



**CONIFEX TIMBER INC.
THIRD QUARTER 2024**

MANAGEMENT'S DISCUSSION AND ANALYSIS

November 12, 2024

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, 2024, relative to the quarters ended June 30, 2024, and September 30, 2023. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarter ended September 30, 2024 and 2023 and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2023, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IFRS Accounting Standards) and filed on SEDAR+ at www.sedarplus.ca.

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

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

Forward-Looking Statements

This interim MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: the availability and use of credit facilities or proceeds therefrom; our level of liquidity and our ability to service our debt; the realization of expected benefits of completed, current and any contemplated capital projects and the expected timing and budgets for such projects, including the build-out of any high-performance computing or data center operations; the growth and future prospects of our business; our expectations regarding our results of operations and performance; our planned operating format and expected operating rates; our perception of the industries or markets in which we operate and anticipated trends in such markets and in the countries in which we do business; fluctuations in stumpage rates; our ability to supply our manufacturing operations with wood fibre and our expected cost of wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the US; potential negative impacts of duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; continued positive relations with Indigenous groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our expectations about discussions with United

Steelworkers concerning renewal of the collective labour agreement in respect of our Power Plant employees; the outcome of any actual or potential litigation; future capital expenditures; and our expectations for US dollar benchmark prices.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; our ability to obtain and maintain required governmental and community approvals; the impact of changing government regulations and shifting political climates; that new home construction in the US will continue to see favourable demographics; that transportation services by third party providers will continue uninterrupted; our ability to ship our products in a timely manner; that there will be no additional unforeseen disruptions affecting the operation of our Mackenzie power plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our 2023 annual information form dated March 28, 2024 and our 2023 annual MD&A dated March 27, 2024 available on SEDAR+ at www.sedarplus.ca and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

BUSINESS OVERVIEW

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

We operate a two-line sawmill in Mackenzie, British Columbia (the "**Mackenzie Mill**"). At September 30th, 2024, we hold a forest licence in the timber supply area ("**TSA**") in and around Mackenzie with an allowable annual cut ("**AAC**") of 515,328 cubic metres, and own 50% of a joint venture which holds a forest licence with an AAC of 244,424 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis. See "*Recent Developments – Reduction in AAC*" for more information.

We operate a 36-megawatt ("**MW**") biomass power generation plant in Mackenzie, British Columbia (the "**Power Plant**"), located at the site of our Mackenzie Mill. Our Power Plant's output capacity is in excess of 230 gigawatt hours ("**GWh**") of electricity per year. We have an electricity purchase agreement ("**EPA**") and a related load displacement agreement ("**LDA**") with the British Columbia Hydro and Power Authority ("**BC Hydro**"). Under the EPA, BC Hydro agreed to purchase approximately 200 GWh of electrical energy annually over a 20-year term for a fixed price, and under the LDA we agreed to supply the energy requirements of our Mackenzie Mill over the same 20-year term.

While our core focus is the operation of the Mackenzie Mill and the Power Plant, we are continuously reviewing strategic opportunities that may increase shareholder value.

RECENT DEVELOPMENTS

Sawmill and Power Plant Operating Schedule Changes

In light of expected rail transportation challenges, together with already existing unfavourable market conditions, Conifex reduced its sawmill operating schedule at its Mackenzie Mill to a one-shift basis and temporarily curtailed its Power Plant, each commencing in August 2024. The Power Plant curtailment ended on September 30, 2024.

Reduction in AAC

The Minister of Forests has prescribed an 18.4% reduction of AACs of replaceable forest licences to align harvest levels to the current AAC. Effective August 19, 2024, the AACs of Conifex's forest licence A15385 and forest license A93631, in which Conifex owns a 50% interest, were reduced by 117,172 cubic metres and 55,576 cubic metres, respectively. The new AACs for the licenses are 515,328 cubic metres and 244,424 cubic metres, respectively, or a total available sawlog supply of 759,752 cubic metres annually.

Ratification of New Collective Labour Agreement

The United Steel Workers Union (the "USW") represents our unionized employees. In September 2024, we signed a new five-year collective labour agreement with the USW for our Mackenzie Mill employees. The collective agreement is retroactive to July 1, 2023, and expires on June 30, 2027.

Collective bargaining with the USW in respect of our Power Plant employees is scheduled to commence in November 2024.

SUMMARY

The following table summarizes our operating results.

