



**CONIFEX TIMBER INC.  
FIRST QUARTER 2022**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**May 9, 2022**

*This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. ("Conifex", "us", "we", or "our"), on a consolidated basis, for the quarter ended March 31, 2022, relative to the quarters ended December 31, 2021 and March 31, 2021. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended March 31, 2022 and 2021, and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2021, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at [www.sedar.com](http://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 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 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 ability to receive full reimbursement of losses suffered from the disruption at our Mackenzie power plant; 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; our ability to ship our products in a timely manner; 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 2021 annual MD&A dated March 7, 2022 available on SEDAR at [www.sedar.com](http://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**

### ***Revenue Diversification Opportunity***

Over the past two years, our management and board of directors have been exploring opportunities to utilize the unique attributes of our power generation asset base to strengthen Conifex. Given the Mackenzie site's 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, we concluded that our site was ideally suited to host a data center or other high-performance computing ("**HPC**") operations, such as digital asset mining. The electrical expertise of our existing power plant engineers and employee base, combined with familiarity of continuous operations are important components to providing hosting services for HPC operators.

In November 2021, we announced our intention to host 3 megawatts of digital asset mining capacity on a trial basis. In partnership with the Tsay Keh Dene First Nations, we commenced hosting an initial 1.5 megawatts of capacity in December 2021 and an additional 1.5 megawatts of capacity in early March 2022. Through the trial, we have gained valuable experience operating an HPC data center. The results from the 3 megawatt trial have been encouraging and we continue to monitor and evaluate this opportunity.

As we review the results of our trial program, we are continuing to develop plans to host additional data center operation capacity at our Mackenzie site. We expect the capital outlays for this phase of HPC operations will be relatively modest as we plan to redeploy the legacy power infrastructure at our site. We have identified partners with relevant industry experience who may utilize our Mackenzie hosting services for digital asset mining. The potential exists to build out our hosting business in phases and utilize cash

flow generated from the initial phases to fund the development of additional hosting capacity. There is no assurance that we will establish any data center operation in the time contemplated by our management or at all.

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## SUMMARY

The following table summarizes our operating results.

### Selected Financial Information<sup>(1)</sup>

(unaudited, in millions of dollars, except share and exchange rate information)	Q1 2022	Q4 2021	Q1 2021
<b>Sales</b>			
Lumber – Conifex produced	52.6	34.5	39.9
Lumber – wholesale	8.4	14.7	0.6
By-products and other	2.8	2.7	2.4
Bioenergy	8.0	8.0	3.7
	71.8	59.9	46.6
Operating income (loss)	17.1	(3.0)	8.7
EBITDA from continuing operations <sup>(2)</sup>	20.1	1.0	9.7
<b>Net income (loss) from continuing operations</b>	<b>11.4</b>	<b>(2.5)</b>	<b>4.5</b>
<b>Basic and diluted earnings (loss) per share</b>			
Continuing operations	0.28	(0.06)	0.10
Shares outstanding – weighted average (millions)	40.1	43.8	46.4
<b>Reconciliation of EBITDA to net income (loss)</b>			
Net income (loss) from continuing operations	11.4	(2.5)	4.5
Add: Finance costs	1.1	1.2	1.1
Amortization	3.2	3.1	2.2
Deferred income tax expense (recovery)	4.3	(0.8)	1.9
EBITDA from continuing operations <sup>(2)</sup>	20.1	1.0	9.7

### Selected Operating Information

Production – WSPF lumber (MMfbm) <sup>(3)</sup>	47.1	44.0	51.0
Shipments – WSPF lumber (MMfbm) <sup>(3)</sup>	42.5	44.7	37.8
Shipments – wholesale lumber (MMfbm) <sup>(3)</sup>	4.9	6.1	0.7
Electricity production (GWh)	53.9	54.9	25.0
Average exchange rate –\$/US\$ <sup>(4)</sup>	0.790	0.794	0.790
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(5)</sup>	\$1,288	\$739	\$982
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(6)</sup>	\$1,631	\$931	\$1,244

(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](http://www.bankofcanada.ca).

(5) Random Lengths Publications Inc.

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

## REVIEW OF FIRST QUARTER 2022 FINANCIAL RESULTS

During the first quarter of 2022, we generated net income from continuing operations of \$11.4 million or \$0.28 per share compared to net loss of \$2.5 million or \$0.06 per share in the previous quarter and net income of \$4.5 million or \$0.10 per share in the first quarter of 2021.

