

Condensed consolidated interim financial statements of

Conifex Timber Inc.

March 31, 2022
(Unaudited)

Conifex Timber Inc.

Condensed consolidated balance sheets
as at March 31, 2022 (unaudited)

(thousands of Canadian dollars)	Notes	As at March 31, 2022	As at December 31, 2021
		\$	\$
Assets			
<i>Current assets</i>			
Cash		14,801.8	6,354.0
Cash - restricted	8	6,578.7	6,477.6
Trade and other receivables		15,882.8	8,770.1
Prepaid expenses and deposits		11,421.3	15,794.5
Inventories	5	59,368.1	40,345.0
Current assets		108,052.7	77,741.2
Property, plant and equipment	6	124,862.1	125,427.6
Intangible assets		3,171.8	3,141.4
Goodwill		1,875.0	1,875.0
Long-term investments and other		22,644.3	22,647.8
Deferred income tax assets	9	-	628.5
Total assets		260,605.9	231,461.5
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		25,533.2	18,761.6
Current portion of reforestation obligations		4,916.5	4,916.5
Employee liabilities		1,915.0	2,097.3
Operating loan	7	6,500.0	-
Current portion of long-term debt	8	4,584.1	4,622.2
Current liabilities		43,448.8	30,397.6
Reforestation obligations		9,310.9	7,191.5
Environmental liabilities		720.7	422.1
Other long-term liabilities		8,690.5	8,856.2
Long-term debt	8	53,321.4	54,762.1
Deferred income tax liabilities	9	3,672.7	-
Non-current liabilities		75,716.2	71,231.9
Total liabilities		119,165.0	101,629.5
Equity			
Share capital	10	248,254.4	248,254.4
Contributed surplus		43,815.1	43,644.9
Deficit		(151,191.5)	(162,631.0)
Accumulated other comprehensive income		562.9	563.7
Total equity		141,440.9	129,832.0
Total liabilities and equity		260,605.9	231,461.5

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Conifex Timber Inc.

Condensed consolidated statements of net income and comprehensive income
period ended March 31, 2022 (unaudited)

(thousands of Canadian dollars)	Notes	Three months ended March 31,	
		2022	2021
		\$	\$
Revenue	11	71,821.2	46,615.2
Costs and expenses			
Cost of goods sold		40,133.7	28,382.5
Freight and distribution costs		6,333.6	4,808.5
Softwood lumber duties	13	4,978.0	2,502.7
Selling, general and administrative		3,262.3	2,235.2
Restructuring charges		-	38.5
		54,707.6	37,967.4
Operating income		17,113.6	8,647.8
Gain on disposal of assets		0.1	-
Finance costs and accretion		(1,126.2)	(1,147.3)
Loss on derivative financial instruments		-	(889.9)
Foreign exchange loss		(246.8)	(272.6)
		(1,372.9)	(2,309.8)
Income before taxes		15,740.7	6,338.0
Income tax expense:			
Deferred	9	4,301.2	1,871.9
Net income		11,439.5	4,466.1
Other comprehensive loss			
Foreign exchange translation of foreign operations, net of tax		(0.8)	(0.8)
Other comprehensive loss, net of tax		(0.8)	(0.8)
Total comprehensive income for the period		11,438.7	4,465.3
Net income per share, basic and diluted (in dollars)		0.28	0.10

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Conifex Timber Inc.

Condensed consolidated statements of changes in equity
period ended March 31, 2022 (unaudited)

