CONIFEX

CONIFEX TIMBER INC.
SECOND QUARTER 2026

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 14, 2026

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, 2026, relative to the quarters ended March 31, 2026, and June 30, 2025. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2026 and 2025 and our MD&A and our audited consolidated financial statements and notes thereon for the year ended December 31, 2025, 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. Except where otherwise indicated, dollar amounts have been converted at an assumed exchange rate of US$1.00 to $1.403.

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, including whether financing will be obtained on acceptable terms or at all; our level of liquidity and our ability to service our debt; short-term and longer-term cash sufficiency; the realization of expected benefits of completed, current and any contemplated capital projects and the expected timing and budgets for such projects; 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; our ability to supply our manufacturing operations with wood fibre and our expected cost of wood fibre; our expectation for market volatility associated with the softwood lumber dispute with the US; potential negative impacts of duties or other protective measures on our products and the potential for further escalating trade measures between Canada, the US and other jurisdictions (including the applicability, timing and scope of any such measures); the expected rates of antidumping duties, *countervailing duties, tariffs, and other duties imposed by the US government; 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 outcome of any actual or potential litigation; future capital expenditures; changes in stumpage fees; our expectations regarding interest rates and US dollar benchmark prices; and weather conditions, natural and manmade disasters and climate change.*

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 2025 annual information form dated March 31, 2026 and our 2025 annual MD&A dated March 21, 2026, available under Conifex's profile 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 operating in lumber and bioenergy. Our lumber operations are primarily involved in the manufacture, sale, and distribution of dimension lumber.

We operate a two-line sawmill in Mackenzie, British Columbia (the "Mackenzie Mill"). We hold a forest licence in the timber supply area ("TSA") in and around Mackenzie with an allowable annual cut ("AAC") of 501,759 cubic metres, and own 50% of a joint venture which holds a forest licence with an AAC of 237,988 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis.

We operate a 36-megawatt 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 ending in 2035, 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.

RECENT DEVELOPMENTS

Temporary Curtailment of Sawmill Operations

On May 1, 2026, we announced a temporary curtailment of sawmill operations at the Mackenzie Mill for an approximately seven-week period commencing May 19, 2026, driven by a shortage of available sawlogs during the seasonal spring breakup period. We are actively planning for a timely restart and expect to resume operations once the conditions necessary for a successful startup have been satisfied, including, Conifex's receipt of financing (the receipt and availability of which cannot be assured).

Softwood Lumber Duties – AR7 Preliminary Determination

On April 9, 2026, the US Department of Commerce ("USDOC") released its preliminary determination in the seventh administrative review ("AR7") of the softwood lumber anti-dumping ("AD") and countervailing duty ("CVD") orders, covering shipments made during 2024. The preliminary rates applicable to Conifex were 10.66% (AD) and 14.17% (CVD). On June 30, 2026, the USDOC released its post-preliminary analysis, which maintained the AD rate at 10.66% and increased the CVD rate by 0.35 percentage points to 14.52%, for a combined rate of 25.18%, compared to the currently prevailing combined cash deposit rate of 35.16% (20.53% AD and 14.63% CVD).

During 2024, Conifex's shipments were assessed cash deposits at weighted average rates of 6.79% (AD) and 3.60% (CVD). Because the AR7 rates exceed the rates at which deposits were made on 2024 shipments, we estimate that, should the final determination mirror the post-preliminary rates, we would recognize a non-cash export duty expense of approximately US$6.7 million ($9.4 million), together with accrued interest of approximately US$0.9 million ($1.3 million), upon publication of the final results. The rates remain subject to adjustment, and the USDOC is expected to issue its final determination in the fourth quarter of 2026.

Power Plant Maintenance Shutdown

In May 2026, our Power Plant entered its scheduled annual maintenance shutdown. As at the date of this report, maintenance activities remain ongoing in accordance with Conifex's maintenance plan. We anticipate resuming power generation concurrently with the restart of sawmill operations.

SUMMARY

The following table summarizes our operating results.

