



CONIFEX TIMBER INC.

2023 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 27, 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 fiscal year ended December 31, 2023 relative to 2022. This MD&A should be read together with our audited consolidated financial statements for the year ended December 31, 2023 and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed under Conifex's profile 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 generally accepted earnings measures under IFRS, and neither has a standardized meaning prescribed by IFRS, they 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 MD&A, all references to "\$" are to Canadian dollars and references to "US\$" are to United States dollars.

Forward-Looking Statements

This 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 electrical and other support infrastructure required at high-performance computing or data center locations; 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; 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; that we could be negatively impacted by the duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; continued positive relations with Indigenous groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; the 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; 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 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 2022 annual information form dated March 30, 2023 and our 2023 annual MD&A dated March 27, 2024 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 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**”). We hold a forest licence in the timber supply area (“**TSA**”) in and around Mackenzie with an allowable annual cut (“**AAC**”) of 632,500 cubic metres, and own 50% of a joint venture which holds a forest licence with an AAC of 300,000 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 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

Revenue Diversification Opportunity

In December 2022, the Lieutenant-Governor in Council for the Province of British Columbia (“**LGIC**”) issued an order in council (the “**OIC**”) directing the British Columbia Utilities Commission to, among other things, accept BC Hydro's request to suspend its obligation to supply service to certain new cryptocurrency mining

projects in British Columbia for a period of 18 months, which OIC impacted two of our proposed high performance computing ("**HPC**") projects.

As a result, in April 2023, we filed a petition in the Supreme Court of British Columbia (the "**BCSC**") seeking judicial review of the OIC and an order quashing and setting aside the OIC as unauthorized or otherwise invalid. Arguments were made before the BCSC in October 2023. On February 2, 2024, we received notice that our petition was dismissed. We continue to believe that the moratorium to discriminate against a certain class of customers is unjustified and we have filed on appeal of the BCSC's decision.

Concurrently with the filing of the petition, we filed a notice of civil claim against BC Hydro in the Supreme Court of British Columbia seeking an order requiring BC Hydro to supply service to our HPC projects.

Lending Agreement Amendments

In March 2024, we announced that we had completed a first amendment to credit agreement and accommodation agreement (the "**Amendment**") with Wells Fargo Capital Finance Corporation Canada ("**Wells Fargo**") in respect of our amended and restated credit agreement dated March 20, 2023. Wells Fargo agreed, subject to certain terms and conditions, to amend Conifex's existing lumber business credit facility and provide certain accommodations thereunder.

Pursuant to the Amendment, Wells Fargo agreed to provide additional short-term liquidity, continue funding revolving loans and refrain from exercising certain of its rights under the Facility until May 31, 2024, subject to certain terms and conditions. Following the Amendment, the Revolving Credit Facility (as defined herein) is secured by substantially all of our lumber business assets. The Amendment follows Conifex's non-maintenance of the minimum excess availability and fixed charge coverage ratio required by the terms of the Facility. Among other conditions, Conifex shall commence a process to secure replacement funding in an amount sufficient to repay in full the Facility. Conifex has engaged Raymond James Ltd. to assist in the process.

Concurrent with the Amendment, Conifex's wholly owned subsidiary Conifex Power Limited Partnership ("**Conifex Power**") amended its outstanding Power Term Loan (as defined herein) to, among other things, release certain restricted cash thereunder, the proceeds of which were applied to paydown the Facility. Following this amendment, the Power Term Loan bears interest at a stepped-up interest rate per annum commencing at 7.35%. In connection with the Amendment, Conifex is reviewing the long-term financing of its power business, which may include new or replacement lenders, and may be impacted by, among other things, potential business initiatives the company is pursuing. Conifex expects the foregoing to be completed by or about the second quarter of next year.

SUMMARY OF 2023 RESULTS

We generated net income of (\$30.6) million or (\$0.77) per share in 2023. Net income was \$24.5 million or \$0.61 per share in 2022. Our Power Plant resumed operations in late January 2023 after approximately 7 months of continuous maintenance related downtime starting in July 2022.

Continuing operations for the comparative periods discussed in this MD&A comprise operating results from our Mackenzie Mill and Power Plant. Operating and financial results in 2023 were negatively impacted by much lower lumber prices than experienced in 2022.

Selected Financial Information⁽¹⁾

(in millions of dollars, except earnings per share, share information and select Operating Information)	2023	2022	2021
Revenue			
Lumber – Conifex produced	95.3	176.6	180.2
Lumber – wholesale	3.6	16.1	36.9
By-products and other	18.1	25.2	9.9
Bioenergy	24.1	13.4	23.5
	141.1	231.3	250.5
Operating income (loss)	(38.7)	27.5	38.4
EBITDA from continuing operations ⁽²⁾	(25.8)	46.7	51.8
Net income (loss) from continuing operations	(30.6)	24.5	27.2
Net income (loss)	(30.6)	24.5	27.2
Basic and diluted earnings (loss) per share	(0.77)	0.61	0.60
Cash dividends paid per share⁽³⁾	-	0.20	-
Shares outstanding – weighted average (millions)	40.0	40.1	45.2
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	(30.6)	24.5	27.2
Add: Finance costs	5.0	4.3	4.6
Amortization	11.7	8.4	10.8
Income tax expense (recovery)	(11.9)	9.5	9.2
EBITDA from continuing operations ⁽²⁾	(25.8)	46.7	51.8