Selected Financial Information

(unaudited, in millions of dollars, except share and exchange rate information)

	Q3 2024	Q2 2024	Q3 2023
Revenue			
Lumber – Conifex produced	19.1	25.0	26.6
Lumber – wholesale	0.0	0.0	0.8
By-products and other	2.9	2.3	4.3
Bioenergy	3.2	4.5	7.1
	25.2	31.8	38.7
Operating income (loss)	(6.1)	(9.6)	(10.1)
EBITDA ⁽¹⁾	(3.9)	(7.1)	(6.7)
Net income (loss)	(3.8)	(9.7)	(8.0)
Basic earnings (loss) per share	(0.09)	(0.24)	(0.20)
Diluted earnings (loss) per share	(0.09)	(0.22)	(0.20)
Shares outstanding – weighted average (millions)	40.6	40.4	40.2

Reconciliation of EBITDA to net income (loss)

Net income (loss)	(3.8)	(9.7)	(8.0)
Add: Finance costs	1.8	2.8	1.2
Amortization	2.4	2.5	3.8
Deferred income tax expense (recovery)	(4.3)	(2.7)	(3.7)
EBITDA ⁽¹⁾	(3.9)	(7.1)	(6.7)

Selected Operating Information

Production – WSPF lumber (MMfbm) ⁽²⁾	31.5	34.0	48.9
Shipments – WSPF lumber (MMfbm) ⁽²⁾	29.3	38.5	41.9
Shipments – wholesale lumber (MMfbm) ⁽²⁾	0.0	0.0	0.9
Electricity production (GWh)	25.9	38.0	56.0
Average exchange rate –\$/US\$ ⁽³⁾	0.733	0.731	0.746
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁴⁾	\$366	\$386	\$419
Average WSPF 2x4 #2 & Btr lumber price (CDN\$) ⁽⁵⁾	\$499	\$528	\$561

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

(2) MMfbm represents million board feet.

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

(4) Random Lengths Publications Inc.

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

REVIEW OF THIRD QUARTER 2024 FINANCIAL RESULTS

During the third quarter of 2024, we incurred a net loss of \$3.8 million or \$0.09 per share compared to a net loss of \$9.7 million or \$0.22 per share in the previous quarter and net loss of \$8.0 million or \$0.20 per share in the third quarter of 2023.

North American lumber market prices saw a decline in the third quarter of 2024 relative to the second quarter and fell relative to the third quarter of 2023. 2x4 dimension lumber price prices were negatively impacted quarter over quarter, which is the dimension used for the benchmark price, however wider dimension products saw a material increase in the third quarter of 2024 relative to the second quarter of 2024. Canadian dollar-denominated benchmark Western Spruce/Pine/Fir ("WSPF") prices, which averaged \$499 in the third quarter of 2024, decreased by 5% or \$29 from the previous quarter and

decreased by 11% or \$62 from the third quarter of 2023¹. The market price in the third quarter of 2024 was negatively impacted by a reduced demand for lumber, primarily as a result of persistently high inflation leading to a period of elevated interest rates. Inflation cooled quarter over quarter but the lag effect associated with this has been slow to improve lumber demand. Elevated interest rates have negatively impacted housing affordability and softened the demand for new repairs and remodelling in the US due to the majority of homeowners in the US locking into sub-5% 30-year fixed rate loans. In September, the US Federal Reserve lowered the interest rate by 50 basis points, signalling an improvement in housing affordability resulting from lower borrowing rates in the near term. US housing starts on a seasonally adjusted annual basis averaged 1.326 million in the third quarter of 2024, down 1.6% from the second quarter of 2024 and down 3.9% from the third quarter of 2023.

Lumber Operations

Our lumber production in the third quarter of 2024 totalled approximately 31.5 million board feet, representing operating rates of approximately 53% of annualized capacity. Third quarter production was negatively impacted by a scheduled three-week curtailment at the beginning of the quarter, as well as intermittent periods of reduced shifting capacity, reflecting the softening of lumber prices quarter over quarter. Lumber production of 34 million board feet in the previous quarter reflected slightly more operating days due to our ability to draw down on the more robust log inventories accumulated through the first quarter of 2024 to support the logging breakup season during the majority of the second quarter of 2024. Lumber production in the third quarter of 2023 was 48.9 million board feet or approximately 82% of annualized capacity, primarily due to more operating hours.

