CONIFEX TIMBER INC.
THIRD QUARTER 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 7, 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 September 30, 2022, relative to the quarters ended June 30, 2022 and September 30, 2021. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended September 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.*

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: 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 United States of America (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 expectations with respect to resumption of operations at 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; future capital expenditures; expectations regarding our liquidity levels; and our expectations for U.S. dollar benchmark prices.*

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; 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 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

Normal Course Issuer Bid

On August 29, 2022, the Toronto Stock Exchange accepted our notice of intention to make a normal course issued bid ("**NCIB**") for our common shares. Under the NCIB, we may purchase up to a maximum of 2,461,754 of our outstanding common shares. Any common shares acquired under the NCIB will be purchased at the market price up to a daily maximum of 5,705 common shares, subject to certain exemptions. All common shares acquired by us under the NCIB will be cancelled following purchase. The NCIB commenced in September 2022 and will terminate on August 31, 2023 or earlier if we have acquired all of the common shares available under the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. In September 2022, we purchased and cancelled 194,300 shares under the NCIB.

Sawmill Operating Schedule Changes

Our sawmill operating schedule was reduced to a one-shift basis commencing August 29, 2022 as a result of acute transportation challenges that have affected the overall industry since about November 2021 and which continued to persist through to the end of the third quarter 2022. BC Ministry of Forests policies and practices that position sawmills in the BC Interior region at the high end of the industry cost curve, combined with a steep decline in lumber prices during a period of softer global demand, necessitated a temporary curtailment of sawmill operations for two weeks between October 11, 2022 and October 24, 2022. The temporary curtailment impacted production capacity by approximately 7 million board feet in the fourth quarter.

Power Plant Delayed Restart

In July 2022, during a scheduled outage for annual major maintenance, we discovered damage to our power plant's turbine which delayed the restart of the plant. We continue to work with our engineers, contractors and the original equipment manufacturer to resume operations. The necessary repairs have been faced with global supply chain issues impacting replacement parts. We currently expect the power plant will recommence operations in or about January 2023.

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 applicable deductibles and limits.

Special Cash Dividend

We paid a one-time special dividend of $0.20 per common share 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 approximately $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.

We completed hosting a 3 megawatt trial at the end of September 2022 through which we gained valuable first-hand experience, validating our belief that our power and corporate service teams have the expertise required to successfully develop and operate sites serving high-performance computing ("**HPC**") customers.

We are pleased to announce that we will be hosting a new customer at our 3 megawatt site in Mackenzie. Greenidge Generation Holdings Inc. ("**Greenidge**") is a NASDAQ listed public company with approximately 25,000 servers located at sites in New York State and South Carolina. Greenidge intends to deploy their servers at our Mackenzie location in late November 2022.

We are continuing to investigate the feasibility of building a hosting service business at potential sites in northern BC, while developing relationships with potential HPC customers. We are also evaluating the opportunity to develop a hosting business in phases, utilizing cash flow generated from initial phases to fund the development of subsequent phases.

There is no assurance that we will establish a data center hosting business as contemplated or at all.

SUMMARY

Continuing operations for the comparative periods discussed in this MD&A comprise operating results from our Mackenzie sawmill and power plant.

The following table summarizes our net operating results.

Selected Financial Information[1]

(unaudited, in millions of dollars, except earnings per share and share information)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Revenue					
Lumber – Conifex produced	35.5	66.4	154.5	25.9	145.9
Lumber – wholesale	3.8	2.3	14.5	12.5	22.1
By-products and other	7.9	11.6	22.3	2.1	7.2
Bioenergy	0.4	4.8	13.2	7.1	15.5
	47.7	85.1	204.6	47.6	190.7
Operating income	1.3	17.6	36.0	(0.7)	41.4
EBITDA from continuing operations[2]	4.2	20.1	44.4	3.3	50.7
Net income from continuing operations	**0.9**	**12.3**	**24.7**	**(0.9)**	**29.7**
Basic and diluted earnings per share					
Continuing operations	0.02	0.31	0.61	(0.02)	0.65
Shares outstanding – weighted average (millions)	40.2	40.2	40.2	44.6	45.7
Reconciliation of EBITDA to net income					
Net income from continuing operations	0.9	12.3	24.7	(0.9)	29.7
Add: Finance costs	1.1	1.1	3.3	1.1	3.4
Amortization	1.8	2.0	7.0	3.4	7.6
Income tax expense	0.4	4.7	9.4	(0.3)	10.0
EBITDA from continuing operations[2]	4.2	20.1	44.4	3.3	50.7