Selected Operating Information

Production – WSPF lumber (MMfbm) ⁽⁴⁾	155.8	165.9	184.1
Shipments – WSPF lumber (MMfbm) ⁽⁴⁾	152.6	174.3	172.1
Shipments – wholesale lumber (MMfbm) ⁽⁴⁾	4.1	10.6	18.6
Electricity production (GWh)	177.6	109.7	184.6
Average exchange rate –\$/US\$ ⁽⁵⁾	0.741	0.768	0.798
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁶⁾	\$391	\$771	\$872
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁷⁾	\$528	\$994	\$1,090

(1) Reflects results of continuing operations, except where otherwise noted.

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

(3) Cash dividends of \$0.20 per share were declared and paid in August 2022.

(4) MMfbm represents million board feet.

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

(6) Random Lengths Publications Inc.

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

REVIEW OF 2023 FINANCIAL RESULTS

Lumber Operations

Our lumber production was 155.8 million board feet in 2023, reflecting an annualized operating rate of 65%. Lumber production was impacted by a reduction in our operating schedule to a one-shift basis for a twelve-

week period beginning in October to address unsustainable lumber inventory levels. In addition, a month long curtailment of the Mackenzie Mill in June, combined with a one week curtailment in February, was necessitated by a combination of a steep decline in lumber prices on softer global market demand and government policies and practices impacting our operations. Lumber production in 2022 was 165.9 million board feet, reflecting an annualized operating rate of 69%. Similarly to 2023, the 2022 fiscal year's production was materially impacted by curtailments driven by softened market conditions and imbalanced inventory levels.

Shipments of Conifex produced lumber totaled 152.6 million board feet in 2023. Shipments of Conifex produced lumber decreased by 12% from 2022 as a result of lower production volume and carrying a much higher level of dressed inventory into 2022 than was the case with 2023. Our wholesale lumber program shipped 4.1 million board feet in 2023 compared to 10.6 million board feet in 2022. Our wholesale lumber shipments decreased 61% as the industry fundamentals didn't incentivize as robust of a wholesale program.

Revenues from lumber products were \$98.9 million in 2023 and represented a decrease of 49% from 2022. Lower revenues were primarily driven by lower mill net realizations resulting from significantly lower overall benchmark lumber prices in 2023, combined with lower lumber shipments from reduced production levels.

The market slide in the second half of 2022 persisted into 2023, with inflationary pressures causing a reduction in new home construction. US housing starts on a seasonally adjusted annual basis declined, averaging 1.41 million starts in 2023,¹ down 8.8% from 2022. The reduced housing demand resulted in a 47% decrease in the average Canadian dollar-denominated Western Spruce/Pine/Fir ("WSPF") lumber price, falling from \$994 in 2022 to \$528 in 2023.

Cost of goods sold in 2023 was 12% lower than 2022 largely as a result of reduced production and shipment volumes. Overall production costs in 2023 were modestly higher from 2022 as higher stumpage rates resulted in an increased log cost. Unit manufacturing costs were elevated by low operating rates and disruptions from production curtailments which negatively impacted productivity and resulted in higher fixed cost per unit. We reduced the inventory valuation adjustment to \$1.3 million in 2023 as lower benchmark lumber prices were offset by lower cost of inventory. An inventory valuation adjustment of \$2.2 million was recorded in 2022.

We expensed countervailing ("CV") and anti-dumping ("AD") duty deposits of \$3.0 million in 2023, a decrease of 69% from 2022. The duty deposits were based on a combined rate of 8.99% until December 1, 2021, 17.91% until August 8, 2022, 8.59% until July 31, 2023, and 8.05% thereafter.

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

(in millions of dollars)	2023	2022	2021
Softwood lumber duty impact			
Cash deposits paid	11.3	15.3	11.6
Adjustment to final published rates	(8.3)	(5.7)	-
Softwood lumber duties, net	3.0	9.6	11.6

Cash deposits paid during 2023 decreased compared to the previous year due to the combined effect of lower lumber shipment volumes and lower cash deposit rates in effect during the first eight months of 2022.

We recognized a recovery of \$8.3 million including the prescribed interest rates to the overpayments in 2023 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 the US market in the years

¹ Source: Forest Economic Advisors, LLC.

ended December 31, 2019 and 2020. The net duty recoverable has been included as a long-term asset on our balance sheet.

Cumulative duties of US\$34.3 million paid by Conifex net of sales since inception of the current trade dispute remain held in trust by the US pending the conclusion of all appeals of US decisions. In 2019, we sold our right to refunds of cumulative duties to June 30, 2019 of US\$32.7 million for proceeds of US\$13.9 million. We have recorded the duty deposits as an expense, except for US\$8.3 million, which are recorded as a long-term receivable.