Shipments of Conifex-produced lumber totaled 29.3 million board feet in the third quarter of 2024, representing a decrease of 24% from the 38.5 million board feet shipped in the previous quarter due to reduced operating days and a decrease of 30% from the 41.9 million board feet of lumber shipped in the third quarter of 2023 also due to reduced operating days.

Our wholesale lumber shipments were nil in the first, second, and third quarters of 2024, compared to approximately 0.9 million board feet in the third quarter of 2023, as we have not engaged in wholesale lumber sales since the fourth quarter of 2023.

Revenues from lumber products were \$19.1 million in the third quarter of 2024, representing a decrease of 24% from the previous quarter and a decrease of 28% from the third quarter of 2023. Compared to the previous quarter, lower shipment volumes due to a reduced operating configuration and lower mill net realizations on lower lumber market prices contributed to the lower revenue. The revenue decrease in the current quarter over the same period in the prior year was largely a result of lower shipment volumes and lower mill net realizations.

Cost of goods sold in the third quarter of 2024 decreased by 21% from the previous quarter and decreased by 42% from the third quarter of 2023. The decrease in cost of goods sold from the prior quarter and third quarter of 2023, were primarily due to decreased shipment volumes. Unit manufacturing costs in the third quarter of 2024 decreased in comparison to the previous quarter as a result lower conversion costs, slightly offset by higher log costs. Unit manufacturing costs decreased in comparison to the third quarter of 2023 as a result of significantly lower log costs, slightly offset by higher conversion costs. We recorded inventory valuation reserves of \$0.7 million in the third quarter of 2024 compared to \$0.7 million in the second quarter of 2024 and \$2.4 million in the third quarter of 2023. Inventory valuation reserves stayed flat in comparison to the previous quarter primarily due to a slight decrease in total inventory volume, partially offset by higher anticipated future sales prices, and decreased in comparison to the third quarter of 2023 due to reduced inventory offset by lower lumber prices.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of \$0.2 million in the third quarter of 2024, \$1.1 million in the previous quarter and recognized a favourable duty adjustment of \$0.4 million in the third quarter of 2023 for the recognition of duty overpayments and interest accrued on duty

¹ Source: Random Lengths Publications Inc.

overpayments. In August, the duty rate increased from a combined rate of 8.05% to a combined rate of 14.4%. Export taxes during the third quarter of 2024 were lower than the previous quarter due to a decrease in overall shipped volume and lumber prices, combined with reversing a portion of the duty expense related to the final rates associated with the fifth administrative review and the interest accrued on the overpayments as was done in the same quarter of the previous year. In total we have deposited US\$37.1 million net of duty sales.

Bioenergy Operations

Our Power Plant sold 25.9 GWh of electricity under our EPA with BC Hydro in the third quarter of 2024 representing approximately 48% of targeted operating rates. Our Power Plant sold 38.0 GWh in the second quarter of 2024 and 56 GWh of electricity in the third quarter of 2023. Production in the third quarter of 2024 was lower than in the second quarter of 2024 because of a two-week extension to the planned annual shutdown that extended into mid July, combined with a five-week curtailment to end the quarter related to the threat of a transportation disruption from the CN labour strike and the corresponding impact to the sawmill side of the business. The reduction in generation relative to the same quarter in previous years was a result of fewer operating days.

Electricity production contributed revenues of \$3.2 million in the third quarter of 2024, \$4.5 million in the previous quarter and \$7.1 million in the third quarter of 2023. Lower operating days were the driver of the reduced revenues.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs decreased between the third quarter and second quarter of 2024 and decreased between the third quarter of 2024 and the third quarter of 2023. SG&A costs were \$1.3 million in the third quarter of 2024, \$1.9 million in the previous quarter and \$3.3 million in the third quarter of 2023. The decrease in SG&A costs relative to the previous quarter and the third quarter of 2023 were largely due to a decrease in outstanding share-based compensation and a reduction in overhead costs.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.8 million in the third quarter of 2024, \$2.8 million in the previous quarter and \$1.2 million in the third quarter of 2023. The decrease in finance costs quarter over quarter was primarily related to the retirement of our then-existing lumber segment credit facility with Wells Fargo Capital Finance Corporation Canada (the "**Wells Fargo Facility**") in the second quarter of 2024. The year over year increase was primarily due to interest costs associated with \$25 million secured term loan (the "**PenderFund Term Loan**") with Pender Corporate Bond Fund ("**PenderFund**").