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2020	287,446.6	18,235.2	(189,826.3)	564.0	116,419.5
Net income for the three months ended					
March 31, 2021	-	-	4,466.1	-	4,466.1
Repurchase of common shares	(2,094.8)	1,484.5	-	-	(610.3)
Issue of common shares upon vesting of share-based payment	85.8	(85.8)	-	-	-
Recognition of share-based payments	-	92.2	-	-	92.2
Foreign exchange translation of foreign operations, net of tax	-	-	-	(0.8)	(0.8)
Balance at March 31, 2021	285,437.6	19,726.1	(185,360.2)	563.2	120,366.7
Net income for the period from April 1, 2021 to December 31, 2021	-	-	22,729.2	-	22,729.2
Repurchase of common shares	(37,212.9)	23,512.8	-	-	(13,700.1)
Issue of common shares upon vesting of share-based payment	29.7	(29.7)	-	-	-
Recognition of share-based payments	-	435.7	-	-	435.7
Foreign exchange translation of foreign operations, net of tax	-	-	-	0.5	0.5
Balance at December 31, 2021	248,254.4	43,644.9	(162,631.0)	563.7	129,832.0
Net income for the three months ended					
March 31, 2022	-	-	11,439.5	-	11,439.5
Repurchase of common shares	-	3.6	-	-	3.6
Recognition of share-based payments	-	166.6	-	-	166.6
Foreign exchange translation of foreign operations, net of tax	-	-	-	(0.8)	(0.8)
Balance at March 31, 2022	248,254.4	43,815.1	(151,191.5)	562.9	141,440.9

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Conifex Timber Inc.

Condensed consolidated statements of cash flows
period ended March 31, 2022 (unaudited)

(thousands of Canadian dollars)	Three months ended March 31,	
	2022	2021
	\$	\$
Cash flows from operating activities		
Income from continuing operations	11,439.5	4,466.1
Items not affecting cash:		
Amortization and depreciation	3,200.9	2,225.0
Change in mark-to-market value of lumber price derivatives	-	759.3
Change in reforestation obligations	2,119.5	848.0
Finance costs and accretion	1,126.2	1,147.3
Income tax expense	4,301.2	1,871.9
Share-based compensation	166.6	92.2
Load Displacement Agreement accretion	(156.9)	(156.9)
Gain on disposal of assets	(0.1)	-
Share of loss of joint venture	3.5	3.5
	22,200.4	11,256.4
Change in:		
Trade and other receivables	(7,112.7)	(1,681.3)
Prepaid expenses and deposits	4,303.2	726.3
Inventories	(19,023.1)	(13,536.2)
Trade payables, accrued liabilities and other payables	6,752.6	4,845.6
Environmental liabilities	298.6	(3.6)
Employee liabilities	(182.3)	425.4
Net cash provided from (used in) operating activities	7,236.7	2,032.6
Cash flows from investing activities		
Additions to property, plant and equipment	(2,766.8)	(1,568.4)
Net proceeds from insurance claim settlement	101.0	-
Proceeds on disposal of assets, net	0.1	-
Net cash provided from (used in) investing activities	(2,665.7)	(1,568.4)
Cash flows from financing activities		
Proceeds of operating loan	6,500.0	-
Repurchase of common shares	3.6	(610.2)
Repayment of leases	(306.4)	(327.5)
Repayment of term loans	(1,214.4)	(1,165.1)
Financing fees	-	(58.7)
Interest paid	(1,004.0)	(1,046.4)
Change in restricted cash	(101.2)	(2,000.2)
Net cash provided from (used in) financing activities	3,877.6	(5,208.1)
Net increase (decrease) in cash	8,448.6	(4,743.9)
Foreign exchange effect on cash	(0.8)	(0.8)
Cash, beginning of period	6,354.0	11,159.6
Cash, end of period	14,801.8	6,414.9

The accompanying notes are an integral part of these condensed consolidated interim financial statements.

Conifex Timber Inc.

Notes to the condensed consolidated interim financial statements

March 31, 2022 (unaudited)

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

In these notes, “Conifex” or the “Company” means Conifex Timber Inc. and its subsidiaries.

1. NATURE OF OPERATIONS

The primary business of Conifex includes timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing and the production of electricity for external sale and internal supply. Conifex's lumber products are sold primarily in the United States, Canadian, and Japanese markets.

Conifex is a publicly traded company listed on the Toronto Stock Exchange under the symbol CFF. The Company is incorporated under the *Canada Business Corporations Act* and is headquartered in Vancouver, BC, Canada.

