderation of European supply to the North American Market. Despite that, US housing starts on a seasonally adjusted annual

¹ Source: Random Lengths Publications Inc.

basis averaged 1,359,000 in the third quarter of 2023, down 6% from the previous quarter and down 10% from the third quarter of 2022.

Lumber Operations

Our lumber production in the third quarter of 2023 totalled approximately 48.9 million board feet, representing operating rates of approximately 80% of annualized capacity. Lumber production of 32.5 million board feet of lumber in the previous quarter reflected 20 days of unscheduled downtime to address low reservoir levels forecasted in the Williston Reservoir and an overall reduced demand for lumber amid challenging economic conditions. Lumber production in the third quarter of 2022 was 39.5 million board feet or approximately 66% of annualized capacity, primarily due to the Mackenzie Mill running on a single shift basis for the last month of the quarter.

Shipments of Conifex-produced lumber totaled 41.9 million board feet in the third quarter of 2023, representing an increase of 35% from the 31.1 million board feet shipped in the previous quarter and a decrease of 6% from the 44.7 million board feet of lumber shipped in the third quarter of 2022. Shipments of Conifex-produced lumber in the third quarter of 2023 were greater than those in the previous quarter as a result of the unscheduled downtime in the previous quarter, and decreased relative to the third quarter of 2022 due to a build up of rough lumber inventories in the current quarter.

Our wholesale lumber shipments were generally consistent in the current quarter compared to the previous quarter and decreased relative to the third quarter of 2022 due to reduced demand from Japan. Our wholesale lumber program shipped 0.9 million board feet in the third quarter of 2023, 1.1 million board feet in the previous quarter and 3.0 million board feet in the third quarter of 2022.

Revenues from lumber products were \$27.4 million in the third quarter of 2023 representing an increase of 38% from the previous quarter and a decrease of 30% from the third quarter of 2022. Compared to the previous quarter, higher shipment volumes and mill net realizations on higher lumber market prices contributed to the higher revenue. The revenue decrease in the current quarter over the same period in the prior year was largely the result of both weaker benchmark lumber prices and decreased lumber shipments.

Cost of goods sold in the third quarter of 2023 increased by 42% from the previous quarter and by 3% from the third quarter of 2022. 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 third quarter of 2023 was comparable to the same quarter of 2022. Unit manufacturing costs in the third quarter of 2023 decreased in comparison the previous quarter as a result of higher operating rates from the June downtime, and was comparable with the same period in 2022. We recorded inventory valuation reserves of \$2.4 million and \$(0.7 million) in the current and previous quarter, respectively, compared to \$0.3 million in the third quarter of 2022. Inventory valuation reserves increased in comparison to the previous quarter due to an increase lumber inventory coupled with decrease lumber prices.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$1.4 million in the third quarter of 2023 and reversed \$1.7 million in duty deposit over accruals related to the fourth administrative review’s final rate for a net duty of \$(0.3 million) recorded for the period, \$1.0 million in the previous quarter and \$(3.6 million) in the third quarter of 2022. The duty deposits were based on a combined rate of 8.59% until August 31, 2022 and 8.05% thereafter. The export taxes during the third quarter of 2023 were lower than the previous quarter due to a reversal of the over accrual from the fourth administrative review’s final determination and were significantly lower than the third quarter of 2022 largely due to the reversal of duty deposit from third administrative review’s final determinations.

Bioenergy Operations

Our Power Plant sold 56.0 GWh of electricity under our EPA with BC Hydro in the third quarter of 2023 representing approximately 102% of targeted operating rates. Our Power Plant sold 43.5 and 1.2 GWh of electricity in the previous quarter and third quarter of 2022, respectively. Production in the third quarter of 2023 was higher than the second quarter of 2023 due to an increased number of operating days in the third

quarter of 2023, and higher than the third quarter of 2022 due to the temporary shutdown for turbine repairs that occurred in 2022.