Gain or Loss on Derivative Financial Instruments

From time to time, we may enter lumber future contracts at times to manage our commodity lumber price or foreign exchange exposures. Gains or losses on derivative instruments are recognized as they are settled or as they are marked to market for each reporting period.

There were no outstanding futures contracts in place as at September 30, 2024.

Other Income

We recognized minimal other income in the second and third quarter of 2024 and in the comparative quarter of 2023. In the first quarter of 2024, we recognized \$3.0 million in other income for insurance proceeds from the loss of our Osilinka logging camp. Insurance proceeds were received in the second quarter of 2024.

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\$0.733 for each Canadian dollar during the third quarter of 2024, a level which represented a modest strengthening of the Canadian dollar over the previous quarter².

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation gain of \$0.2 million in the third quarter of 2024, compared to a nominal foreign exchange translation gain in the previous quarter and a loss of \$0.2 million in the third quarter of 2023.

Income Tax

We recorded income tax recovery of \$4.3 million in the third quarter of 2024, \$2.7 million in the previous quarter and \$3.7 million in the third quarter of 2023. The increase in recovery in the third quarter of 2024 relative to the second quarter of 2024 is due to an adjustment from the prior quarters, and the recovery in the third quarter of 2024 was comparative relative to the third quarter of 2023 even though the net loss in 2023 was much higher.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. As at September 30, 2024, we have recognized deferred income tax assets of \$10.5 million, compared to \$6.7 million in the previous quarter and \$3.0 million in the third quarter of 2023.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)			
	Q3 2024	Q2 2024	Q3 2023
Cash	2.4	10.9	3.2
Cash – restricted	5.5	5.5	6.5
Operating working capital ⁽¹⁾	15.7	12.8	31.9
Operating loan	(0.0)	(0.0)	(12.2)
Current portion of long-term debt	(7.8)	(4.9)	(4.8)
Net current assets	15.7	24.3	24.6
Property, plant and equipment	120.4	120.7	125.7
Other long-term assets	48.2	43	36.8
	184.3	188	187.1
Non-interest bearing long-term liabilities	17.2	17.6	15.6
Long-term debt – Power Term Loan	43.7	44.5	47.7
Long-term debt – other ⁽²⁾	26.1	24.7	0.9
Shareholders' equity	97.4	101.2	122.9
	184.3	188.8	187.1
Ratio of current assets to current liabilities	1.5	1.8	1.6
Net debt to capitalization	41%	36	34%
Net debt to capitalization excluding Power Term Loan	20%	13%	10%

(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 PenderFund Term Loan and equipment and vehicle leases expiring between 2024 and 2029.

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

Operating working capital increased by \$2.8 million over the second quarter of 2024 due primarily to an increase in log and lumber inventory totalling approximately \$3.6 million. Log inventories are generally lower in the second quarter due to normal spring breakup conditions and the inability to deliver logs. Lumber inventory was drawn down as the Mackenzie Mill entered its scheduled two-week curtailment at the end of the second quarter of 2024 and then slightly grew over the third quarter. Working capital was right sized for a single shift basis. Operating working capital decreased by \$16.3 million compared to the third quarter of 2023 due to significantly lower inventories and a lower trade receivables balance to reflect single shift operations and Power Plant curtailment.

Overall debt was \$77.6 million at September 30, 2024, compared to \$74.1 million at June 30, 2024, and \$65.6 million at September 30, 2023. The increase in overall debt between the third and second quarter was driven by an additional \$2.5 million in the final draw against the PenderFund Term Loan, offset by payments against operating leases. The term loan supporting our bioenergy operations (the "**Power Term Loan**"), which is largely non-recourse to our lumber operations, represents a substantial portion of our outstanding long-term debt. At September 30, 2024, we had \$48.7 million outstanding on our Power Term Loan, while our remaining long-term debt consisting of leases, was \$3.1 million.

The ratio of current assets to current liabilities was 1.5:1 at September 30, 2024, compared to 1.8:1 at June 30, 2024, and 1.6:1 at September 30, 2023. The year-over-year change was primarily attributable to lower inventory levels and a higher trade payables balance compared to the previous period, offset by not having any draws on an operating loan in current quarter. The change from prior quarter primarily relates to a decrease in cash from funding operating losses and working capital growth, partially offset by the proceeds of the PenderFund Term Loan additional draw.