Selected Financial Information

(unaudited, in millions of dollars, except share and exchange rate information)	**Q2 2026**	**Q1 2026**	**YTD 2026**	**Q2 2025**	**YTD 2025**
Sales					
Lumber – Conifex produced	19.0	14.9	33.9	27.4	58.7
By-products and other	1.2	1.7	2.9	2.9	9.2
Bioenergy	2.8	5.2	8.0	3.6	10.6
	23.0	21.8	44.8	33.9	78.5
Operating income (loss)	(7.8)	(9.8)	(17.6)	(4.5)	(2.1)
EBITDA[1]	(6.3)	(7.7)	(14.0)	(3.2)	1.7
Net income (loss)	**(9.5)**	**(9.4)**	**(19.0)**	**(8.3)**	**(7.7)**
Basic earnings (loss) per share	**(0.23)**	**(0.23)**	**(0.46)**	**(0.20)**	**(0.19)**
Diluted earnings (loss) per share	**(0.23)**	**(0.23)**	**(0.46)**	**(0.20)**	**(0.19)**
Shares outstanding – weighted average (millions)	40.8	40.8	40.8	40.8	40.8
Diluted Shares (millions)	40.8	40.8	40.8	40.8	40.8
Reconciliation of EBITDA to net income (loss)					
Net income (loss)	(9.5)	(9.4)	(19.0)	(8.3)	(7.7)
Add: Finance costs	3.1	2.8	6.0	2.4	4.7
Amortization	1.5	2.0	3.5	1.9	4.7
Deferred income tax expense (recovery)	(1.4)	(3.2)	(4.6)	0.8	0.0
EBITDA[1]	(6.3)	(7.7)	(14.0)	(3.2)	1.7

Selected Operating Information

Production – WSPF lumber (MMfbm)[2]	14.1	21.7	35.8	35.3	81.6
Shipments – WSPF lumber (MMfbm)[2]	23.6	21.5	45.1	38.9	76.9
Electricity production (GWh)	19.8	36.7	56.5	29.6	77.2
Average exchange rate – $/US$[3]	0.723	0.729	0.726	0.723	0.709
Average WSPF 2x4 #2 & Btr lumber price (US$)[4]	$488	$463	$476	$471	$482
Average WSPF 2x4 #2 & Btr lumber price (CDN$)[5]	$675	$635	$656	$651	$680

(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 western spruce-pine-fir ("WSPF") 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

REVIEW OF SECOND QUARTER 2026 FINANCIAL RESULTS

During the second quarter of 2026, we incurred a net loss of $9.5 million or $0.23 per share compared to a net loss of $9.4 million or $0.23 per share in the previous quarter, and a net loss of $8.3 million or $0.20 per share in the second quarter of 2025.

North American lumber markets remained volatile through the second quarter of 2026. Canadian dollar-denominated benchmark WSPF prices, which averaged $675 in the second quarter of 2026, increased by 6% or $40 from the previous quarter and increased by 4% or $24 from the second quarter of 2025. Benchmark prices were supported by extensive supply curtailments across the industry, partially offset by continued softness in US residential construction activity and persistent affordability constraints.

US housing starts on a seasonally adjusted annual basis averaged 1.36 million in the second quarter of 2026 compared to 1.42 million in the previous quarter, and 1.32 million in the second quarter of 2025.

The withdrawal of European volume from the US market, combined with duty-constrained Canadian shipments and ongoing North American capacity curtailments, has contributed to a tightening supply environment that we believe supports improved pricing conditions through the balance of 2026 and into subsequent years.

Lumber Operations

Our lumber production in the second quarter of 2026 totalled approximately 14.1 million board feet, representing operating rates of approximately 23% of annualized capacity. Production decreased by 35% from the 21.7 million board feet produced in the previous quarter and by 60% from the 35.3 million board feet produced in the second quarter of 2025. The decrease relative to both comparative quarters reflects the temporary curtailment of our sawmill operations commencing in May 2026.

Shipments of Conifex-produced lumber totalled 23.6 million board feet in the second quarter of 2026, representing an increase of 10% from the 21.5 million board feet shipped in the previous quarter, and a decrease of 39% from the 38.9 million board feet shipped in the second quarter of 2025. Shipments exceeded production in the quarter as we drew down finished lumber inventories, notwithstanding the curtailment of our sawmill operations. We continued to operate our planer mill for several weeks following the sawmill curtailment, processing accumulated rough inventory and extending our shipment capability into the curtailment period.

Revenues from lumber products were $19.0 million in the second quarter of 2026, representing an increase of 27% from the previous quarter and a decrease of 31% from the second quarter of 2025. The increase from the previous quarter was driven by higher shipment volumes and higher sales realizations on stronger benchmark prices. The decrease from the same quarter of the prior year reflects materially lower shipment volumes.