Electricity production contributed revenues of \$7.1 million in the third quarter of 2023, \$4.8 million in the previous quarter and \$0.4 million in the third quarter of 2022.

The Power Plant was temporarily shut down in July 2022 due to the discovery of damage to its turbine, and successfully recommissioned on January 31, 2023. We submitted an insurance claim for physical damage to our equipment and for loss of revenues from the interruption of operations as a result of the turbine damage. We have since been fully reimbursed for capital expenditures related to the repair of the turbine, subject to deductible amounts, and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the recommencement of the Power Plant.

Selling, General and Administrative Costs

Selling, general and administrative (“**SG&A**”) costs decreased between the current quarter and each comparative period. SG&A costs were \$1.9 million in the third quarter of 2023, \$3.3 million in the previous quarter and \$3.2 million in the third quarter of 2022. Reductions in regional costs and reversal of certain share compensation over accruals resulted in the quarter-over-quarter improvement.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.2 million in the third quarter of 2023, \$1.3 million in the previous quarter and \$1.1 million in the third quarter of 2022. 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

From time to time, we may enter into 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 September 30, 2023.

Other Income

We recognized a small amount of other income in the third quarter of 2023 as a result of subletting excess office space, none in the second quarter of 2023 and none in the third quarter of 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\$0.746 for each Canadian dollar during the third quarter of 2023, a level which represented a modest strengthening of the Canadian dollar over the previous quarter².

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 \$0.2 million in the third quarter of 2023, compared to a foreign exchange translation loss of \$0.3 million in the previous quarter and a gain of \$1.1 million in the third quarter of 2022.

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

Income Tax

We recorded income tax recovery of \$3.7 million in the third quarter of 2023, and income tax recovery of \$3.2 million in the previous quarter and income tax recovery of \$0.7 million in the third quarter of 2022.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. As at September 30, 2023, we have recognized a deferred income tax assets of \$0.5 million.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	Q3 2023	Q2 2023	Q3 2022
Cash	3.2	4.6	21.0
Cash – restricted	6.5	8.5	7.5
Operating working capital ⁽¹⁾	31.9	41.0	39.2
Operating loan	(12.2)	(11.5)	-
Current portion of long-term debt	(4.8)	(4.8)	(4.8)
Net current assets	24.6	37.8	62.9
Property, plant and equipment	125.7	129.0	128.4
Other long-term assets	36.8	33.6	33.7
	187.1	200.4	225.0
Non-interesting bearing long-term liabilities	15.6	20.3	25.5
Long-term debt – Power Term Loan	47.7	48.4	51.4
Long-term debt – other ⁽²⁾	0.9	1.1	1.6
Shareholders' equity	122.9	130.6	146.5
	187.1	200.4	225.0
Ratio of current assets to current liabilities	1.6	2.2	2.9
Net debt to capitalization	34%	32%	17%
Net debt to capitalization excluding Power Term Loan	10%	9%	(12%)

(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 \$9.1 million over the second quarter of 2023 due primarily to an increase in trade receivables, reduction in prepaid expenses and deposits, and a reduction in inventories, mainly related to a lower than normal volume of logs in the supply chain as a result of a busy fire season. Operating working capital decreased by \$7.3 million compared to the third quarter of 2022 due to a decrease in inventories.

Overall debt was \$65.6 million at September 30, 2023 compared to \$65.8 million at June 30, 2023 and \$57.8 million at September 30, 2022. The decrease in overall debt between the third and second quarters of 2023 was mainly driven by a fractional draw against our secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Revolving Credit Facility**"), offset by principal and interest payments against the Power Term Loan in the third quarter of 2023. The increase in overall debt at September 30, 2023 relative to September 30, 2022 was due to an increase in the amount drawn against our Revolving Credit Facility of \$12.2 million, partially offset by 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 September 30, 2023, we had \$51.6 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 1.6:1 at September 30, 2023 compared to 2.2:1 at June 30, 2023 and 2.9:1 at September 30, 2022. The year-over-year change was primarily attributable to the draw against the Revolving Credit Facility.