Bioenergy Operations

Our Power Plant sold 177.6 GWh of electricity under our EPA with BC Hydro in 2023, representing approximately 80% of targeted operating rates. In 2022, our Power Plant sold 109.7 GWh of electricity, representing 50% of targeted operating rates. The increase in 2023 production was driven by more operating days and higher production rates. Production in 2022 was impacted by damage to the Power Plant's turbine discovered in July 2022 and not re-commissioned until February 2023.

Electricity production contributed revenues of \$24.1 million in 2023, an increase of \$10.7 million, or 80% over 2022. Total revenue for 2022 was \$13.4 million, down significantly from planned revenues as a result of the plant being inoperable in the second half of the year due to the turbine damage. We recognized \$2.1 million as other income in our statement of net income and comprehensive income in 2023 to reflect the remaining portion of the insurance claim on the turbine failure for lost income under our business interruption policy.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs of \$9.1 million in 2023 reflected a decrease of 17% from \$11.0 million in 2022. The year-over-year decrease is primarily attributable to lower, variable compensation costs, including non-cash equity-based compensation, and the vesting of long-term incentive awards that were below the accrued amount.

Finance Costs and Accretion

Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the "**Power Term Loan**"). Finance costs and accretion of \$5.0 million in 2023 were 16% higher than finance costs of \$4.3 million in 2022, primarily as a result of additional costs related to an operating line on the lumber segment.

Gain or Loss on Derivative Financial Instruments

From time to time, we may enter into lumber future contracts to manage our commodity lumber price exposures. We do not use derivatives for trading or speculative purposes. Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period.

During 2023, we did not enter into any lumber futures contracts.

We had no outstanding futures contracts in place as at December 31, 2023.

Other Income

We recognized other income of \$2.1 million in 2023 and \$9.6 million in 2022 from our business interruption insurance claims related to the Power Plant. See "*Bioenergy Operations*" above for additional information on the Power Plant disruptions.

Foreign Exchange Translation Gain or Loss

Foreign exchange translation gain or loss 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\$0.741 for each Canadian dollar during 2023, a level which represented a weakening of the Canadian dollar over the previous year.²

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash, duties on deposit, and working capital balances resulted in a foreign exchange translation loss of \$0.5 million in 2023, compared to a foreign exchange gain of \$1.2 million in 2022.

Income Tax

We recorded income tax recovery in 2023 of \$11.9 million, compared to income tax expense of \$9.5 million in 2022. Our effective tax rate was 27% in the current year and 28% in 2022. See note 20 of our consolidated financial statements for the years ended December 31, 2023 and 2022 for a reconciliation of income taxes calculated at the statutory rate to the income tax expense.

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 December 31, 2023, we have recognized a deferred income tax liability of nil and a deferred tax asset of \$2.9 million.

Fourth Administrative Review Final Duty Rates

During the third quarter, the US Department of Commerce released the final duty rates related to the fourth administrative review. The combined duty rate applicable to Conifex was 7.99% as compared to the recent rate of 8.59%, which was subsequently adjusted to 8.05% effective August 31, 2022, until the completion of the next administrative review, which is scheduled to be completed in 2024. We recorded an export duty recovery of approximately \$1.7 million in the third quarter of 2023 related to the finalization of the fourth administrative review.

Annual Allowable Cut and Apportionment

In May 2023, the Chief Forester determined that the AAC for the Mackenzie TSA will be 2.39 million cubic metres per year. This AAC will remain in effect until a new AAC determination is made, which generally must take place within ten years of this determination. The British Columbia Ministry of Forests is currently conducting its review for an upcoming apportionment decision that is the next step of the Timber Supply Review process.

Normal Course Issuer Bid

On September 1, 2022, we commenced a normal course issuer bid ("**NCIB**") for our common shares. Pursuant to the NCIB we were authorized to make purchases for a period of one year of up to a maximum of 2,461,754 of our common shares, representing 10% of our "public float" at the commencement of the NCIB. We purchased a total of 480,020 common shares under the NCIB prior to its termination on August 31, 2023, we paid an average price of \$1.69 per share under the NCIB.

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

SUMMARY OF FOURTH QUARTER 2023 RESULTS

The following table summarizes our net operating results in the fourth quarter of 2023 and comparative periods.

Selected Financial Information ⁽¹⁾

(in millions of dollars, except earnings per share, share information and select Operating Information)	Q4 2023	Q3 2023	Q4 2022
Revenue			
Lumber – Conifex produced	23.9	26.6	22.1
Lumber – wholesale	0.9	0.8	1.6
By-products and other	2.7	4.3	2.8
Bioenergy	7.7	7.1	0.2
	35.2	38.7	26.7
Operating income (loss)	(6.6)	(10.1)	(8.5)
EBITDA from continuing operations ⁽²⁾	(3.5)	(6.7)	2.3
Net income (loss) from continuing operations	(5.3)	(8.0)	(0.2)
Net income (loss) from discontinued operations	-	-	-
Net income (loss)	(5.3)	(8.0)	(0.2)
Basic and diluted earnings (loss) per share	(0.14)	(0.20)	(0.00)
Cash dividends paid per share⁽³⁾	-	-	-
Shares outstanding – weighted average (millions)	40.4	40.2	39.9
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	(5.3)	(8.0)	(0.2)
Add: Finance costs	1.3	1.2	1.0
Amortization	3.0	3.8	1.4
Income tax expense (recovery)	(2.5)	(3.7)	0.1
EBITDA from continuing operations ⁽²⁾	(3.5)	(6.7)	2.3