North American lumber market prices rose steadily in the first quarter of 2022. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir (“WSPF”) prices, which averaged \$1,631 in the first quarter of 2022, increased by 75% or \$700 from the previous quarter and by 31% or \$387 from the first quarter of 2021<sup>1</sup>. The market price increase was fueled by steady demand from repair and remodelling activities, strong new home construction activity in the US and continuing industry supply chain challenges driven by rail and truck service disruptions. US housing starts on a seasonally adjusted annual basis

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

remained steady, averaging 1,683,000 in the first quarter of 2022, up 2% from the previous quarter and up 5% from the first quarter of 2021<sup>2</sup>.

### ***Lumber Operations***

Our lumber production in the first quarter of 2022 totalled approximately 47.1 million board feet, representing operating rates of approximately 78% of annualized capacity. In the previous quarter, 44.0 million board feet of lumber was produced. Lumber production in the first quarter of this year increased as COVID-19 shift reductions and severe winter weather that affected operations in the prior quarter and continued through the first half of this quarter gradually eased towards the end of the quarter.

Shipments of Conifex produced lumber totaled 42.5 million board feet in the first quarter of 2022, representing a decrease of 5% from the 44.7 million board feet shipped in the previous quarter and an increase of 12% from the 37.8 million board feet of lumber shipped in the first quarter of 2021. Shipments of Conifex produced lumber in the first quarter of 2022 was challenged by ongoing railcar and truck supply constraints. Railcar supply continued to persist at lower levels than before the November 2021 heavy rains and floods in the Province of British Columbia.

Our wholesale lumber program shipped 4.9 million board feet in the first quarter of 2022, representing a decrease of 20% from the 6.1 million board feet shipped in the fourth quarter of 2021 and an increase of 600% from the 0.7 million board feet shipped in the first quarter of 2021.

Revenues from lumber products were \$61.0 million in the first quarter of 2022 representing an increase of 24% from the previous quarter and 51% from the first quarter of 2021. Compared to the previous quarter, higher mill net realizations on stronger lumber market prices offset the lower shipment volumes. The revenue increase in the current quarter over the same period in the prior year was largely the result of both higher benchmark lumber prices and increased lumber shipments.

Cost of goods sold in the first quarter of 2022 decreased by 22% from the previous quarter and increased by 41% from the first quarter of 2021. The decrease in cost of goods sold from the prior quarter is largely related to a reduction in overall costs on lower Conifex produced lumber and wholesale lumber program shipments. Unit manufacturing costs increased in comparison to the previous quarter and the first quarter of 2021 as a result of increased fixed costs as a result of the severe winter weather experienced in the first half of the quarter.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$5.0 million in the first quarter of 2022, \$2.5 million in the previous quarter and \$2.5 million in the first quarter of 2021. The duty deposits were based on a combined rate of 8.99% until December 1, 2021 and 17.91% thereafter. The export taxes during the first quarter of 2022 were significantly higher than the previous quarter and the first quarter of 2021 largely due to the increased cash deposit rate in effect on lumber shipment volumes made to the US market.

### ***Bioenergy Operations***

Our Mackenzie power plant sold 53.9 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro in the first quarter of 2022 representing approximately 99% of targeted operating rates. Our Mackenzie power plant sold 54.9 and 25.0 gigawatt hours of electricity in the previous quarter and first quarter of 2021, 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 2022, BC Hydro issued a dispatch order for 61 days, from May 5 to July 4, 2022. In 2021, our power plant was dispatched for 61 days, from May 1 to June 30, 2021. We continue to be paid revenues under

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<sup>2</sup> Source: Forest Economic Advisors, LLC

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 \$8.0 million in the first quarter of 2022, unchanged from the previous quarter and an increase of 116% from the first quarter of 2021. In comparison to the comparable quarter of 2021, revenues were higher as a result of 49 days of unplanned downtime during the first quarter of 2021 arising from a disruption caused by damage to the plant’s generator, which has since been replaced.

An insurance claim was submitted for physical damage to our equipment and for 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 \$3.5 million as other income on our statement of net income and comprehensive income in 2021 to reflect the estimated settlement for lost income under our business interruption policy. Final settlement of the physical damage and business interruption claim is anticipated to be completed in the first half of 2022.

