



**CONIFEX TIMBER INC.  
SECOND QUARTER 2022**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**August 8, 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 June 30, 2022, relative to the quarters ended March 31, 2022 and June 30, 2021. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended June 30, 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" which 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 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: our expectations with respect to the matters discussed in the Public Discussion Paper (the "PDP") released by the British Columbia Ministry of Forests on July 15, 2022, including the chief forester's determination of the allowable annual cut (the "AAC") in the Mackenzie Timber Supply Area ("TSA"); 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; the restart of our Mackenzie power plant and our ability to receive full reimbursement of losses suffered from the disruption thereat; 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 U.S. housing market will continue to improve; our ability to ship our products in a timely manner; that there will be no additional 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**

### ***Public Discussion Paper Released***

On July 15, 2022, the British Columbia Ministry of Forests released its PDP which provides a summary of the results of the timber supply review for the Mackenzie TSA initiated in the spring of 2019. Although further analysis will be completed prior to the chief forester's AAC determination and provided the chief forester will consider a wide range of information prior to determining a new AAC, the PDP provides up-to-date information about fibre availability and quality in the Mackenzie TSA. The AAC is the maximum volume of timber available for harvesting each year, usually expressed as cubic metres of wood.

The PDP discloses that its base case and alternative harvest projections are not AAC recommendations, but rather some of the many sources of information the chief forester will consider when setting the new AAC. The starting level harvest in the base case for the Mackenzie TSA was defined as the maximum achievable for a live harvest projection. An initial harvest level was established in the base case at 2.97 million cubic metres per year to be maintained for 10 years before stepping down annually to 2.47 million cubic metres by the end of the third decade. Approximately 860,000 cubic metres of sawlog consumption is necessary to support two-shift capacity operations at our Mackenzie sawmill complex, the sole sawmill complex presently operating in the Mackenzie TSA. The harvest level projections in the base and alternative cases indicate that sawlog surpluses are likely to persist even after providing for the sawlog consumption required to sustain capacity operations at our Mackenzie sawmill complex.

Our Annual Information Form for the year ended December 31, 2021, available on SEDAR, disclosed that licensees in the Mackenzie TSA are presently required to source a majority of the annual AAC from dead stands while reserving green timber for harvesting after the salvage process ended. We also disclosed that accessing higher quality, green fibre would contribute to lower harvesting and manufacturing costs, produce higher lumber grade outturns, and enhance lumber selling price realizations. We anticipate that when the

revised AAC determination scheduled for release later this year takes effect, the competitiveness of our Mackenzie sawmill complex will improve, and the facility will migrate to a lower position on the global lumber industry cost curve.

### ***Power Plant Delayed Restart***

On July 15, 2022, we disclosed that, during a scheduled outage for annual major maintenance work, we discovered damage to the power plant's turbine which has delayed the restart of the plant. We continue to work with original equipment manufacturer to assess the required work plan. While we do not anticipate the power plant to be operational during the third quarter of 2022, until the assessment and work plan are completed, no definitive timeline may be provided as to when the power plant will recommence operations.

We maintain property and business interruption insurance for the power plant and expect the property damage and business interruption will be covered by such insurance, subject to customary deductibles and limits.

### ***Special Cash Dividend***

On June 21, 2022, our board of directors approved a one-time special cash dividend of \$0.20 per common share (the "**Special Dividend**"). The Special Dividend was paid on August 8, 2022 from cash on hand to shareholders of record on July 15, 2022. Based on the 40,194,111 common shares outstanding on the record date, the Special Dividend resulted in an aggregate distribution of \$8.0 million.

### ***Investigating Diversification Opportunities***

Our board of directors and leadership team remain committed to pursuing affordable investment opportunities with attractive potential returns on investment to stabilize and enhance cash flow generation while concurrently maintaining strong ESG credentials. In furtherance of these objectives, we are examining the feasibility of developing data center hosting operations in northern BC to consume surplus power supply that BC Hydro and Power Authority ("**BC Hydro**") expects to have available in our operating region through 2030 and beyond. This potential opportunity to develop an additional complimentary revenue and cash flow stream leverages the knowledge and expertise we possess as a result of developing our power generation operations in Mackenzie, BC and operating the plant on a continuous twenty-four hours a day, seven days a week basis.