Cost of goods sold in the second quarter of 2026 decreased by approximately 10% from the previous quarter and by 26% from the second quarter of 2025, primarily due to materially lower production volumes during the curtailment. Cost of goods sold in the current quarter reflects the drawdown of lumber inventories, which released previously inventoried costs, partially offset by inventory valuation recoveries of approximately $3.0 million recognized as previously written-down inventory was sold. Unit log costs and cash conversion costs increased relative to the previous quarter, reflecting reduced operating days from the curtailment.

We expensed CVD and AD duty deposits of $3.7 million in the second quarter of 2026, compared to $3.0 million in the previous quarter and $2.0 million in the second quarter of 2025. The increase relative to the previous quarter reflects higher shipment volumes into the US. Duty deposits in the current quarter were made at a combined "all-others" deposit rate of 35.16%, with the 10% Section 232 tariff on lumber applying in addition. In total, we have deposited US$49.4 million net of duty sales.

Bioenergy Operations

Our Power Plant sold 19.8 GWh of electricity under our EPA in the second quarter of 2026, representing approximately 36% of targeted operating rates. Our Power Plant sold 36.7 GWh in the first quarter of 2026 and 29.6 GWh of electricity in the second quarter of 2025. The decrease from the first quarter of 2026 reflects our annual maintenance shutdown, as a result of which we idled the Power Plant for the final two months of the quarter. The decrease from the second quarter of 2025 reflects an earlier shutdown start date in the current year, driven primarily by contractor availability.

Electricity production contributed revenues of $2.8 million in the second quarter of 2026, $5.2 million in the previous quarter and $3.6 million in the second quarter of 2025. The reduced operating days were the primary driver of the lower revenues in the current quarter.

Selling, General and Administrative Costs

Selling, general and administrative costs were $1.4 million in the second quarter of 2026, compared to $1.5 million in the previous quarter and $1.5 million in the second quarter of 2025, remaining relatively consistent across all comparative periods.

Finance Costs and Accretion

Finance costs and accretion totalled $3.1 million in the second quarter of 2026, compared to $2.8 million in the previous quarter and $2.4 million in the second quarter of 2025. The increase relative to both comparative periods primarily reflects a full quarter of interest on Conifex's $19 million secured term loan between Conifex Mackenzie Forest Products Inc., a wholly-owned subsidiary of Conifex, and the Business Development Bank of Canada ("BDC") under the Softwood Lumber Guarantee Program (the "BDC Loan") drawn in March 2026, combined with higher overall debt levels.

Gain or Loss on Derivative Financial Instruments

From time to time, we may enter into lumber futures contracts to manage our exposure to commodity lumber prices. Gains and losses on these instruments are recognized in earnings as they are settled or marked to market at each reporting date.

There were no outstanding futures contracts in place as at June 30, 2026.

Other Income

We recognized minimal other income in each of the second quarter of 2026, the previous quarter, and the second quarter of 2025.

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 Canadian dollar averaged US$0.723 during the second quarter of 2026, representing a modest weakening relative to the previous quarter.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation loss of $0.1 million in the second quarter of 2026, compared to a translation gain of approximately nil in the previous quarter and a translation loss of $0.8 million in the second quarter of 2025.

Income Tax

We recorded an income tax recovery of $1.4 million in the second quarter of 2026, compared to a recovery of $3.2 million in the previous quarter and income tax expense of $0.8 million in the second quarter of 2025. The recovery in the current quarter reflects continued operating losses.

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 June 30, 2026, we have recognized deferred income tax assets of $25.9 million, compared to $24.5 million in the previous quarter and $5.9 million in the second quarter of 2025. Our deferred income tax asset increased relative to both comparative periods due to continued net losses in a challenging operating environment with elevated duties and tariffs.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	Q2 2026	Q1 2026	Q2 2025
Cash	1.3	3.6	3.0
Cash – restricted	1.3	2.5	2.6
Operating working capital(1)	(6.1)	4.8	15.4
Operating loan	0.0	0.0	0.0
Current portion of long-term debt	(10.0)	(12.9)	(8.9)
Net current assets	(13.5)	(2.0)	12.1
Property, plant and equipment	109.7	109.3	116.6
Long-term duty receivables	11.8	11.4	0.0
Other long-term assets	50.0	48.6	40.8
	158.0	167.3	169.5
Non-interest bearing long-term liabilities	15.9	18.4	18.9
Long-term debt – CPLP Term Loan(2)	42.4	38.4	42.8
Long-term debt – other(3)	49.4	51.3	29.9
Long-term duty payable	19.6	18.9	0.0
Shareholders' equity	30.8	40.4	77.9
	158.0	167.3	169.5
Ratio of current assets to current liabilities	0.7	1.0	1.4
Net debt to capitalization	76%	70%	49%
Net debt to capitalization excluding Power Term Loan(4)	64%	58%	29%