Selected Operating Information

	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Production – WSPF lumber (MMfbm)[3]	39.5	51.4	138.0	40.1	140.1
Shipments – WSPF lumber (MMfbm)[3]	44.7	55.5	142.7	34.1	127.4
Shipments – wholesale lumber (MMfbm)[3]	3.0	1.2	9.2	6.0	12.5
Electricity production (GWh)	1.2	54.6	109.7	53.7	129.6
Average exchange rate – $/US$[4]	0.766	0.783	0.780	0.794	0.799
Average WSPF 2x4 #2 & Btr lumber price (US$)[5]	$568	$827	$894	$478	$917
Average WSPF 2x4 #2 & Btr lumber price ($)[6]	$742	$1,056	$1,143	$602	$1,144

(1) Reflects results of continuing operations.
(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(3) MMfbm represents million board feet.
(4) Bank of Canada, www.bankofcanada.ca.
(5) Random Lengths Publications Inc.
(6) Average SPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

REVIEW OF THIRD QUARTER 2022 FINANCIAL RESULTS

During the third quarter of 2022, we generated net income of $0.9 million or $0.02 per share compared to net income of $12.3 million or $0.31 per share in the previous quarter and a net loss of $0.9 million or $0.02 per share in the third quarter of 2021. While our power plant was not operational during the current quarter, our net earnings realized the benefit of a recovery of softwood lumber duties reflecting the difference between the cash deposit rates and the published final rates for lumber shipments to the U.S. in 2019 and 2020.

North American lumber market prices continued to decline through the third 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 [1], which averaged $742 in the third quarter of 2022, decreased by 30% or $314 from the previous quarter but increased by 23% or $140 from the third quarter of 2021. Market prices experienced a slide from recent 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 declined, averaging 1,502,000 in the third quarter of 2022, down 9% from the previous quarter and 4% from the third quarter of 2021 [2].

Lumber Operations

Our lumber production in the third quarter of 2022 totalled approximately 39.5 million board feet, representing operating rates of approximately 66% of annualized capacity. In the previous quarter, 51.4 million board feet of lumber was produced. The decrease in lumber production for the third quarter was largely due to a reduction in lumber operations to a one-shift basis since the end of August 2022. In the third quarter of 2021, 40.1 million board feet was produced, representing operating rates of approximately 67% of annualized capacity, reflecting the temporary curtailment of lumber operations for two weeks in August 2021.

Shipments of Conifex produced lumber totaled 44.7 million board feet in the third quarter of 2022, representing a decrease of 19% from the 55.5 million board feet shipped in the previous quarter and an increase of 31% from the 34.1 million board feet of lumber shipped in the third quarter of 2021. Shipments of Conifex produced lumber in the third quarter of 2022 were impacted by the reduced operating schedule implemented to manage the ongoing railcar supply challenges. Our wholesale lumber program shipped 3.0 million board feet in the third quarter of 2022, representing an increase of 150% from the 1.2 million board feet shipped in the second quarter of 2022 and a decrease of 50% from the 6.0 million board feet shipped in the third quarter of 2021.

Revenues from lumber products were $39.3 million in the third quarter of 2022 representing a decrease of 43% from the previous quarter and an increase of 2% from the third quarter of 2021. Compared to the previous quarter, the lower revenues in the current quarter were driven by reduced shipment volumes, combined with the effects of lower realized lumber prices. The revenue increase in the current quarter over the same period in the prior year was largely the result of higher volumes of Conifex produced lumber shipped, offset by more modest volumes shipped under our wholesale lumber program.