In November 2021, we advised BC Hydro that Conifex and Tsay Keh Dene First Nations entered into a milestone partnership agreement (the "**Partnership**") to develop a new business hosting data center or other high-performance computing ("**HPC**") customers such as digital assets miners. The Partnership commenced hosting an initial 1.5 megawatts of capacity in December 2021 on a trial basis and an additional 1.5 megawatts of capacity in early March 2022. The results from the 3 megawatt trial have been encouraging and the Partnership gained valuable experience hosting HPC operations under a variety of weather and operating conditions.

Besides validating our belief that the Conifex power and corporate service teams have the expertise required to successfully develop and operate sites serving HPC customers, the trial enabled the Partnership to gain experience and input necessary to evaluate the merits of significantly scaling HPC hosting operations.

The Partnership is now investigating the feasibility of building a hosting service business at other potential sites in northern BC. The Partnership has an opportunity to develop a hosting business in phases, utilizing cash flow generated from the initial phases to fund the development of subsequent phases.

We look forward to providing further details about our progress on this potential initiative in our third quarter 2022 earnings release. There is no assurance that the Partnership will establish a data center hosting business.

## SUMMARY

The following table summarizes our net operating results.

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

(unaudited, in millions of dollars, except earnings per share and share information)	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
<b>Sales</b>					
Lumber – Conifex produced	66.4	52.6	119.0	80.1	120.0
Lumber – wholesale	2.3	8.4	10.7	9.0	9.6
By-products and other	11.6	2.8	14.4	2.7	5.1
Bioenergy	4.8	8.0	12.8	4.7	8.4
	85.1	71.8	156.9	96.5	143.1
Operating income	17.6	17.1	34.7	33.5	42.2
EBITDA from continuing operations <sup>(2)</sup>	20.1	20.1	40.2	37.8	47.5
<b>Net income from continuing operations</b>	<b>12.3</b>	<b>11.4</b>	<b>23.7</b>	<b>26.1</b>	<b>30.6</b>
<b>Basic and diluted earnings per share</b>					
Continuing operations	0.31	0.28	0.59	0.56	0.66
Shares outstanding – weighted average (millions)	40.2	40.1	40.2	46.3	46.2
<b>Reconciliation of EBITDA to net income</b>					
Net income from continuing operations	12.3	11.4	23.7	26.1	30.6
Add: Finance costs	1.1	1.1	2.2	1.1	2.3
Amortization	2.0	3.2	5.2	2.1	4.2
Income tax expense	4.7	4.3	9.0	8.5	10.4
EBITDA from continuing operations <sup>(2)</sup>	20.1	20.1	40.2	37.8	47.5

### Selected Operating Information

Production – WSPF lumber (MMfbm) <sup>(3)</sup>	51.4	47.1	98.5	49.0	100.0
Shipments – WSPF lumber (MMfbm) <sup>(3)</sup>	55.5	42.5	98.0	55.5	93.3
Shipments – wholesale lumber (MMfbm) <sup>(3)</sup>	1.2	4.9	6.1	5.8	6.5
Electricity production (GWh)	54.6	53.9	108.5	50.9	75.9
Average exchange rate – \$/US\$ <sup>(4)</sup>	0.783	0.790	0.787	0.814	0.802
Average WSPF 2x4 #2 & Btr lumber price (US\$) <sup>(5)</sup>	\$827	\$1,288	\$1,057	\$1,290	\$1,136
Average WSPF 2x4 #2 & Btr lumber price (\$) <sup>(6)</sup>	\$1,056	\$1,631	\$1,343	\$1,584	\$1,414

(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 SECOND QUARTER 2022 FINANCIAL RESULTS

During the second quarter of 2022, we generated net income of \$12.3 million or \$0.31 per share compared to net income of \$11.4 million or \$0.28 per share in the previous quarter and \$26.1 million or \$0.56 per share in the second quarter of 2021.