Selected Operating Information

Production – WSPF lumber (MMfbm) ⁽⁴⁾	33.2	48.9	27.9
Shipments – WSPF lumber (MMfbm) ⁽⁴⁾	39.1	41.9	31.6
Shipments – wholesale lumber (MMfbm) ⁽⁴⁾	1.1	0.9	1.5
Electricity production (GWh)	43.5	56.0	-
Average exchange rate –\$/US\$ ⁽⁵⁾	0.734	0.746	0.736
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁶⁾	\$402	\$417	\$402
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁷⁾	\$547	\$559	\$546

(1) Reflects results of continuing operations, except where otherwise noted.

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

(3) Cash dividends of \$0.20 per share were declared and paid in August 2022.

(4) MMfbm represents million board feet.

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

(6) Random Lengths Publications Inc.

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

REVIEW OF FOURTH QUARTER 2023 FINANCIAL RESULTS

During the fourth quarter of 2023, we incurred a net loss from continuing operations of \$5.3 million or \$0.14 per share compared to a net loss of \$8.0 million or \$0.20 per share in the previous quarter and net loss of \$0.2 million or nil per share in the fourth quarter of 2022. The net loss in the fourth quarter of 2023 was primarily the result of the lower lumber sales prices, partially offset by a strong quarter of power generation.

North American lumber market prices continued to be below breakeven in the fourth quarter of 2023. Canadian dollar-denominated benchmark WSPF prices, which averaged \$547 in the fourth quarter, decreased by 2% or \$12 from the previous quarter and were virtually identical to the fourth quarter of 2022.³ The ongoing period of lower market prices were attributed to lower demand from reduced new home construction activity in the US, elevated offshore lumber import levels to US markets, and inflationary pressures negatively impacting repair and remodeling activities. US housing starts on a seasonally adjusted annual basis averaged 1.45 million in the fourth quarter of 2023, up 6% from the previous quarter and 6% from the fourth quarter of 2022.⁴

Lumber Operations

We produced 33.2 million board feet of lumber in the fourth quarter of 2023, representing approximately 55% of annualized capacity. Lumber production was affected by a 12 week temporary curtailment that had the Mackenzie Mill operating on a 4 day basis, as well as a week off over the holiday season. In the previous quarter, lumber production totaled 48.9 million board feet. Lumber production of 27.9 million board feet or approximately 47% of operating capacity in the fourth quarter of 2022 was impacted by two-week curtailment of the Mackenzie Mill and lower operating rates.

Shipments of Conifex produced lumber totaled 39.1 million board feet in the fourth quarter of 2023, representing a decrease of 7% from the 41.9 million board feet of lumber shipped in the previous quarter. Shipments in the fourth quarter of 2022 totalled 31.6 million board feet. Lumber shipments were constrained by lower lumber production from the temporary curtailment of our Mackenzie Mill during the quarter. Our wholesale lumber program shipped 0.9 million board feet in the fourth quarter of 2023, representing a 13% increase from the 0.8 million board feet shipped in the third quarter of 2023 and a 44% decrease from the 1.5 million board feet shipped in the fourth quarter of 2022. Wholesale lumber shipments were negatively impacted by a slowdown in construction activity in Japan.

Revenues from lumber products were \$24.8 million in the fourth quarter of 2023 representing a decline of 9% from the previous quarter and a 5% increase from the fourth quarter of 2022. Compared to the previous quarter, decreased revenues in the current quarter were driven by lower shipment volumes, combined with a reduction in mill net realizations. The revenue increase in the current quarter over the same period in the prior year was also driven by higher shipped volume.

Cost of goods sold in the fourth quarter of 2023 decreased by 20% from the previous quarter. The decrease from the prior quarter was mainly due to lower shipment volumes in the current quarter. However, unit log and manufacturing costs also increased in comparison to the previous quarter as a result of higher fixed cost absorption partially offset by a reversal of inventory write-downs, based on volume reductions, of \$2.7 million. We recorded inventory valuation reserves in the fourth quarter of 2023 as a result of the decline in lumber pricing at the end of the year which adversely impacted cost of goods sold.

Our investment in capital expenditures related to our lumber operations in 2023 decreased substantially from 2022.

We recorded CV and AD duty deposits expense of \$1.1 million in the fourth quarter of 2023, a recovery of \$0.3 million in the previous quarter and expense of \$1.1 million in the fourth quarter of 2022.

³ Source: Random Lengths Publications Inc.

⁴ Source: Forest Economic Advisors, LLC.