Cost of goods sold in the third quarter of 2022 decreased by 18% from the previous quarter and was largely unchanged from the third quarter of 2021. The decrease in cost of goods sold from the prior quarter reflects the reduced volume of Conifex produced lumber shipped in the current quarter. Unit manufacturing costs increased in comparison to the previous quarter as a result of the one-shift operating format which resulted in lower lumber production and higher fixed costs absorption.

[1] Source: Random Lengths Publications Inc.

[2] Source: Forest Economic Advisors, LLC

We recognized a recovery of countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of $3.6 million in the third quarter of 2022, an expense of $7.2 million in the previous quarter and $1.3 million in the third quarter of 2021. The duty deposits were based on a combined rate of 8.99% until December 1, 2021, 17.91% until August 8, 2022 and 8.59% thereafter.

The following table reconciles cash deposits paid during the period to the amount recognized in our statement of net income and comprehensive income.

(unaudited, in millions of dollars)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Softwood lumber duty impact					
Cash deposits paid	2.1	7.2	14.2	1.3	9.1
Adjusted to final published rates	(5.7)	-	(5.7)	-	-
Softwood lumber duties, net	(3.6)	7.2	8.5	1.3	9.1

Cash deposits paid during the third quarter of 2022 decreased compared to the previous quarter due to lower lumber shipment volumes in the current quarter and reduced cash deposit rates in effect from August 2022 onwards. Cash deposits paid were higher than the third quarter of 2021 largely due to the greater volume of lumber shipments.

In the current quarter, we recognized a recovery of $5.7 million pertaining to the difference between the cash deposit rates in effect at the time of shipment and the final published rates of 17.91% and 8.59%, respectively, for shipments made to U.S. markets in the years ended December 31, 2019 and 2020. The net duty recoverable has been included as a long-term asset on our balance sheet.

Bioenergy Operations

Our Mackenzie power plant did not operate for most of the current quarter as a result of damage discovered to the plant's turbine during the course of scheduled annual maintenance work in July 2022, resulting in a total of 1.2 gigawatt hours of electricity being sold under our Electricity Purchase Agreement ("**EPA**") with BC Hydro. For additional information, see "*Recent Developments – Power Plant Delayed Restart*" above. Our Mackenzie power plant sold 54.6 and 53.7 gigawatt hours of electricity in the previous quarter and third quarter of 2021, respectively.

Electricity production contributed revenues of $0.4 million in the third quarter of 2022, a decrease of 92% from the previous quarter and 94% from the third quarter of 2021. In comparison to the previous and prior year comparative quarters, revenues were lower due to the power plant being mostly inoperable during the quarter.

We have submitted an insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations. We expect the property damage and business interruption will be covered by our insurance, subject to applicable deductibles and limits.

The insurance claim submitted in 2021 arising from the previous failure of the power plant's generator which impacted operations from December 2020 to February 2021 was settled and recognized 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. The final portion of the settlement for the physical damage and business interruption claim was received in July 2022.

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 continued 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 continued to produce electricity to fulfill volume commitments under our Load Displacement Agreement ("**LDA**") with BC Hydro.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs were $3.2 million in the third quarter of 2022, $3.1 million in the previous quarter and $2.3 million in the third quarter of 2021. Additional selling costs associated with the wholesale lumber program on higher shipment volumes relative to the previous quarter resulted in the modest increase in SG&A costs compared to the previous quarter. Increased SG&A costs in the current quarter than the comparative quarter in the preceding year were primarily attributable to stock-based compensation costs.

Finance Costs and Accretion

Finance costs and accretion totaled $1.1 million in the third 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 September 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$0.766 for each Canadian dollar during the third quarter of 2022, a level which represented a weakening of the Canadian dollar over the previous quarter [3].

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 $1.1 million in the third quarter of 2022, compared to $0.5 million in the previous quarter and $0.6 million in the third quarter of 2021.

Income Tax

The current quarter results include a current income tax recovery of $0.7 million, compared to an expense of $1.5 million in the previous quarter and nil in the third quarter of 2021.

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 $1.1 million in the third quarter of 2022, $3.3 million in the previous quarter and a recovery of $0.3 million in the third quarter of 2021. As at September 30, 2022, we have recognized a deferred income tax liability of $8.1 million.