(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) "CPLP Term Loan" means the secured term loan entered into in October 2018 among Conifex Power Limited Partnership ("CPLP"), a wholly-owned subsidiary of Conifex, and a syndicate of private lenders.
(3) Consists of PenderFund Term Loan (as defined herein), the BDC Loan and equipment and vehicle leases expiring between 2026 and 2030.
(4) "Power Term Loan" means the credit agreement dated October 30, 2018, among Conifex Power LP, a wholly-owned subsidiary of Conifex, Fiera Infrastructure Private Debt Fund LP and others.

In the second quarter of 2026, operating working capital decreased by approximately $10.9 million from the first quarter of 2026, primarily due to the drawdown of log and lumber inventories of approximately $5.6 million and a decrease in trade and other receivables of approximately $9.2 million, partially offset by a decrease in trade payables and accrued liabilities of approximately $3.6 million. Working capital decreased as we drew down our trade receivables and inventory in advance of the scheduled curtailment. Operating working capital decreased by approximately $21.5 million compared to the second quarter of 2025, reflecting lower inventories, lower trade receivables and lower prepaid expenses.

Overall debt was approximately $101.8 million at June 30, 2026, compared to approximately $102.6 million at March 31, 2026, and $81.6 million at June 30, 2025. The decrease in overall debt from the previous quarter was driven by scheduled principal repayments on the CPLP Term Loan and the PenderFund Term Loan, combined with payments against leases. At June 30, 2026, we had $46.1 million outstanding on the CPLP Term Loan, $34.4 million outstanding on the PenderFund Term Loan, $19.0 million outstanding under the BDC Loan, and $2.4 million in leases. The CPLP Term Loan is largely non-recourse to our lumber operations.

The ratio of current assets to current liabilities was 0.7:1 at June 30, 2026, compared to 1.0:1 at March 31, 2026, and 1.4:1 at June 30, 2025. The change from the prior quarter primarily reflects the drawdown of inventories and lower trade receivables during the curtailment of sawmill operations. The change from the second quarter of 2025 reflects the continued softening of the lumber operating environment, including elevated duty and tariff rates.

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 June 30, 2026, increased by approximately $2.6 million to $99.1 million from $96.5 million at March 31, 2026, primarily due to lower cash balances. The net debt to capitalization ratio was approximately 76% at June 30, 2026, 70% at March 31, 2026, and 49% at June 30, 2025.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(unaudited, in millions of dollars)	**Q2 2026**	**Q1 2026**	**YTD 2026**	**Q2 2025**	**YTD 2025**
Cash generated from (used in)					
Operating activities	3.6	(14.1)	(10.4)	6.8	0.2
Investing activities	(1.9)	(0.0)	(1.9)	(3.2)	(2.5)
Financing activities	(4.1)	13.3	9.2	(4.8)	1.7
Increase (decrease) in cash	(2.3)	(0.8)	(3.1)	(1.2)	(0.6)

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.

Net cash generated from operations was $3.6 million in the second quarter of 2026, compared to net cash usage of $14.1 million in the first quarter of 2026 and net cash generation of $6.8 million in the second quarter of 2025. The improvement in operating cash flows relative to the previous quarter largely reflects the drawdown of the seasonal log and lumber inventory build and the collection of trade receivables, partially offset by the operating loss in the quarter.

Investing Activities

Investing activities utilized cash of $1.9 million in the second quarter of 2026, utilized minimal cash in the first quarter of 2026 and utilized cash of $3.2 million in the second quarter of 2025. Capital expenditures in the current quarter primarily related to the capitalized portion of the annual shutdown at our Power Plant.

Financing Activities

Our financing activities utilized $4.1 million in the second quarter of 2026, compared to cash generated of $13.3 million in the previous quarter and cash utilized of $4.8 million in the second quarter of 2025. Cash usage in the current quarter reflected principal and interest payments on our term debt, partially offset by a $1.2 million release of restricted cash. The cash generated in the previous quarter primarily reflected the $19.0 million advance under the BDC Loan.

Liquidity

Our principal sources of funds are cash on hand and cash flows from operations. As at June 30, 2026, we had drawn $34.4 million against the PenderFund Term Loan, compared to $34.6 million in the previous quarter and $31.5 million in the second quarter of 2025.