North American lumber market prices declined in the second quarter of 2022 following the elevated lumber prices seen in the first quarter of the year. Canadian dollar-denominated benchmark Western Spruce / Pine / Fir (“**WSPF**”) prices <sup>1</sup>, which averaged \$1,056 in the second quarter of 2022, decreased by 35% or \$575 from the previous quarter and by 33% or \$528 from the second quarter of 2021. Market prices experienced a slide from the record-high levels driven largely by a slowdown in new home construction demand in the U.S. due to higher mortgage rates and reduced affordability. U.S. housing starts on a seasonally adjusted annual basis remained steady, averaging 1,677,000 in the second quarter of 2022, down 4% from the previous quarter and up 6% from the second quarter of 2021 <sup>2</sup>.

### **Lumber Operations**

Our lumber production in the second quarter of 2022 totalled approximately 51.4 million board feet, representing operating rates of approximately 86% of annualized capacity. In the previous quarter, 47.1 million board feet of lumber was produced. The increase in lumber production for the second quarter was largely due to operations not being affected by the COVID-19 shift reductions and operational impacts of severe winter weather experienced during the previous quarter. While lumber production in the current quarter was higher, production was negatively impacted by multiple power outages in June 2022. In the second quarter of 2021, 49.0 million board feet was produced, representing operating rates of approximately 82% of annualized capacity.

Shipments of Conifex produced lumber totaled 55.5 million board feet in the second quarter of 2022, representing an increase of 31% from the 42.5 million board feet shipped in the previous quarter and consistent with the 55.5 million board feet of lumber shipped in the second quarter of 2021. Shipments of Conifex produced lumber in the second quarter of 2022 benefited from a modest improvement of railcar supply. Our wholesale lumber program shipped 1.2 million board feet in the second quarter of 2022, representing a decrease of 76% from the 4.9 million board feet shipped in the first quarter of 2022 and 79% from the 5.8 million board feet shipped in the second quarter of 2021 as a global shortage of wood experienced in 2021 eased.

Revenues from lumber products were \$68.7 million in the second quarter of 2022 representing an increase of 13% from the previous quarter and a decrease of 23% from the second quarter of 2021. Compared to the previous quarter, the higher revenues in the current quarter were driven by increased shipment volumes, partially offset by reduced realized lumber prices. The revenue decrease in the current quarter over the same period in the prior year is largely the result of lower benchmark lumber prices.

Cost of goods sold in the second quarter of 2022 increased by 21% from the previous quarter and by 4% from the second quarter of 2021. The increase in cost of goods sold from the prior quarter is mainly due to higher overall shipments in the current quarter. Unit manufacturing costs decreased in comparison to the previous quarter as a result of increased lumber production and reduced fixed costs.

We expensed countervailing (“**CV**”) and anti-dumping (“**AD**”) duty deposits of \$7.2 million in the second quarter of 2022, \$5.0 million in the previous quarter and \$5.3 million in the second 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 second quarter of 2022 were higher than the previous quarter due to increased

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

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

lumber shipment volumes in the current quarter and were higher than the second quarter of 2021 largely due to the higher cash deposit rate in effect on lumber shipment volumes made to the U.S. market.

### ***Bioenergy Operations***

Our Mackenzie power plant sold 54.6 gigawatt hours of electricity under our Electricity Purchase Agreement (“**EPA**”) with BC Hydro in the second quarter of 2022 representing approximately 96% of targeted operating rates. Our Mackenzie power plant sold 53.9 and 50.9 gigawatt hours of electricity in the previous quarter and second 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 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 \$4.8 million in the second quarter of 2022, a decrease of 40% from the previous quarter and an increase of 2% from the second quarter of 2021. In comparison to the previous quarter, revenues were lower due to a “time of delivery factor” that adds a seasonal effect to quarterly revenues. In comparison to the second quarter of 2021, revenues were higher due to higher billable gigawatt hours generated.