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

(in millions of dollars)	Q4 2023	Q3 2023	Q4 2022
Softwood lumber duty impact			
Cash deposits paid	1.1	(0.3)	1.1
Adjustment to final published rates	-	-	-
Softwood lumber duties, net	1.1	(0.3)	1.1

Cash deposits paid during the fourth quarter of 2023 increased compared to the previous quarter due to the adjustment taken in the third quarter to reflect the fourth administration review's final duty rate determination and similar to the fourth quarter of 2022.

Bioenergy Operations

Our Power Plant sold 43.5 GWh of electricity in the fourth quarter of 2023 compared to 56 GWh in the previous quarter. The decrease quarter over quarter reflects reduced operating days in the fourth quarter due to operational upsets resulting in minor lost time. Electricity production in the fourth quarter of 2022 was nil due to the Power Plant being non-operational from the turbine damage discovered during our 2022 maintenance shut down.

Electricity production contributed revenues of \$7.7 million in the fourth quarter of 2023, an increase of 9% from the previous quarter and 100% from the fourth quarter of 2022, due to the power plant being inoperable during the quarter.

Selling, General and Administrative Costs

SG&A costs were \$0.6 million in the fourth quarter of 2023, \$1.9 million in the previous quarter and \$1.4 million in the fourth quarter of 2022. The reduction in SG&A costs compared to the previous quarter was largely due to the revaluation of long-term incentive awards. Reduced SG&A costs in the current quarter compared to the comparative quarter in the preceding year were primarily related to the valuation of long term incentive awards.

Finance Costs and Accretion

Finance costs and accretion totaled \$1.3 million in the fourth quarter of 2023, \$1.2 million in the previous quarter and \$1.0 million in the fourth quarter of 2022. Finance costs in the current quarter were higher than the fourth quarter of 2022 due to a higher balance drawn on the operating line, partially offset by lower long term power debt.

Other Income

Other income totaled \$2.2 million in the fourth quarter of 2023 compared to \$9.6 million in the fourth quarter of 2022. Other income primarily consists of the business interruption claim proceeds in respect to the turbine failure during 2022.

Foreign Exchange Translation Gain or Loss

The US dollar averaged US\$0.734 for each Canadian dollar during the fourth quarter of 2023, a level which represented a weakening of the Canadian dollar over the previous quarter and the fourth quarter of 2022.

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⁵ Source: Bank of Canada, www.bankofcanada.ca.

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 \$0.3 million in the fourth quarter of 2023, compared to a foreign exchange gain of \$0.2 million in the third quarter of 2023 and a loss of \$0.2 million in the fourth quarter of 2022.

Income Tax

The fourth and third quarter 2023 results include nil current tax recovery, compared to a current tax recovery of \$0.8 million in the fourth quarter of 2022. We recorded deferred income tax recovery of \$2.5 million in the fourth quarter of 2023, \$3.7 million recovery in the previous quarter and deferred income tax expense of \$0.9 million in the fourth quarter of 2022.

SUMMARY OF FINANCIAL POSITION

(in millions of dollars, other than ratios and percentages)	2023	2022	2021
Cash	4.2	8.4	6.4
Cash – restricted	5.5	6.8	6.5
Operating working capital ⁽¹⁾	24.3	55.1	39.1
Operating loan	(11.5)	(6.5)	-
Current portion of long-term debt	(4.8)	(4.7)	(4.6)
Net current assets	17.7	59.1	47.4
Property, plant and equipment	123.1	129.9	125.4
Other long-term assets	38.8	34.1	28.3
	179.6	223.1	201.1
Non-interest bearing long-term liabilities	16.6	16.3	16.5
Long-term debt – Power Term Loan	46.4	50.1	53.7
Long-term debt – other ⁽²⁾	1.2	1.4	1.1
Shareholders' equity	115.5	146.3	129.8
	179.7	223.1	201.1
Ratio of current assets to current liabilities	1.5	2.7	2.6
Net debt to capitalization	31%	25%	26%
Net debt (cash) to capitalization excluding Power Term Loan	8%	2%	(1%)

(1) Calculated as the aggregate of trade and other receivables, prepaid expenses and deposits and inventories less the aggregate of trade payables, accrued liabilities and other payables, the current portion of reforestation obligations and employee liabilities.

(2) Consists of leases in 2021, 2022 and 2023.

Operating working capital decreased by \$30.8 million in 2023 due to a decrease in inventories, specifically in logs, of \$26.2 million combined with a decrease in receivables of \$3.2 million. Inventory levels were much leaner in 2023 to reflect the current market conditions.

Overall debt was \$63.8 million at December 31, 2023 compared to \$62.8 million at December 31, 2022, with the change mainly driven by an additional \$5.0 million drawn against our secured revolving credit facility with Wells Fargo (the "**Revolving Credit Facility**") to bolster operating working capital. The increase in debt was partially offset by Power Term Loan repayments of \$3.7 million during the year. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At December 31, 2023, we had \$50.3 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, totalled \$2.0 million.

The ratio of current assets to current liabilities was 1.5:1 at December 31, 2023 compared to 2.7:1 at December 31, 2022. The year-over-year change was primarily attributable to a combination of reduced inventories and an increase in our operating line and trade payables.