Our effective tax rate was 28% in the current and previous quarters and 30% in the third quarter of 2021.

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

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	Q3 2022	Q4 2021	Q3 2021
Cash and cash equivalents	21.0	6.4	23.4
Cash – restricted	7.5	6.5	6.6
Operating working capital(1)	39.2	39.1	35.5
Operating loan	-	-	-
Current portion of long-term debt	(4.8)	(4.6)	(4.6)
Net current assets	62.9	47.4	60.9
Property, plant and equipment	128.4	125.4	127.2
Other long-term assets	33.7	28.3	27.7
	225.0	201.1	215.8
Non-interest bearing long-term liabilities	25.5	16.5	18.2
Long-term debt – Power Term Loan	51.4	53.7	54.8
Long-term debt – other(2)	1.6	1.1	1.3
Shareholders' equity	146.5	129.8	141.5
	225.0	201.1	215.8
Ratio of current assets to current liabilities	2.9	2.6	2.9
Net debt to capitalization	17%	26%	18%
Net debt to capitalization excluding Power Term Loan	(12%)	(1%)	(14%)

(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 remained largely unchanged over the first nine months of 2022. Higher inventory levels driven by an increase in log volumes held at September 30, 2022 compared to December 31, 2021 were largely offset by an overall increase in trade payables and utilization of prepaid amounts.

Overall debt was $57.8 million at September 30, 2022 compared to $59.4 million at December 31, 2021. The reduction of $1.6 million in debt comprised net lease proceeds of $0.6 million and Power Term Loan payments of $2.2 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At September 30, 2022, we had $55.0 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was $2.8 million.

The ratio of current assets to current liabilities was 2.9:1 at September 30, 2022 compared to 2.6:1 at December 31, 2021 and 2.9:1 at September 30, 2021. The change over the nine-month period was attributable to an increase in cash on hand, as well as increased investment in inventory levels.

As at September 30, 2022, $99.6 million of our consolidated property, plant and equipment was attributable to our power operations, compared to $100.7 million at December 31, 2021 and $101.9 million at September 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 September 30, 2022 decreased by $17.3 million to $29.3 million from $46.6 million at December 31, 2021. The net debt to capitalization ratio was approximately 17% at September 30, 2022, 26% at December 31, 2021 and 18% at September 30, 2021.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)	Q3 2022	Q2 2022	YTD 2022	Q3 2021	YTD 2021
Cash generated from (used in)					
Operating activities	(4.7)	36.5	39.0	(7.0)	30.6
Investing activities	(5.3)	(2.0)	(10.0)	(1.6)	(4.6)
Financing activities	(9.3)	(8.9)	(14.3)	(3.8)	(13.8)
Increase (decrease) in cash	(19.3)	25.6	14.7	(12.4)	12.2

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 $45.0 million of cash in the first nine months of 2022, compared to $51.8 million in the first nine months of 2021. Changes in non-cash working capital used $6.1 million of cash in the first nine months of 2022 and $21.2 million in the comparative nine-month period of 2021. The increase in our operating cash flows in the first nine months 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 $10.0 million in the first nine months of 2022 and $4.6 million in the comparative nine-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 $14.3 million in the first nine months of 2022, compared to $13.8 million in the first nine months of 2021. Net cash usage in the nine-month period ended September 30, 2022 was primarily comprised of payment of our special dividend of approximately $8.0 million, Power Term Loan and lease payments, payment of finance expenses and purchases of our common shares under the NCIB of approximately $0.4 million. In the first nine months of 2021, financing activities included purchases of our common shares of $1.0 million under a previous normal course issuer bid which was completed 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.

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

At September 30, 2022, we had total liquidity of $36.0 million, compared to $16.4 million at December 31, 2021 and $33.4 million at September 30, 2021. Liquidity at September 30, 2022 was comprised of unrestricted cash of $21.0 million and unused availability of $15.0 million under the Revolving Credit Facility.