Following the end of the dispatch period in July 2022, our Mackenzie power plant had a scheduled outage to perform annual major maintenance work. During the course of maintenance work, damage to the power plant’s turbine was discovered and delayed the restart of the plant. We continue to work with the original equipment manufacturer to assess the required work plan. While we do not anticipate the power plant to be operational during the third quarter of 2022, until the assessment and work plan are completed, no definitive timeline may be provided as to when the power plant will recommence operations. We expect the property damage and business interruption will be covered by our insurance, subject to customary deductibles and limits.

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 arising from the previous failure of the power plant’s generator. We recognized \$3.5 million as other income on our statement of net income and comprehensive income in 2021 to reflect the settlement for lost income under our business interruption policy. Final settlement of the physical damage and business interruption claim was received in July 2022.

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

Selling, general and administrative (“**SG&A**”) costs were \$3.1 million in the second quarter of 2022, \$3.3 million in the previous quarter and \$3.0 million in the second quarter of 2021. The reduced SG&A costs were primarily attributable to lower selling costs associated with wholesale lumber shipments as shipment volumes declined relative to the previous quarter and comparative quarter in the preceding year.

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

Finance costs and accretion totaled \$1.1 million in the second quarter of 2022 and in each comparative quarter. 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.

We had no outstanding futures contracts in place as at June 30, 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 U.S. dollar-denominated cash and working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the period end rate.

The U.S. dollar averaged US\$0.783 for each Canadian dollar during the second 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 gain of \$0.5 million in the second quarter of 2022, compared to foreign exchange translation loss of \$0.2 million in the previous quarter and a gain of \$0.1 million in the second quarter of 2021.

### ***Income Tax***

The current quarter results include a current income tax expense of \$1.5 million, compared to nil in each of the comparative quarters.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. We recorded a deferred income tax expense of \$3.3 million in the second quarter of 2022, \$4.3 million in the previous quarter and \$8.5 million in the second quarter of 2021. As at June 30, 2022, we have recognized a deferred income tax liability of \$6.9 million.

The effective tax rate was 28% in the current quarter, compared to 27% in the previous quarter and 25% in the second quarter of 2021.

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

## SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	<b>Q2</b>	<b>Q4</b>	<b>Q2</b>
	<b>2022</b>	<b>2021</b>	<b>2021</b>
Cash and cash equivalents	40.4	6.4	35.8
Cash – restricted	7.3	6.5	5.6
Operating working capital <sup>(1)</sup>	28.6	39.1	26.1
Operating loan	-	-	-
Current portion of long-term debt	(4.6)	(4.6)	(4.6)
Net current assets	71.7	47.4	62.9
Property, plant and equipment	124.9	125.4	128.9
Other long-term assets	27.7	28.3	27.9
	224.3	201.1	219.7
Non-interest bearing long-term liabilities	25.5	16.5	19.3
Long-term debt – Power Term Loan	52.1	53.7	55.5
Long-term debt – other <sup>(2)</sup>	0.8	1.1	1.5
Shareholders' equity	145.9	129.8	143.4
	224.3	201.1	219.7
Ratio of current assets to current liabilities	2.9	2.6	3.2
Net debt to capitalization	6%	26%	12%
Net debt to capitalization excluding Power Term Loan	(30%)	(1%)	(28%)

(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, dividends payable, the current portion of reforestation obligations and employee liabilities.

(2) Consists of leases in 2022 and 2021.

Operating working capital decreased by \$10.5 million over the first half of 2022 due primarily to the Special Dividend declared during the current quarter (see “Recent Developments – Special Cash Dividend” above for additional information). Inventory levels were lower as a result of a partial unwind in the volume of log and lumber inventories held at June 30, 2022 compared to December 31, 2021.

Overall debt was \$57.5 million at June 30, 2022 compared to \$59.4 million at December 31, 2021. The reduction of \$1.9 million in debt comprised net lease repayments of \$0.3 million and Power Term Loan payments of \$1.6 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At June 30, 2022, we had \$55.7 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$1.8 million.

The ratio of current assets to current liabilities was 2.9:1 at June 30, 2022 compared to 2.6:1 at December 31, 2021 and 3.2:1 at June 30, 2021. The year-over-year change was primarily attributable to changes in inventory and cash on hand, partially offset by the Special Dividend payable as at June 30, 2022.