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

Selling, general and administrative (“**SG&A**”) costs were \$3.3 million in the first quarter of 2022, \$2.4 million in the previous quarter and \$2.2 million in the first quarter of 2021. The higher SG&A costs are primarily attributable to increased selling costs on wholesale lumber shipments and higher overall compensation costs, including equity-based compensation.

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

Finance costs and accretion totaled \$1.1 million in the first quarter of 2022, \$1.2 million in the previous quarter and \$1.1 million in the first quarter of 2021. 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***

We enter into lumber future contracts at times to manage our commodity lumber price exposures. Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period.

There were no outstanding futures contracts in place as at March 31, 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\$0.790 for each Canadian dollar during the first quarter of 2022, a level which represented a weakening of the Canadian dollar over the previous quarter<sup>3</sup>.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation loss

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

of \$0.2 million in the first quarter of 2022, compared to a foreign exchange translation gain of \$0.1 million in the previous quarter and a loss of \$0.3 million in the first quarter of 2021.

### **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 deferred income tax expense of \$4.3 million in the first quarter of 2022 and deferred income tax recovery of \$0.8 million in the previous quarter and deferred tax expense of \$1.9 million in the first quarter of 2021. As at March 31, 2022, we have recognized a deferred income tax liability of \$3.7 million.

### **SUMMARY OF FINANCIAL POSITION**

(unaudited, in millions of dollars, unless otherwise noted)	<b>Q1 2022</b>	<b>Q4 2021</b>	<b>Q1 2021</b>
Cash	14.8	6.4	6.4
Cash – restricted	6.6	6.5	5.6
Operating working capital <sup>(1)</sup>	54.3	39.1	23.1
Operating loan	(6.5)	-	-
Current portion of long-term debt	(4.6)	(4.6)	(4.4)
Net current assets	64.6	47.4	30.7
Property, plant and equipment	124.8	125.4	129.5
Other long-term assets	27.7	28.3	35.9
	217.1	201.1	196.1
Non-interest bearing long-term liabilities	22.4	16.5	18.2
Long-term debt – Power Term Loan	52.4	53.7	55.8
Long-term debt – other <sup>(2)</sup>	0.9	1.1	1.7
Shareholders' equity	141.4	129.8	120.4
	217.1	201.1	196.1
Ratio of current assets to current liabilities	2.5	2.6	2.1
Net debt to capitalization	23%	26%	29%
Net debt to capitalization excluding Power Term Loan	(2%)	(1%)	(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 2022 and 2021.

Operating working capital increased by \$15.2 million over the first quarter of 2022 due primarily to an increase in inventory of \$19.1 million and an increase in trade receivables of \$7.1, partially offset by an increase in trade payables and employee liabilities of \$6.6 million. Inventory levels were higher due to a larger volume of log and lumber inventory held at March 31, 2022 compared to December 31, 2021 as we expanded log inventories to ensure adequate supply of fibre when road conditions in the second quarter necessitate curtailment of logging operations.

Overall debt was \$64.4 million at March 31, 2022 compared to \$59.4 million at December 31, 2021, with the change mainly driven by the \$6.5 million drawn against our secured revolving credit facility with Wells Fargo Finance Corporation Canada (the “**Revolving Credit Facility**”) in the quarter to bolster operating working capital. The increase in debt was partially offset by net lease repayments of \$0.3 million and Power Term Loan payments of \$1.2 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At March 31, 2022, we had \$56.0 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.9 million.

The ratio of current assets to current liabilities was 2.5:1 at March 31, 2022 compared to 2.6:1 at December 31, 2021 and 2.1:1 at March 31, 2021. The year-over-year change was primarily attributable to an increase in inventory and cash on hand as at March 31, 2022.

As at March 31, 2022, \$99.9 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$100.7 million at December 31, 2021 and \$103.2 million at March 31, 2021.

We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as interest-bearing debt less cash. Total capitalization is calculated as the sum of net debt and equity. Net debt at March 31, 2022 decreased by \$3.6 million to \$43.0 million from \$46.6 million at December 31, 2021. The net debt to capitalization ratio was approximately 23% at March 31, 2022, 26% at December 31, 2021 and 29% at March 31, 2021.

## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flows

(millions of dollars, unaudited)

	Q1 2022	Q4 2021	Q1 2021
<b>Cash generated from (used in)</b>			
Operating activities	7.2	(3.9)	2.0
Investing activities	(2.7)	(1.2)	(1.5)
Financing activities	3.9	(11.9)	(5.2)
<b>Increase (decrease) in cash</b>	<b>8.4</b>	<b>(17.0)</b>	<b>(4.7)</b>

### Operating Activities

We operate in a cyclical industry. Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and prices, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie 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 \$22.2 million of cash in the first quarter of 2022, compared to net cash generation of \$11.3 million in the first quarter of 2021. Changes in non-cash working capital used \$15.0 million of cash in the first three months of 2022 and used \$9.3 million in the comparative three month period of 2021. The increase in operating cash flows in the first quarter of 2022 compared to 2021 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 \$2.7 million in the first three months of 2022, \$1.2 million in the fourth quarter of 2021 and \$1.5 million in the first quarter of 2021. Investing activities comprised of investments in property, plant and equipment, net of insurance claim proceeds received

### Financing Activities

Our financing activities generated net cash of \$3.9 million in the first quarter of 2022, utilized \$11.9 million in the previous quarter and utilized \$5.2 million in the first quarter of 2021. The net cash provided from financing activities in the quarter largely relates to proceeds drawn against the Revolving Credit Facility less Power Term Loan and operating lease payments and finance charges. Net cash usage in the previous quarter and first quarter of 2021 was primarily comprised of Power Term Loan payments, finance expenses and purchases of our common shares under our normal course issuer bid, which was announced in November 2020 and terminated in September 2021, and our substantial issuer bid, which was completed in December 2021.



### ***Liquidity***

Our principal sources of funds are cash on hand, cash flows from operations and cash available under our Revolving Credit Facility which was amended in March 2022 to increase the Revolving Credit Facility to \$15.0 million from \$10.0 million. The Revolving Credit Facility is available for a term of 3 years and is substantially secured by our lumber inventory, equipment and accounts receivable. As at March 31, 2022, we have drawn \$6.5 million against the Revolving Credit Facility compared to nil at December 31, 2021.

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

At March 31, 2022, we had total liquidity of \$23.3 million, compared to \$16.4 million at December 31, 2021 and \$16.4 million at March 31, 2021. Liquidity at March 31, 2022 was comprised of unrestricted cash of \$14.8 million and unused availability of \$8.5 million under the Revolving Credit Facility.

The increase in our liquidity in the first quarter of 2021 compared to the previous quarter was due primarily to the amendment increasing our Revolving Credit Facility and cash flows generated from operating activities which reflected the sustained rise in lumber prices, offset partially by higher overall inventory levels. Compared to the first quarter of 2021, the increase in our liquidity was largely from the addition to our Revolving Credit Facility, as well as the cash flows generated from operating activities which reflected higher lumber prices and shipment volumes year-over-year. Our material contractual obligations remain substantially unchanged from those described in our 2021 annual MD&A and consolidated financial statements for the years ended December 31, 2021 and 2020.

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\$23.3 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 March 31, 2022. 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 March 31, 2022 were comprised of standby letters of credit totalling \$5.6 million posted by our subsidiary, Conifex Power Limited Partnership. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

### ***Transactions Between Related Parties***

Other than transactions in the normal course of business with key management personnel, we had no transactions between related parties in the first quarter of 2022 or in the comparative quarters.