As at December 31, 2023, \$96.3 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$100.6 million at December 31, 2022.

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 December 31, 2023 increased by \$6.6 million to \$54.2 million from \$47.6 million at December 31, 2022. The net debt to capitalization ratio was approximately 32% at December 31, 2023 and 25% at December 31, 2022.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(in millions of dollars)	2023	2022	2021
Cash generated from (used in)			
Operating activities	(26.5)	45.9	53.2
Change in non-cash working capital	30.0	(21.1)	(26.5)
Investing activities	(5.2)	(12.8)	(5.8)
Financing activities and other	(2.7)	(10.0)	(25.7)
Increase (decrease) in cash	(4.2)	2.0	(4.8)

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 spring months. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates can impact the level of lumber inventories. We believe our practices with respect to working capital conform to common business practices in our industry.

Operating activities before changes in non-cash working capital utilized \$26.5 million of cash in 2023, compared to generating \$45.9 million in 2022. Changes in non-cash working capital generated \$30.0 million of cash in 2023 and used \$21.1 million in 2022. The decrease in cash flows from operating activities in 2023 compared to 2022 is reflected almost exclusively from the decline in market price of lumber year over year.

Investing Activities

Investing activities utilized cash of \$5.2 million in 2023 and \$12.8 million in 2022. Investing activities consisted of investments in property, plant and equipment, net of insurance claim proceeds received. Investments in property, plant and equipment during 2023 included several key improvements to our sawmilling and finishing lines designed to improve our lumber production performance, lumber recovery, and grade outturns.

Financing Activities

Our financing activities used net cash of \$2.7 million in 2023 and utilized \$10.0 million in 2022. Net cash usage in 2023 was primarily comprised of Power Term Loan repayments and interest payments, partially offset by \$1.3 reduction in restricted cash and a \$5.0 million draw against operating loan. Net cash usage in 2022 was primarily comprised of the payment of our special dividend of approximately \$8.0 million, Power Term Loan repayments, payment of finance expenses and purchases of our common shares under the

NCIB of approximately \$0.8 million. Overall cash usage for financing activities was reduced by proceeds of \$6.5 million drawn against the Revolving Credit Facility.

Liquidity

Our principal sources of funds are cash on hand, cash flow from operations and cash available under our Revolving Credit Facility. The Revolving Credit Facility was amended in the second quarter of 2023 to increase the facility to \$25.0 million from the original amount of \$10.0 million. As at December 31, 2023, we had drawn \$11.5 million against the Revolving Credit Facility compared to \$6.5 at December 31, 2022. Our principal uses of funds consist of operating expenditures, capital expenditures, interest payments and repayment of principal on our Power Term Loan.

On March 7, 2024, we announced that we had completed the Amendment with Wells Fargo in respect of the Revolving Credit Facility. Wells Fargo agreed, subject to certain terms and conditions, to amend Conifex's existing lumber business credit facility and provide certain accommodations thereunder. Following the Amendment, the Revolving Credit Facility is secured by substantially all Conifex's lumber business assets. See "Recent Developments – Lending Agreement Arrangements" above for additional information on the Amendment.

Pursuant to the Amendment, Wells Fargo agreed to provide additional short-term liquidity, continue funding revolving loans and refrain from exercising certain of its rights under the Facility until May 31, 2024, subject to certain terms and conditions. The Amendment follows Conifex's non-maintenance of the minimum excess availability and fixed charge coverage ratio required by the terms of the Facility. Among other conditions, Conifex shall commence a process to secure replacement funding in an amount sufficient to repay in full the Facility. Conifex has engaged Raymond James Ltd. to assist in the process.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the United States government in April 2017. Cumulative duties of US\$34.3 million paid by Conifex, net of certain prior sales of such refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits to the extent additional costs on US destined shipments are not mitigated by higher lumber prices.

We monitor our expected liquidity levels and compliance with debt covenants under our Power Term Loan and Revolving Credit Facility by regularly preparing rolling cash flow forecasts to consider upcoming operational requirements, debt service commitments and future business development. Our Power Term Loan also contains certain customary 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 December 31, 2023. 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 the Revolving Credit Facility (or any future credit facility in extension or replacement thereof) will be adequate to meet our obligations over the next twelve months.

Contractual Obligations

The following table summarizes the estimated aggregate amount of future cash outflows for contractual obligations with exclusions as noted below:

(in millions of dollars)	Payments due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long-term debt	72.0	7.6	14.7	14.0	35.7
Operating loan	11.5	11.5	-	-	-
Leases	1.5	0.8	0.7	-	-
Reforestation obligations	12.9	3.4	2.5	1.6	5.4
Trade payables and accrued liabilities	19.1	19.1	-	-	-
Provisions and other liabilities	10.1	0.7	0.2	0.6	8.6
	127.2	43.1	18.1	16.1	49.7

Contractual obligations not included in the above table are:

- Interest payments associated with floating rate debt that depend on the Canadian Dollar Offered Rate or London Inter-bank Offered Rate during the year of payment.
- Purchase obligations and contractual obligations related to ongoing commercial commitments in the ordinary course to purchase timber, fibre, energy and other operating inputs. For these commitments, our obligations can vary significantly from contracted amounts depending on our requirements.
- Our wholly owned subsidiary Conifex Power has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Power Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at December 31, 2023 and 2022 were comprised of standby letters of credit totalling \$5.6 million posted by 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 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 2023.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, except where otherwise noted)	2023				2022			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	35.3	38.7	27.2	39.9	26.7	47.7	85.1	71.8
Operating income (loss)	(6.6)	(10.1)	(11.0)	(11.5)	(8.5)	1.3	17.6	17.1
Net income (loss) from continuing operations	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Net income (loss) – total operations	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Net income (loss) per share – basic and diluted from continuing operations	(0.14)	(0.20)	(0.23)	(0.20)	-	0.02	0.31	0.28
Net income (loss) per share – basic and diluted – total operations	(0.14)	(0.20)	(0.23)	(0.20)	-	0.02	0.31	0.28
EBITDA from continuing operations ⁽¹⁾	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.1
Shares outstanding – weighted average (in millions)	40.4	40.2	39.8	39.8	39.9	40.2	40.2	40.1
Statistics (in millions, except rate, prices and GWh)								
Production – WSPF lumber	33.2	48.9	32.5	41.2	27.9	39.5	51.4	47.1
Shipments – WSPF lumber	39.1	41.9	31.1	40.6	31.6	44.7	55.5	42.5
Shipments – wholesale lumber	1.1	0.9	1.1	1.0	1.5	3.0	1.2	4.9
Electricity production – GWh	43.5	56.0	43.5	34.6	-	1.2	54.6	53.9
Average exchange rate – \$/US\$ ⁽²⁾	0.734	0.746	0.745	0.740	0.736	0.766	0.783	0.790
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽³⁾	\$402	\$417	\$363	\$384	\$402	\$568	\$827	\$1,288
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁴⁾	\$547	\$559	\$487	\$519	\$546	\$742	\$1,056	\$1,631
Reconciliation of EBITDA to net income (loss)								
Net income (loss) from continuing operations	(5.3)	(8.0)	(9.2)	(8.1)	(0.2)	0.9	12.3	11.4
Add: Finance costs	1.3	1.2	1.3	1.2	1.0	1.1	1.1	1.1
Amortization	3.0	3.8	2.4	2.5	1.4	1.8	2.0	3.2
Income tax expense (recovery)	(2.5)	(3.7)	(3.2)	(2.5)	0.1	0.4	4.7	4.3
EBITDA from continuing operations ⁽¹⁾	(3.5)	(6.7)	(8.7)	(6.9)	2.3	4.2	20.1	20.0

(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 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 believe SPF supplies are contracting at the same time demand is increasing, and lumber prices will move higher.

The BC Ministry of Forests discloses that the log harvest in the interior region of BC, which totalled 47 million cubic metres in 2018, plummeted to 27 million cubic metres in 2023. The Ministry also discloses in the most recent provincial budget that the interior region of BC log harvest is forecast to come in at 26 million cubic metres annually in the current and following three years. This harvest contraction will reduce SPF lumber production from the interior region of BC by 4.8 or 4.9 billion board feet annually. This supply contraction is huge – it is equivalent to approximately 8% of North American softwood lumber consumption and sufficient to offset the incremental lumber supply from more than 20 new industrial scale sawmills brought on stream in the US South over the past five years. With mounting evidence that US housing starts will increase in 2024 and 2025, these supply/demand dynamics support our expectations for rising prices for SPF lumber.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make critical judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Such difference in estimates are recognized when realized on a prospective basis.

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

Valuation of Inventory

We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and lumber products are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and applicable variable selling expenses. Our estimated selling price is based on our order file that exists at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time, and it is probable that market values at the time of eventual sale will differ from our estimates.

Write-downs of inventory cost to net realizable value, if any, are included in cost of goods sold when incurred and reported in the lumber operations operating results. Inventory was written down by \$1.3 million as at December 31, 2023 compared to \$2.2 million as at December 31, 2022. The decrease in write down is primarily attributable to less inventory on hand at year end 2023.

Valuation of Long-Lived Assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessing the valuation of assets requires us to make judgments, assumptions and estimates. Impairment losses are recognized in net income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value less costs to sell and value in use.

We review the amortization periods for our manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 5 to 50 years. Forestry licences are amortized on a straight-line basis over 60 years.

Management currently believes that Conifex has adequate support for the carrying value of its long-lived assets based on analysis including anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for our products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges.

Net impairment losses and recoveries are reported as a separate line item on the financial statements as non-operating items. We did not record any impairment losses or recoveries in 2023 and 2022.

Amortization costs related to lumber and power operation assets are included in costs of good sold. We recorded amortization expense related to operating assets of \$10.8 million in 2023 (2022 – \$7.5 million). Amortization costs related to corporate assets are included in selling, general and administration expenses. We recorded amortization expense of \$1.0 million to SG&A costs in 2023 (2022 – \$0.9 million).