As at September 30, 2023, \$98.1 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$100.2 million at June 30, 2023 and \$99.5 million at September 30, 2022.

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, 2023 increased by \$1.2 million to \$62.4 million from \$61.2 million at June 30, 2023. The net debt to capitalization ratio was approximately 34% at September 30, 2023, 32% at June 30, 2023 and 17% at September 30, 2022.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)

	Q3 2023	Q2 2023	YTD 2023	Q3 2022	YTD 2022
Cash generated from (used in)					
Operating activities	(0.8)	4.9	(1.8)	(4.7)	39.0
Investing activities	(1.0)	(1.4)	(3.3)	(5.3)	(10.0)
Financing activities	0.4	(4.1)	(0.1)	(9.3)	(14.3)
Increase (decrease) in cash	(1.4)	(0.6)	(5.2)	(19.3)	14.7

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 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 utilized \$7.4 million of cash in the third quarter of 2023, compared to \$9.2 million in the second quarter of 2023 and net cash generation of \$2.9 million in the third quarter of 2022. Changes in non-cash working capital generated \$6.6 million of cash in the third quarter of 2023 compared to \$14.1 million in the second quarter of 2023 and used 7.6 million in the third quarter of 2022. The decrease in operating cash flows in the third quarter of 2023 compared to the second quarter of 2023 primarily reflects a buildup of trade receivables partially offset by decrease in inventories and increase in trade payables, as a result of resumed lumber production operations in July following a temporary curtailment. The increase in operating cash flows in the third quarter of 2023 compared to 2022 primarily reflects a reduction in prepaid expenses and inventories year-over-year.

Investing Activities

Investing activities utilized cash of \$1.0 million in the third quarter of 2023, \$1.4 million in the second quarter of 2023 and \$5.3 million in the third quarter of 2022. Investing activities consisted primarily of investments in property, plant and equipment. In the third quarter of 2023, investments in property plant and equipment included investments in power plant and reservoir assets, and in 2022, included upgrades to our power plant and sawmilling and finishing lines designed to improve our lumber production performance.

Financing Activities

Our financing activities provided net cash of \$0.4 million in the third quarter of 2023, used \$4.1 million in the previous quarter and used \$9.3 million in the third quarter of 2022. The net cash provided from financing

activities in the current quarter largely related to proceeds drawn against the Revolving Credit Facility less our Power Term Loan and operating lease payments and finance charges. Restricted cash was also reclassified as cash related to the insurance proceeds realized under our turbine claim. Net cash usage in the previous quarter included partial repayment of the Revolving Credit Facility and the Power Term Loan principal and interest payments.

Liquidity

Our principal sources of funds are cash on hand, cash flows from operations and cash available under our Revolving Credit Facility. As at September 30, 2023, we have drawn \$12.2 million against the Revolving Credit Facility compared to \$11.5 million at June 30, 2023.

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

At September 30, 2023, we had total liquidity of \$16.0 million, compared to \$18.1 million at June 30, 2023 and \$36.0 million at September 30, 2022. Liquidity at September 30, 2023 was comprised of unrestricted cash of \$3.2 million and unused availability of \$12.8 million under the Revolving Credit Facility.

The decrease in our liquidity in the third quarter of 2023 compared to the previous quarter was primarily caused by cash flows utilized for operating activities which reflected weaker lumber prices in the quarter and by changes in non-cash working capital. The decrease in liquidity in the third quarter of 2023 compared to the third quarter of 2022 was due primarily to our net loss in the current quarter. Our material contractual obligations remain substantially unchanged from those described in our 2022 annual MD&A and consolidated financial statements for the years ended December 31, 2022 and 2021.

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\$33.5 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.