## SELECTED QUARTERLY FINANCIAL INFORMATION

### Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	2022		2021			2020		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	71.8	59.9	47.6	96.5	46.6	49.8	37.6	10.8
Operating income (loss)	17.1	(3.0)	(0.7)	33.5	8.7	4.6	7.0	(1.4)
Net income (loss) from continuing operations	11.4	(2.5)	(0.9)	26.1	4.5	2.2	2.0	(2.7)
Net income (loss) – total operations	11.4	(2.5)	(0.9)	26.1	4.5	2.3	2.0	(3.0)
Net income (loss) per share – basic and diluted from continuing operations	0.28	(0.06)	(0.02)	0.56	0.10	0.05	0.04	(0.05)
Net income (loss) per share – basic and diluted – total operations	0.28	(0.06)	(0.02)	0.56	0.10	0.05	0.04	(0.06)
Adjusted EBITDA from continuing operations <sup>(1)</sup>	20.1	1.0	3.3	37.8	9.7	6.8	7.6	(1.1)
Shares outstanding – weighted average (in millions)	40.1	43.8	44.6	46.0	46.4	47.0	47.0	46.9
<b>Statistics</b> (in millions, except rate and prices)								
Production – WSPF lumber	47.1	44.0	40.1	49.0	51.0	48.3	48.0	2.4
Shipments – WSPF lumber	42.5	44.7	34.1	55.5	37.8	49.1	39.2	8.5
Shipments – wholesale lumber	4.9	6.1	6.0	5.8	0.7	1.8	0.7	1.6
Electricity production – GWh	53.9	54.9	53.7	50.9	25.0	41.7	54.9	51.2
Average exchange rate – US\$/\$( <sup>2</sup> )	0.790	0.794	0.794	0.814	0.790	0.767	0.751	0.722
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(3)</sup>	\$1,288	\$739	\$478	\$1,289	\$982	\$700	\$768	\$357
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(4)</sup>	\$1,631	\$931	\$602	\$1,584	\$1,244	\$912	\$1,023	\$494
<b>Reconciliation of Adjusted EBITDA to net income (loss)</b>								
Net income (loss) from continuing operations	11.4	(2.5)	(0.9)	26.1	4.5	2.2	2.0	(2.7)
Add: Finance costs	1.1	1.2	1.1	1.1	1.1	1.3	1.2	1.2
Amortization	3.2	3.1	3.4	2.1	2.2	2.8	2.9	1.1
Deferred income tax expense (recovery)	4.3	(0.8)	(0.3)	8.5	1.9	0.5	1.5	(0.8)
EBITDA <sup>(5)</sup>	20.1	1.0	3.3	37.8	9.7	6.8	7.6	(1.2)
Add: Restructuring costs	-	-	-	-	-	-	-	0.1
Adjusted EBITDA from continuing operations	20.1	1.0	3.3	37.8	9.7	6.8	7.6	(1.1)

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

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

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

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

(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 prices to remain elevated through 2022, despite recent lumber market price volatility in the past month, supported by steady demand from US housing starts as home demand continues to outpace supply despite recent mortgage rate hikes. At our Mackenzie sawmill, we expect to see an increase in lumber production over the first quarter of 2022, with the expectation of achieving annualized operating rates in excess of 90% for the remainder of 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, subject to the “turn down” notice received from BC Hydro for the latter half of the second quarter of 2022.

We anticipate a quarter-over-quarter increase in lumber shipments in the second quarter of 2022, as we unwind lumber inventory accumulated, as transportation challenges related to rail and truck supply shortages improve. While we are unable to estimate when full transportation service will resume, we continue to utilize alternative transportation routes and methods to facilitate shipments to our customers. While we expect more moderate mill net realizations, the anticipated increase in the volume of lumber shipments indicate that the second quarter operating results are expected to be at least comparable to the results achieved in the first quarter of 2022. Since lumber prices have firmed and held steady in recent weeks, we could realize stronger results for the second quarter than anticipated.

Our liquidity and financial position are forecasted to continue to remain strong throughout 2022. We continue to prioritize funding quick payback sawmill upgrades and exploring potential allocations of capital to enhance shareholder value as we believe that the market price of our common shares does not reflect the underlying value of our business and future prospects. We believe that our strong liquidity position will allow us to manage market volatility, if any, that may arise in the remainder of 2022.

## **CRITICAL ACCOUNTING ESTIMATES**

We did not make any significant changes to our critical accounting estimates during the quarter ended March 31, 2022. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2021, filed on SEDAR at [www.sedar.com](http://www.sedar.com).

## **REGULATORY ENVIRONMENT**

### ***Old-Growth Logging Deferral***

In November 2021, 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 and are subject to First Nations engagement. The Province has stated that final decisions on deferral areas will be based on discussions between the Province and First Nations governments.

Since the announcement, the Province has entered in discussions with numerous First Nations governments and deferrals have been implemented for approximately 1.7 million hectares of BC forests. The Province continues to engage with First Nations governments on proposed deferrals in the remaining areas identified. Determination of potential impacts on our operations 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.

## **RISKS AND UNCERTAINTIES**

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our 2021 annual MD&A dated March 7, 2022, and other filings with the Canadian regulatory authorities available on SEDAR at [www.sedar.com](http://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 May 9, 2022, we had 40,149,111 common shares, 2,092,875 long-term incentive plan awards and 1,195,122 warrants outstanding.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended March 31, 2022, 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](http://www.sedar.com).