As at September 30, 2024, \$93.8 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$94.1 million at June 30, 2024, and \$98.1 million at September 30, 2023. The decrease is attributed to amortization expense exceeding additions to property, plant, and equipment.

We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as interest-bearing debt less cash. Total capitalization is calculated as the sum of net debt and equity. Net debt at September 30, 2024, increased by \$9.7 million to \$67.3 million from \$57.6 million at June 30, 2024, due to a reduction in cash. The net debt to capitalization ratio was approximately 41% at September 30, 2024, 36% at June 30, 2024, and 31% at September 30, 2023.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)

	Q3 2024	Q2 2024	Q3 2023
Cash generated from (used in)			
Operating activities	(11.1)	1.9	0.4
Investing activities	(0.8)	(2.7)	(2.3)
Financing activities	3.3	7.5	0.5
Increase (decrease) in cash	(8.6)	6.7	(1.4)

Operating Activities

We operate in a cyclical industry. Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and prices, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie Mill during the shoulder seasons. 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 resulted in net cash usage of \$11.1 million in the third quarter of 2024, compared to net cash generation of \$1.9 million in the second quarter of 2024 and net cash generation of \$0.4 million in the third quarter of 2023. The decrease in operating cash flows in the third quarter of 2024 compared to the second quarter of 2024 and to the third quarter of 2023 largely reflects an increase in inventory and an increase in trade and other receivables.

Investing Activities

Investing activities utilized cash of \$0.8 million in the third quarter of 2024, utilized \$2.7 million of cash in the second quarter of 2024 and utilized \$2.3 million in the third quarter of 2023. This is related to capital expenditures in all comparative quarters. The third quarter is generally when expenses relating to the Power Plant maintenance outage are capitalized.

Financing Activities

Our financing activities generated \$3.3 million in the third quarter of 2024, generated \$7.5 million in the previous quarter and generated \$0.5 million in the third quarter of 2023. The net cash generated from financing activities in the current quarter primarily relates to the additional draw on the PenderFund Term Loan for \$2.5 million, offset by interest paid.

Liquidity

Our principal sources of funds are cash on hand and cash flows from operations. As at September 30, 2024, we have drawn \$25 million against the PenderFund Term Loan. During the previous quarter, we had drawn \$22.5 million against the PenderFund Term Loan. In the third quarter of 2023, we had \$12.2 million drawn on our Wells Fargo Facility which was retired in the second quarter of 2024.

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, 2024, we had available liquidity of \$2.4 million comprised of unrestricted cash. This is a decrease from our available liquidity of \$13.4 million as at June 30, 2024 and a decrease from our available liquidity of \$16.0 million as at September 30, 2023. The change in liquidity in the third quarter of 2024 compared to the second quarter of 2024 is due to increased inventories and trade receivables and our \$2.5 million draw against the PenderFund Term Loan. The change in liquidity in the third quarter of 2024 compared to the third quarter of 2023 is due to lower lumber prices and increasing inventories as well as fewer operating days.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the US government in April 2017. Cumulative duties of US\$37.1 million paid by us, net of sales of the right to certain refunds, since the inception of the trade dispute remain held in trust by the US pending administrative reviews and the conclusion of all appeals of US decisions. Future cash flows could 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.

While there are signs that the macro-environment for the lumber industry is starting to improve, Conifex continues to review its options to improve liquidity. In the event of a sustained market downturn, Conifex maintains flexibility to significantly reduce expenditures and working capital levels and to proactively adjust its lumber production to match demand. At present, we are working collaboratively with our existing lenders to fund our heightened operational working capital investments. We are also evaluating additional financing opportunities to help ensure that we retain sufficient liquidity to fund log and lumber inventories and receivables from the sale of lumber and residual chips, including obtaining additional debt facilities or the sale of assets, including duty deposits.

The Company endeavors to ensure that it has sufficient cash on demand to meet its obligations as they become due by preparing annual capital and administrative expenditure budgets, which are regularly monitored and updated as considered necessary. The Company monitors its risk of shortage of funds by monitoring the maturity dates of existing trade and other accounts payable as well as the credit facilities. The Company's trade and other accounts payable are subject to normal trade terms.