The address of its registered office is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, BC V6C 3L2.

2. BASIS OF PREPARATION

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, *Interim Financial Reporting* (“IAS 34”), and do not include all of the information required for full annual financial statements. The condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

3. SIGNIFICANT ACCOUNTING POLICIES

These condensed consolidated interim financial statements have been prepared using the significant accounting policies and methods of computation consistent with those applied in the Company's December 31, 2021 annual consolidated financial statements.

4. SEASONALITY OF OPERATIONS

The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories at its mill during the fall and winter months to ensure adequate supply of fibre to its mill during the spring months when logging operations are largely curtailed due to road conditions.

The operating results of the bioenergy operation will experience variability as a result of the application of a “time of delivery factor” to electricity pricing which adds a seasonal effect to quarterly revenues. The lowest revenues are expected to be generated in the spring months and the highest in the fall and winter months of each year.

5. INVENTORIES

	March 31, 2022	December 31, 2021
	\$	\$
Logs	34,655.3	19,482.7
Lumber	16,802.9	13,754.9
Supplies	6,098.7	5,552.6
By-products	1,811.2	1,554.8
	59,368.1	40,345.0

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The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has not been written down at March 31, 2022 and December 31, 2021. Write-downs are included in cost of goods sold when incurred.

6. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use assets	Capital work in progress	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
At December 31, 2020	2,912.8	197,413.4	3,332.6	344.8	204,003.6
Net additions *	-	3,732.7	216.5	1,897.9	5,847.1
Disposals	-	-	(352.0)	-	(352.0)
At December 31, 2021	2,912.8	201,146.1	3,197.1	2,242.7	209,498.7
Net additions *	-	1,835.2	-	770.8	2,606.0
Disposals	-	(81.0)	-	-	(81.0)
At March 31, 2022	2,912.8	202,900.3	3,197.1	3,013.5	212,023.7
<i>Accumulated depreciation</i>					
At December 31, 2020	-	(72,599.4)	(1,377.0)	-	(73,976.4)
Depreciation charge for the year	-	(9,776.1)	(670.6)	-	(10,446.7)
Disposals	-	-	352.0	-	352.0
At December 31, 2021	-	(82,375.5)	(1,695.6)	-	(84,071.1)
Depreciation charge for the period	-	(3,013.2)	(158.3)	-	(3,171.5)
Disposals	-	81.0	-	-	81.0
At March 31, 2022	-	(85,307.7)	(1,853.9)	-	(87,161.6)
<i>Carrying amount</i>					
At December 31, 2021	2,912.8	118,770.6	1,501.5	2,242.7	125,427.6
At March 31, 2022	2,912.8	117,592.6	1,343.2	3,013.5	124,862.1

* Insurance proceeds received during the three months ended March 31, 2022 of \$0.1 million (year ended December 31, 2021 – \$0.6 million) have been netted against the capital work in progress additions

7. OPERATING LOAN

The Company entered into a three-year \$10 million secured revolving asset based credit facility (the “ABL Facility”) with a chartered bank in October 2020. On March 8, 2022, the Company completed an amendment to the ABL Facility which increased the limit from \$10.0 million to \$15.0 million. Under the terms of the ABL Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, net of specific reserves. Borrowings can be in Canadian or US dollars. Interest rates on borrowings are based on either Canadian Dollar Offered Rate (“CDOR”) or London Inter-bank Offered Rate (“LIBOR”), plus an applicable margin.

The portion of the commitment that is not drawn is subject to a standby fee. The ABL Facility is primarily secured by a first priority security interest on certain existing and after acquired lumber operations assets. The Company is subject to customary covenants, including a fixed charge coverage ratio.

As at March 31, 2022, the Company has drawn \$6.5 million against the ABL Facility (December 31, 2021 – nil).