The increase in our liquidity in the first nine months 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 half 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 September 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$30.6 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 September 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 September 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 third quarter of 2022 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1	2020 Q4
Revenue	47.7	85.1	71.8	59.9	47.6	96.5	46.6	49.8
Operating income (loss)	1.3	17.6	17.1	(3.0)	(0.7)	33.5	8.7	4.6
Net income (loss) from continuing operations	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.2
Net income (loss) – total operations	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.3
Net income (loss) per share – basic and diluted from continuing operations	0.02	0.31	0.28	(0.06)	(0.02)	0.56	0.10	0.05
Net income (loss) per share – basic and diluted – total operations	0.02	0.31	0.28	(0.06)	(0.02)	0.56	0.10	0.05
EBITDA from continuing operations(1)	4.2	20.1	20.1	1.0	3.3	37.8	9.7	6.8
Shares outstanding – weighted average (in millions)	40.2	40.2	40.1	43.8	44.6	46.0	46.4	47.0
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	39.5	51.4	47.1	44.0	40.1	49.0	51.0	48.3
Shipments – WSPF lumber	44.7	55.5	42.5	44.7	34.1	55.5	37.8	49.1
Shipments – wholesale lumber	3.0	1.2	4.9	6.1	6.0	5.8	0.7	1.8
Electricity production – GWh	1.2	54.6	53.9	54.9	53.7	50.9	25.0	41.7
Average exchange rate – US$/$(2)	0.766	0.783	0.790	0.794	0.794	0.814	0.790	0.767
Average WSPF 2x4 #2 & Btr lumber price (US$)(3)	$568	$827	$1,288	$739	$478	$1,289	$982	$700
Average WSPF 2x4 #2 & Btr lumber price ($)(4)	$742	$1,056	$1,631	$931	$602	$1,584	$1,244	$912
Reconciliation of EBITDA to net income (loss)								
Net income (loss) from continuing operations	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5	2.2
Add: Finance costs	1.1	1.1	1.1	1.2	1.1	1.1	1.1	1.3
Amortization	1.8	2.0	3.2	3.1	3.4	2.1	2.2	2.8
Income tax expense (recovery)	0.4	4.7	4.3	(0.8)	(0.3)	8.5	1.9	0.5
EBITDA from continuing operations(1)	4.2	20.1	20.1	1.0	3.3	37.8	9.7	6.8

(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.
(3) Random Lengths Publications Inc. (Western Spruce/Pine/Fir, per thousand board feet).
(4) Average WSPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the softwood lumber duty deposits rates on shipments to the 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 anticipate prevailing external factors, including higher interest rates, contraction in new home construction and reduced repair and remodelling activities, have created an environment for weaker lumber prices in the fourth quarter of 2022 relative to prices in the third quarter. The transportation challenges that we faced through much of 2022 have recently eased, and we anticipate lumber shipments in the fourth quarter of 2022 to be in line with our sawmill production.

We anticipate results for the fourth quarter to be comparable to the results achieved in the third quarter as expected business interruption proceeds related to the disruption of power plant operations are expected to offset weaker lumber operations contribution.

Looking ahead to 2023, we expect to maintain robust sawlog inventories to support continuous operations at our sawmill. We have completed several key improvements to our sawmilling and finishing lines, which combined with the benefits of an expected green log diet, are expected to improve our production performance, achieve better lumber recovery and reduce conversion and fibre costs. While we continue to evaluate the effect of a green log diet on our 2023 operations, we anticipate that this will enable us to migrate to a lower and more enviable ranking on the lumber industry cost curve.

Our Mackenzie power plant is forecasted to resume operations at full capacity in or about January 2023 and to generate a steady and diversified source of cash flow, with seasonally stronger EBITDA contributions expected upon resumption. See "*Recent Developments – Power Plant Delayed Restart*" above for additional information on the resumption of operations at the power plant.

Our liquidity and financial position are forecasted to continue to remain strong through the remainder of 2022. We continue to prioritize funding quick payback sawmill upgrades and exploring potential allocations of capital to enhance shareholder value as we continue to 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 heading into 2023.

CRITICAL ACCOUNTING ESTIMATES

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

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.

OUTSTANDING SECURITIES

As at November 6, 2022, we had 39,999,811 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 September 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.