As at June 30, 2022, \$98.0 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$100.7 million at December 31, 2021 and \$102.7 million at June 30, 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 and cash equivalents. Total capitalization is calculated as the sum of net debt and equity. Net debt at June 30, 2022 decreased by \$36.8 million to \$9.8 million from \$46.6 million at December 31, 2021. The net debt to capitalization ratio was approximately 6% at June 30, 2022, 26% at December 31, 2021 and 12% at June 30, 2021.



## LIQUIDITY AND CAPITAL RESOURCES

### Summary of Cash Flows

(unaudited, in millions of dollars)

	Q2 2022	Q1 2022	YTD 2022	Q2 2021	YTD 2021
<b>Cash generated from (used in)</b>					
Operating activities	36.5	7.2	43.7	35.6	37.6
Investing activities	(2.0)	(2.7)	(4.7)	(1.4)	(2.9)
Financing activities	(8.9)	3.9	(5.0)	(4.8)	(10.0)
<b>Increase (decrease) in cash</b>	<b>25.6</b>	<b>8.4</b>	<b>34.0</b>	<b>29.4</b>	<b>24.7</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 our 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 \$42.2 million of cash in the first six months of 2022, compared to \$49.2 million in the first six months of 2021. Changes in non-cash working capital provided \$1.6 million of cash in the first half of 2022 and used \$11.6 million in the comparative six-month period of 2021. The increase in our operating cash flows in the first half of 2022 compared to 2021 primarily reflects the reduced utilization of cash for building up log and lumber inventories.

### Investing Activities

Investing activities utilized cash of \$4.7 million in the first half of 2022 and \$2.9 million in the comparative six-month period in 2021. Investing activities comprised of investments in property, plant and equipment, net of insurance claim proceeds received.

### Financing Activities

Our financing activities used net cash of \$5.0 million in the first half of 2022, compared to \$10.0 million in the first half of 2021. Net cash usage in the six month period ended June 30, 2022 was primarily comprised of Power Term Loan and lease payments and payment of finance expenses. In the first half of 2021, financing activities also included \$4.0 million for purchases of our common shares under a normal course issuer bid which was announced in November 2020 and was terminated in September 2021.

### Liquidity

Our principal sources of funds are cash on hand, cash flows from operations and cash available under our secured revolving credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Revolving Credit Facility**") which was completed in October 2020 and amended in March 2022 to a principal amount of \$15.0 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.

During the second quarter of 2022, we repaid the entire \$6.5 million that was drawn against the Revolving Credit Facility during the previous quarter to support operating working capital. The Revolving Credit Facility was undrawn as at June 30, 2022 and 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 June 30, 2022, we had total liquidity of \$55.4 million, compared to \$16.4 million at December 31, 2021 and \$45.8 million at June 30, 2021. Liquidity at June 30, 2022 was comprised of unrestricted cash of \$40.4 million and unused availability of \$15.0 million under the Revolving Credit Facility.