We monitor our expected liquidity levels and compliance with debt covenants under our Power Term Loan and PenderFund Term Loan by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments, and to sustain 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, 2024. As at September 30, 2024, we had cash of \$2.4 million and had drawn \$25 million from the PenderFund Term Loan. After adjustments for working capital items, cash flow utilized from operations totalled \$11.1 million for the quarter ended September 30, 2024. Working capital as at September 30, 2024, was \$15.7 million as compared to \$12.8 million as at June 30, 2024, and \$31.9 million at September 30, 2023. The Company expects to be able to meet its obligations as they become due in the normal course of business for at least twelve months from September 30, 2024.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at September 30, 2024, were comprised of standby letters of credit totalling \$3.0 million posted by our subsidiary Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA in the event of failure to remit amounts owing to BC Hydro arising from default or termination of the agreements. The standby letters of credit are secured by customary performance bonds.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, we had no transactions between related parties in the third quarter of 2024 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, except where otherwise noted)	2024			2023		2022		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	25.2	31.8	40.8	35.3	38.7	27.2	39.9	26.7
Operating income (loss)	(6.1)	(9.7)	(7.1)	(6.6)	(10.1)	(11.0)	(11.5)	(8.5)
Net income (loss) from continuing operations	(3.8)	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)
Net income (loss) – total operations	(3.8)	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)
Net income (loss) per share – basic and diluted	(0.09)	(0.24)	(0.11)	(0.14)	(0.20)	(0.23)	(0.20)	(0.0)
– total operations	(0.09)	(0.22)						
EBITDA ⁽¹⁾	(3.9)	(7.1)	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3
Shares outstanding – weighted average (in millions)	40.6	40.4	40.4	40.4	40.2	39.8	39.8	39.9
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	31.5	34.0	44.5	33.2	48.9	32.5	41.2	27.9
Shipments – WSPF lumber	29.3	38.5	44.5	39.1	41.9	31.1	40.6	31.6
Shipments – wholesale lumber	0.0	0.0	0.0	1.1	0.9	1.1	1.0	1.5
Electricity production – GWh	25.9	38.0	56.0	43.5	56.0	43.5	34.6	-
Average exchange rate – \$/US\$ ⁽²⁾	0.733	0.731	0.741	0.734	0.746	0.745	0.740	0.736
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽³⁾	\$366	\$386	\$446	\$402	\$417	\$363	\$384	\$402
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁴⁾	\$499	\$528	\$601	\$547	\$559	\$487	\$519	\$546
Reconciliation of EBITDA to net income (loss)								
Net income (loss) from continuing operations	(3.8)	(9.7)	(4.5)	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)
Add: Finance costs	1.8	2.8	1.3	1.3	1.2	1.3	1.2	1.0
Amortization	2.4	2.5	3.2	3.0	3.8	2.4	2.5	1.4
Income tax expense (recovery)	(4.3)	(2.7)	(0.5)	(2.5)	(3.7)	(3.2)	(2.5)	0.1
EBITDA from continuing operations ⁽¹⁾	(3.9)	(7.1)	(0.5)	(3.5)	(6.7)	(8.7)	(6.9)	2.3

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

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

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

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

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

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie Mill during the shoulder seasons when logging operations are generally largely curtailed due to unstable road and ground conditions. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The application of a "time of delivery factor" to the fixed price provided under the EPA generally results in a seasonal effect and considerable variability in quarterly revenues from electricity deliveries, with the lowest revenues generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary considerably between the strongest and weakest quarters. As a major portion of electricity production costs, as well as interest charges, are fixed in nature, quarterly bioenergy operating results reflect the variability in revenues.

OUTLOOK

We continue to believe that the bottom in SPF lumber prices is behind us given the production curtailments implemented by other lumber producers. Looking ahead to the final quarter of 2024, our average mill net selling price through the first six weeks of the quarter was 17.5% higher than the average achieved for the third quarter of 2024. With a continuation of these prices, we would expect a significant positive impact to our fourth quarter EBITDA.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended September 30, 2024. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2023, filed on SEDAR+ at www.sedarplus.ca.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our 2023 annual information form dated March 28, 2024, and our 2023 annual MD&A dated March 27, 2024, and other filings with the Canadian regulatory authorities available on SEDAR+ at www.sedarplus.ca.

OUTSTANDING SECURITIES

As at November 12, 2024, we had 40,767,710 common shares, 3,600,000 warrants and 3,262,875 long-term incentive plan awards outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2024, there were no changes that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ADDITIONAL INFORMATION

Additional information about our company, including our annual information form dated March 28, 2024, is available on SEDAR+ at www.sedarplus.ca.