Reforestation Obligation

Timber is harvested under various licences issued by the Province of British Columbia, which include future requirements for reforestation. The future estimated reforestation obligation is accrued based upon the volume of timber cut each period and charged to costs of goods sold in the lumber operations. The estimates of reforestation obligations are based upon various judgments and assumptions. Both the precision and reliability of such estimates are subject to uncertainties and, as additional information becomes known, these estimates are subject to change. We accrued \$3.2 million in 2023 (2022 – \$4.6 million) for future estimated reforestation obligations.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Estimated costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable. Accruals for estimated environmental remediation obligations are charged to cost of goods sold in our lumber operations. We accrued nil in 2023 (2022 – \$1.0 million) for future estimated environmental remediation costs. We believe, in conjunction with external professionals, that our booked liability accurately reflects our outstanding obligations.

Deferred Income Taxes

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of unused tax losses. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the number of variables associated with the differing tax laws and regulations across the jurisdictions in which we operate. As a result, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Uncertainties surrounding these assumptions and changes in tax rates or tax policy could have a material effect on expected results. We only recognize a deferred income tax asset to the extent that the future realization of the tax asset is probable. This is based on our estimates and assumptions as to the future financial performance of the various taxable legal entities.

As at December 31, 2023, we had deferred income tax assets of \$2.9 million and recorded deferred income tax recovery of \$11.9 million. As at December 31, 2022, we had deferred income tax liabilities of \$8.9million and recorded deferred income tax expense of \$9.5 million.

At December 31, 2023, we had unused non-capital tax losses carried forward totalling \$66.3 million from continuing operations (December 31, 2022 – \$6.7 million) and \$164.9 million from discontinued operations (December 31, 2022 – \$165.5 million). We have not recognized deferred income tax assets related to discontinued operations due to the uncertainty of future realization.

ACCOUNTING STANDARDS ISSUED AND NOT YET APPLIED

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2022 and have not been applied in preparing our consolidated financial statements. None of these standards are currently considered to be significant or likely to have a material impact on future consolidated financial statements, with the exception of amendments to International Accounting Standard (“IAS”) 1, *Presentation of Financial Statements*, discussed below.

IAS 1, Presentation of Financial Statements

In January 2020, the International Accounting Standards Board (“IASB”) issued *Classification of Liabilities as Current or Non-Current* as amendments to IAS 1. The amendments expand the requirement for classification of liabilities as current or non-current to include consideration of the rights that exist at the end of the reporting period. The amendments also clarified the definition of settlement and provided situations that would be considered as a settlement of a liability. In October 2022, the IASB issued further amendments to IAS 1, *Non-current Liabilities with Covenants*. These further amendments clarify how to address the classification of non-current liabilities as a result of covenants and rights to defer settlement that an entity is required to comply with on or before the reporting date and covenants and rights that an entity must comply with after the reporting date. These amendments are effective for reporting periods beginning on or after January 1, 2024 with early adoption permitted. The impact that these amendments will have on future consolidated financial statements is yet to be determined.

RISKS AND UNCERTAINTIES

Conifex is exposed to many risks and uncertainties in conducting its business, including: fluctuations in prices and demand for and selling price of lumber; liquidity risk; fibre availability and cost; risks related to the integration and build-out of our HPC operations; public health; currency risk; competition; softwood lumber trade dispute; capital projects; wood dust management; transportation limitations; operational curtailments; regulatory risks; reliance on directors, management and other key personnel; information systems security threats; natural and human-made disasters and climate change; forest health environment; stumpage fees; indigenous claims; labour relations; maintenance obligations and facility disruptions; periodic litigation; and tax exposure. A comprehensive discussion of risk factors is included in,

and reader are referred to, Conifex's annual information form and other filings with the Canadian securities regulatory authorities available under Conifex's profile on SEDAR+ at www.sedarplus.ca.

OUTSTANDING SECURITIES

As at March 27, 2024, we had 40,421,440 common shares and 2,042,652 long-term incentive plan awards outstanding.

EVALUATION OF INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

In accordance with the requirements of *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings* ("**NI 52-109**"), our management, including the Chief Executive Officer ("**CEO**") and Chief Financial Officer ("**CFO**"), have evaluated the effectiveness of our internal controls over financial reporting. Management of Conifex is responsible for establishing and maintaining adequate internal controls over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO, and it is affected by management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management assessed the effectiveness of our internal controls over financial reporting as of December 31, 2023 and believes that our internal controls over financial reporting were effective. Management's assessment was based on the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO have concluded that Conifex's internal controls over financial reporting, as defined in NI 52-109, were designed and operating effectively. In addition, the CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, Conifex's internal controls over financial reporting during the year ended December 31, 2023.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding annual and interim filings or other disclosure. An evaluation of the effectiveness of the design and operation of disclosure controls and procedures was conducted as of December 31, 2023 by Conifex's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Conifex's disclosure controls and procedures, as defined in NI 52-109, were effective as of December 31, 2023.

ADDITIONAL INFORMATION

Additional information about our company is available under Conifex's profile on SEDAR+ at www.sedarplus.ca.