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Notes to the condensed consolidated interim financial statements

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

8. BORROWINGS

	March 31, 2022	December 31, 2021
	\$	\$
Non-current		
Leases (a)	879.4	1,095.2
CP Partnership term loan (b)	52,442.0	53,666.9
Total non-current	53,321.4	54,762.1
Current		
Current portion of leases (a)	1,049.1	1,139.6
Current portion of CP Partnership term loan (b)	3,535.0	3,482.6
Total current portion	4,584.1	4,622.2
Total borrowings	57,905.5	59,384.3

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2022 and 2025 and the weighted average incremental borrowing rate is 5.7% per annum. The principal balance outstanding at March 31, 2022 was \$1.9 million (December 31, 2021 – \$2.2 million).

Interest expense on lease obligations for the three months ended March 31, 2022 was nil (year ended December 31, 2021 – nil). Total payments for leases, including interest, in the period was \$0.4 million (year ended December 31, 2021 – \$1.4 million).

(b) CP Partnership term loan

CP Partnership, a wholly-owned subsidiary of the Company, completed a \$70.0 million secured term loan (the "CP Partnership Term Loan") with a syndicate of private lenders in October 2018. The CP Partnership Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bears interest at a fixed rate of 6.1% per annum. On December 4, 2019, an amendment to the CP Partnership Term Loan resulted in a temporary increase in the fixed rate interest rate of 0.5% applicable for the period from the amendment date to January 31, 2021.

The CP Partnership Term Loan is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy operations. The CP Partnership Term Loan is non-recourse to the Company's other operations.

Under the terms of the CP Partnership Term Loan agreement, a distribution test must be met for the cash held by CP Partnership to be available to the Company's other operations. CP Partnership was in compliance with debt covenants under the CP Partnership Term Loan and met the distribution conditions for the period ended March 31, 2021.

As at March 31, 2022, CP Partnership held \$6.6 million of cash in restricted accounts (December 31, 2021 – \$6.5 million). Funds from restricted accounts are distributed in accordance with the terms of the CP Partnership Term Loan.

Deferred financing costs of \$2.0 million were netted against the CP Partnership Term Loan as at March 31, 2022 (December 31, 2021 – \$2.0 million).

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9. INCOME TAX

The components of income tax expense for operations are as follows:

	Three months ended March 31,	
	2022	2021
	\$	\$
Deferred	4,301.2	1,871.9
	4,301.2	1,871.9

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	Three months ended March 31,	
	2022	2021
	\$	\$
Income before taxes	15,740.7	6,338.0
Income tax expense at corporation rate of 27.0% (2021 – 27.0%)	4,250.0	1,711.2
Non-deductible (non-taxable) items for tax purposes	51.2	19.7
Other	-	141.0
Total income tax expense	4,301.2	1,871.9

10. SHARE CAPITAL

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount
		\$
Balance at December 31, 2020	46,453	287,446.6
Repurchase of common shares	(338)	(2,094.8)
Shares vested under share-based compensation plan during the three months ended March 31, 2021	35	85.8
Balance at March 31, 2021	46,150	285,437.6
Repurchase of common shares	(6,022)	(37,212.9)
Shares vested under share-based compensation plan during the period from April 1 to December 31, 2021	21	29.7
Balance at December 31, 2021 and March 31, 2022	40,149	248,254.4

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Notes to the condensed consolidated interim financial statements

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

11. REVENUE

The Company has one reportable segment comprising of activities that include timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing, and generation of electrical power that is complementary to the Company's harvesting and manufacturing operations.

	Three months ended March 31,	
	2022	2021
	\$	\$
Lumber	60,967.9	40,533.9
Lumber by-products and other	2,853.6	2,414.6
Bioenergy	7,999.7	3,666.7
	71,821.2	46,615.2

Revenues by geographic area were as follows:

	Three months ended March 31,	
	2022	2022
	\$	\$
United States	37,168.3	34,455.4
Canada	21,676.3	8,865.8
Japan	12,976.6	2,577.8
Other	-	716.2
	71,821.2	46,615.2

The Company's harvesting, manufacturing and power generation operations are located in Mackenzie, British Columbia, Canada.