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

At June 30, 2026, we had available liquidity of $1.3 million, comprised of unrestricted cash. This is a decrease from our available liquidity of $3.6 million as at March 31, 2026 and $3.0 million as at June 30, 2025. The change in liquidity relative to the previous quarter primarily reflects debt service costs and reduced cash generation from the Power Plant during its outage, partially offset by cash generated from the drawdown of working capital.

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$49.4 million paid by us, net of certain prior sales of such deposits, since the inception of the current softwood lumber trade dispute remain held in trust by the US pending administrative reviews and the conclusion of all appeals of US decisions. We expect future cash 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.

Conifex recognizes there is material uncertainty that may cast significant doubt on Conifex's ability to continue as a going concern but has concluded it is appropriate to prepare the consolidated financial statements on a going concern basis, which contemplates the realization of assets and settlement of liabilities in the ordinary course of business.

Conifex is working collaboratively with its lenders to provide additional accommodations under its existing facilities, including amending payment terms and amortization periods. Conifex is working with the Government of Canada financing programs and is in the advanced stages of the application process and anticipates finalizing the arrangement in the near term, although no assurance can be given that a financing will be completed on acceptable terms or at all.

Management has implemented cost saving measures and is deferring non-essential capital expenditures, and will continue to evaluate the implementation of such measures on an ongoing basis. Although we believe that the steps we have taken, and that we will continue to take, will result in sufficient liquidity, there can be no assurance that we will be successful or that market conditions will not work to offset our actions. In the second quarter, we temporarily curtailed sawmill operations for approximately seven weeks due to a shortage of available sawlogs through the seasonal breakup period, which has been subsequently extended until the appropriate conditions necessary for a successful restart have been met. The timing of a successful restart remains contingent, in part, upon Conifex securing additional financing on acceptable terms. Conifex's ability to continue as a going concern is dependent on its ability to realize positive cash flows from operations, as well as its ability to obtain additional financing from lenders and amend its debt repayment terms and timing, and obtaining covenant waivers. The outcome of the foregoing, as well as ongoing trade negotiations and tariff policies, remains uncertain, and our ability to generate positive cash flows from operations is dependent on market prices for lumber, demand for Conifex's products and/or increases in productivity resulting in higher volumes produced and lower costs, none of which can be assured. The financial statements do not include any adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary should Conifex be unable to continue as a going concern, which could be material.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at June 30, 2026, were comprised of standby letters of credit totalling $3.0 million posted by our wholly-owned subsidiary Conifex Power Inc. 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 second quarter of 2026 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, except where otherwise noted)	2026 Q2	2026 Q1	2025 Q4	2025 Q3	2025 Q2	2025 Q1	2024 Q4	2024 Q3
Revenue	23.0	21.8	26.1	38.2	33.9	44.6	31.0	25.2
Operating income (loss)	(7.8)	(9.8)	(15.9)	(19.5)	(4.5)	2.3	(3.0)	(6.1)
Net income (loss) from continuing operations	(9.5)	(9.4)	(11.4)	(16.6)	(8.3)	0.6	(11.8)	(3.8)
Net income (loss) – total operations	(9.5)	(9.4)	(11.4)	(16.6)	(8.3)	0.6	(11.8)	(3.8)
Net income (loss) per share – basic	(0.23)	(0.23)	(0.28)	(0.41)	(0.20)	0.02	(0.29)	(0.09)
Net income (loss) per share – diluted	(0.23)	(0.23)	(0.28)	(0.41)	(0.20)	0.02	(0.29)	(0.09)
EBITDA from continuing operations(1)	(6.3)	(7.7)	(12.6)	(16.6)	(3.2)	4.9	(2.1)	(3.9)
Shares outstanding – weighted average (in millions)	40.8	40.8	40.8	40.8	40.8	40.7	40.6	40.6
Diluted Shares (in millions)	40.8	40.8	40.8	40.8	40.8	40.7	40.6	40.6
Statistics (in millions, except rate, prices and GWh)								
Production – WSPF lumber	14.1	21.7	27.8	38.9	35.3	46.3	24.8	31.5
Shipments – WSPF lumber	23.6	21.5	24.2	40.1	38.9	38.0	24.8	29.3
Shipments – wholesale lumber	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Electricity production – GWh	19.8	36.7	55.3	47.6	29.6	47.6	54.2	25.9
Average exchange rate – $/US$(2)	0.723	0.729	0.717	0.726	0.723	0.697	0.730	0.733
Average WSPF 2x4 #2 & Btr lumber price (US$)(3)	$488	$463	$422	$477	$471	$492	$435	$366
Average WSPF 2x4 #2 & Btr lumber price ($)(4)	$675	$635	$589	$657	$651	$706	$608	$500
Reconciliation of EBITDA to net income (loss)								
Net income (loss) from continuing operations	(9.5)	(9.4)	(11.4)	(16.6)	(8.3)	0.6	(11.8)	(3.8)
Add: Finance costs	3.1	2.8	3.6	4.4	2.4	2.3	1.9	1.8
Amortization	1.5	2.0	3.1	3.1	1.9	2.8	3.1	2.4
Deferred income tax expense (recovery)	(1.4)	(3.2)	(7.8)	(7.5)	0.8	(0.7)	4.6	(4.3)
EBITDA from continuing operations(1)	(6.3)	(7.7)	(12.6)	(16.6)	(3.2)	4.9	(2.1)	(3.9)