The increase in our liquidity in the first half of 2022 compared to December 31, 2021 was due primarily to cash flows generated from operating activities which reflected the elevated lumber prices during the first six months of the year, as well as an amendment to our Revolving Credit Facility increasing the aggregate principal amount available to \$15.0 million from \$10.0 million. Compared to liquidity at June 30, 2021, the increase in our liquidity was largely from the addition to the Revolving Credit Facility. 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 began depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$29.1 million paid by us, net of our sales of certain refunds, since the inception of the current trade dispute remain held in trust by the U.S. pending administrative reviews and the conclusion of all appeals of U.S. 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 U.S. 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 June 30, 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 June 30, 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 with key management personnel, we had no transactions between related parties in the second 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		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Sales	85.1	71.8	59.9	47.6	96.5	46.6	49.8	37.6
Operating income (loss)	17.6	17.1	(3.0)	(0.7)	33.5	8.7	4.6	7.0
Net income (loss) from continuing operations	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.2	2.0
Net income (loss) – total operations	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.3	2.0
Net income (loss) per share – basic and diluted from continuing operations	0.31	0.28	(0.06)	(0.02)	0.56	0.10	0.05	0.04
Net income (loss) per share – basic and diluted – total operations	0.31	0.28	(0.06)	(0.02)	0.56	0.10	0.05	0.04
EBITDA from continuing operations <sup>(1)</sup>	20.1	20.1	1.0	3.3	37.8	9.7	6.8	7.6
Shares outstanding – weighted average (in millions)	40.2	40.1	43.8	44.6	46.0	46.4	47.0	47.0
<b>Statistics</b> (in millions, except rate and prices)								
Production – WSPF lumber	51.4	47.1	44.0	40.1	49.0	51.0	48.3	48.0
Shipments – WSPF lumber	55.5	42.5	44.7	34.1	55.5	37.8	49.1	39.2
Shipments – wholesale lumber	1.2	4.9	6.1	6.0	5.8	0.7	1.8	0.7
Electricity production – GWh	54.6	53.9	54.9	53.7	50.9	25.0	41.7	54.9
Average exchange rate – US\$/ $\text{\$}^{(2)}$	0.783	0.790	0.794	0.794	0.814	0.790	0.767	0.751
Average WSPF 2x4 #2 & Btr lumber price (US $\text{\$}$ ) <sup>(3)</sup>	\$827	\$1,288	\$739	\$478	\$1,289	\$982	\$700	\$768
Average WSPF 2x4 #2 & Btr lumber price ( $\text{\$}$ ) <sup>(4)</sup>	\$1,056	\$1,631	\$931	\$602	\$1,584	\$1,244	\$912	\$1,023
<b>Reconciliation of EBITDA to net income (loss)</b>								
Net income (loss) from continuing operations	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.2	2.0
Add: Finance costs	1.1	1.1	1.2	1.1	1.1	1.1	1.3	1.2
Amortization	2.0	3.2	3.1	3.4	2.1	2.2	2.8	2.9
Income tax expense (recovery)	4.7	4.3	(0.8)	(0.3)	8.5	1.9	0.5	1.5
EBITDA <sup>(1)</sup>	20.1	20.1	1.0	3.3	37.8	9.7	6.8	7.6

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

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

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

(4) Average WSPF 2x4 #2 & Btr lumber prices (US $\text{\$}$ ) 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 U.S., 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 in the remainder of 2022 to be elevated from the lows seen in June 2022. While demand for new home construction may be reduced in the near-term as a result of recent mortgage rate hikes, we anticipate repair and remodelling activities will continue to support demand for lumber products. We anticipate lumber shipments in the second half of 2022 to continue to be challenged by transportation issues as rail supply shortages continue to persist.

At our Mackenzie sawmill, we expect to see a gradual increase in lumber production compared to the first half of 2022, with the expectation of achieving annualized operating rates in excess of 90% in the second half of the year. Our Mackenzie power plant is forecasted to resume operations at full capacity in the fourth quarter and to generate a steady and diversified source of cash flow, with seasonally stronger EBITDA contributions expected upon resumption. See “Review of Second Quarter 2022 Financial Results – Bioenergy Operations” above for additional information on the resumption of operations at the power plant. We expect our third quarter results to be shaped by lower lumber prices, the reduction in duty deposit rates from 17.91% to 8.59% following publication in the U.S. Federal Register and the delayed restart of our power plant which could result in consolidated EBITDA that is materially lower than the first half of the year, but to remain positive.

Our liquidity and financial position are forecasted to continue to remain strong through the second half of 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 the delayed resumption of power plant operations and market volatility, if any, that may arise in the latter half of 2022.

## **CRITICAL ACCOUNTING ESTIMATES**

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

## **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).

## **OUTSTANDING SECURITIES**

As at August 7, 2022, we had 40,194,111 common shares, 2,682,875 long-term incentive plan awards and 1,195,122 warrants outstanding.

## **INTERNAL CONTROLS OVER FINANCIAL REPORTING**

During the quarter ended June 30, 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).