12. FINANCIAL INSTRUMENTS

The Company's financial assets, with the exception of certain derivative instruments, and financial liabilities are measured at amortized cost subsequent to initial recognition. Cash and cash equivalents and derivative instruments are measured at fair value through profit and loss.

Financial assets and liabilities that are measured subsequent to initial recognition at fair value are classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company did not hold any financial instrument measured at fair value at March 31, 2022 and December 31, 2021.

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

13. COUNTERVAILING AND ANTI-DUMPING DUTIES

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce (“USDOC”) and the US International Trade Commission (“USITC”) to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing (“CV”) and anti-dumping (“AD”) duties against Canadian imports of softwood lumber. On January 6, 2017, a preliminary determination was announced by the USITC that there was reasonable indication that the US industry is materially injured by imports of Canadian softwood lumber products and the USDOC imposed duties on such shipments into the US.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

The USDOC published the final CV and AD duty rates based on the completion of its first administration review of shipments for the years ended December 31, 2017 and 2018 on December 1, 2020, and November 30, 2020, respectively. The final 2018 CV and AD duty rates of 7.42% and 1.57% respectively, was applied as the cash deposit rate on lumber shipments from the publication date until publication of the final rates under the second administration review.

On December 2, 2021, the USDOC published its final determination of the second administrative review of shipments for the year ended December 31, 2019. The final 2019 CV and AD duty rates of 6.32% and 11.59% respectively will be applied as the cash deposit rate on new lumber shipments from the date of publication.

On January 31, 2022, the USDOC released the preliminary determination of its third administration review for shipments in the year ended December 31, 2020. The preliminary 2020 CV and AD rates are 6.88% and 4.76% respectively. The USDOC may further amend these preliminary duty rates at any time, with final rate determinations expected to be published in August 2022. At such time, the final rates determined and published for 2020 will be applied to new lumber shipments.

On March 9, 2022, the USDOC initiated the Fourth Administrative Review (AR4) covering the 2021 fiscal period and intends to issue final results not later than January 31, 2023.

The following table summarizes the cash deposit rates that are in effect for each period:

Effective dates	Cash deposit rates	Final rates
January 1, 2019 to December 31, 2019		
CV	14.19%	6.32%
AD	6.04%	11.59%
Total	20.23%	17.91%
January 1, 2020 to November 30, 2020		
CV	14.19%	N/A
AD ¹	6.04%	N/A
Total	20.23%	N/A
December 1, 2020 to December 31, 2020		
CV	7.42%	N/A
AD	1.57%	N/A
Total	8.99%	N/A

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Effective dates	Cash deposit rates	Final rates
January 1, 2021 to December 1, 2021		
CV	7.42%	N/A
AD	1.57%	N/A
Total	8.99%	N/A
December 2, 2021 to January 9, 2022		
CV	6.31%	N/A
AD	11.59%	N/A
Total	17.90%	N/A
January 10, 2022 to March 31, 2022		
CV	6.32%	N/A
AD	11.59%	N/A
Total	17.91%	N/A

¹ The AD rate for November 30, 2020 is 1.57%, for a combined total rate of 15.76%.

The Company expensed CV and AD duty deposits totaling \$5.0 million in the three months ended March 31, 2022 (year ended December 31, 2021 – \$11.6 million), based on the cash deposit rates in effect at the time of the shipment. No adjustments have been recorded in the condensed consolidated interim financial statements as of March 31, 2022 to reflect the revised cash deposit rates.

Notwithstanding the deposit rates assigned under the investigations, the Company's final liability for the assessment of CV and AD will not be determined until each annual administrative review process is complete and related appeal processes are completed. Cumulative duties of US\$23.3 million paid by the Company, net of sales of the right to refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, the Company denies the US allegations and strongly disagrees with the current CV and AD determinations made by the USDOC. The Federal Government has proceeded with legal challenges under the North American Free Trade Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.