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, 2023. 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, 2023 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 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 third quarter of 2023 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	2023				2022			2021
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	38.7	27.2	39.9	26.7	47.7	85.1	71.8	59.9
Operating income (loss)	(10.1)	(11.0)	(11.5)	(8.5)	1.3	17.6	17.1	(3.0)
Net income (loss)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4	(2.5)
Net income (loss) per share – basic and diluted	(0.20)	(0.23)	(0.20)	-	0.02	0.31	0.28	(0.06)
EBITDA ⁽¹⁾	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.1	1.0
Shares outstanding – weighted average (in millions)	40.2	39.8	39.8	39.9	40.2	40.2	40.1	43.8
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	48.9	32.5	41.2	27.9	39.5	51.4	47.1	44.0
Shipments – WSPF lumber	41.9	31.1	40.6	31.6	44.7	55.5	42.5	44.7
Shipments – wholesale lumber	0.9	1.1	1.0	1.5	3.0	1.2	4.9	6.1
Electricity production – GWh	56.0	43.5	34.6	-	1.2	54.6	53.9	54.9
Average exchange rate – US\$/\$(²)	0.746	0.745	0.740	0.736	0.766	0.783	0.790	0.794
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽³⁾	\$417	\$363	\$384	\$402	\$568	\$827	\$1,288	\$739
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁴⁾	\$559	\$487	\$519	\$546	\$742	\$1,056	\$1,631	\$931
Reconciliation of EBITDA to net income (loss)								
Net income (loss)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4	(2.5)
Add: Finance costs	1.2	1.3	1.2	1.0	1.1	1.1	1.1	1.2
Amortization	3.8	2.4	2.5	1.4	1.8	2.0	3.2	3.1
Deferred income tax expense (recovery)	(3.7)	(3.2)	(2.5)	0.1	0.4	4.7	4.3	(0.8)
EBITDA ⁽¹⁾	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.1	1.0

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

(2) Bank of Canada, www.bankofcanada.ca.

(3) Random Lengths Publications Inc. (Western Spruce/Pine/Fir, per thousand board feet).

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

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

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie Mill during the spring months 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 remainder of 2023, we expect lumber prices to remain consistent with year-to-date levels. We expect our lumber production and shipments in the closing quarter of 2023 to be modestly higher than in the third quarter. Seasonally higher power prices are expected to be recorded in our power business.

Looking ahead to 2024, we agree with analysts' estimates calling for benchmark lumber prices to improve by low double-digit percentages in 2024. We expect an improved supply/demand balance for lumber producers in 2024. 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 will 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 site, we anticipate capturing benefits from our transition to a green log diet. In May 2023, the Chief Forester ruled that the remaining dead pine stands in the Mackenzie Timber Supply Area have lost their commercial value as sawlogs. Transitioning to a greener log diet leads to improved sawmill performance, higher grade outturns, and stronger selling price realizations. We also expect to benefit from lower stumpage charges through the remainder of 2023 and the following year. Besides moving our Mackenzie site 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 September 30, 2023. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2022, filed on SEDAR+ at www.sedarplus.com.

RISKS AND UNCERTAINTIES

Conifex's Collective Agreement with United Steelworkers ("USW")

Conifex's collective labour agreement with the USW union, which represents our hourly employees at the Mackenzie Mill, expired on June 30, 2023. Conifex entered into discussions with the USW during the third quarter of 2023. Although we have not experienced any work stoppages in the past³ and do not expect any work stoppages now, there can be no assurance that we will be able to negotiate an acceptable collective agreement with our employees. Any new collective labour agreement is expected to be retroactive to July 1, 2023.

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our 2022 annual information form dated March 30, 2023 and our 2022 annual MD&A dated March 7, 2023, and other filings with the Canadian regulatory authorities available on SEDAR+ at www.sedarplus.com.

OUTSTANDING SECURITIES

As at November 7, 2023, we had 40,351,690 common shares and 2,589,375 long-term incentive plan awards outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2023, 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 30, 2023, is available on SEDAR+ at www.sedarplus.com.