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(2) Bank of Canada, www.bankofcanada.ca.
(3) Random Lengths Publications Inc. (WSPF, 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

Market conditions for Canadian softwood lumber producers are expected to remain challenging through the remainder of 2026, shaped by a combination of macroeconomic uncertainty, evolving US housing demand, and ongoing trade dynamics.

Lumber pricing has shown modest improvement through the first half of 2026, although volatility is likely to persist as supply adjusts to market conditions. Several producers have announced curtailments or reduced operating schedules, and further supply rationalization may be required to balance markets if demand recovery is slower than anticipated.

Trade uncertainty remains a significant factor for Canadian producers, with the final results of AR7 expected from the USDOC in the fourth quarter of 2026. Conifex continues to monitor the review process closely and will assess and record any financial impacts as they become determinable.

Despite near-term headwinds, Conifex believes the long-term fundamentals for lumber remain constructive. Conifex remains focused on operational efficiency, disciplined capital allocation, and cost management to navigate current market conditions while positioning for potential improved pricing and demand as broader economic conditions normalize.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended June 30, 2026. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2025, 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 2025 annual information form and our 2025 annual MD&A, and other filings with the Canadian regulatory authorities available on SEDAR+ at www.sedarplus.ca.

OUTSTANDING SECURITIES

As at August 13, 2026, we had 40,767,710 common shares, 4,320,000 warrants and 3,522,679 long-term incentive plan awards outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2026, 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 2025 annual information form, is available on SEDAR+ at www.sedarplus.ca.

SUBSEQUENT EVENTS

Bridge Financing

On July 9, 2026, Conifex received an advance in the amount of $0.4 million pursuant to its existing credit agreement (the "PenderFund Term Loan") with Pender Corporate Bond Fund ("Pender").

On July 17, 2026, Conifex and Pender executed a further advance pursuant to which Conifex received an additional $6.0 million (the "Bridge Advances") under the PenderFund Term Loan to fund budgeted expenses, accrued principal and interest payments owing under the PenderFund Term Loan. The Bridge Advances were provided to afford Conifex additional short-term liquidity while it continues to pursue certain government financing initiatives, the receipt and availability of which cannot be assured. The Bridge Advances are due and payable upon the earlier of (i) August 15, 2026 and (ii) the date of the first advance on account of certain government financing.

Sawmill Operations

Subsequent to June 30, 2026, the temporary curtailment of the Mackenzie Mill has continued beyond the approximately seven-week period announced on May 1, 2026. Conifex continues to advance restart planning and expects to resume sawmill and Power Plant operations once the conditions necessary for a successful startup have been satisfied, including, among other things, Conifex's receipt of financing (the receipt and availability of which cannot be assured).

Tariffs

A 10% tariff imposed under Section 232 of the Trade Expansion Act of 1962 has applied to Canadian lumber exported to the US since October 2025. USMCA-compliant products otherwise remain exempt from the general tariffs imposed on Canadian goods.

On July 20, 2026, the US administration announced new tariffs of 50% on certain Canadian products imported into the US under Section 338 of the Tariff Act of 1930, effective August 19, 2026. Softwood lumber is not included among the products subject to these tariffs, and accordingly our shipments to the US are not directly affected. We continue to monitor developments relating to the scope and implementation of these tariffs, including any indirect effects on demand, supply chains or the broader trade environment, and any potential impacts on our business.

The scope, duration and potential escalation of US trade measures remain uncertain and could have a material adverse effect on our earnings and cash flows. Prolonged or expanded tariffs may reduce demand for our products in the US market, compress realized pricing, and increase the cost of accessing our principal export market, and there can be no assurance that we would be able to fully mitigate these impacts through alternative markets or operational adjustments.