

Consolidated financial statements of

Conifex Timber Inc.

December 31, 2021 and 2020



Independent auditor's report

To the Shareholders of Conifex Timber Inc.

Our opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Conifex Timber Inc. and its subsidiaries (together, the Company) as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

What we have audited

The Company's consolidated financial statements comprise:

- the consolidated balance sheets as at December 31, 2021 and 2020;
- the consolidated statements of net income (loss) and comprehensive income (loss) for the years then ended;
- the consolidated statements of changes in equity for the years then ended;
- the consolidated statements of cash flows for the years then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2021. These matters were

PricewaterhouseCoopers LLP
PricewaterhouseCoopers Place, 250 Howe Street, Suite 1400, Vancouver, British Columbia, Canada V6C 3S7
T: +1 604 806 7000, F: +1 604 806 7806



addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p data-bbox="254 573 876 640">Impairment assessment of property, plant and equipment and Intangible assets</p> <p data-bbox="254 661 876 787"><i>Refer to note 2, Significant accounting policies, note 5, Property, plant and equipment and note 6 Intangible assets to the consolidated financial statements.</i></p> <p data-bbox="254 808 876 1354">As at December 31, 2021, the carrying amounts of property, plant and equipment (PP&E) and intangible assets were \$125.4 million, and \$3.1 million, respectively. Assets subject to amortization, such as PP&E and intangible assets with a definite life such as forestry and software licences, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. For the purpose of assessing impairment, assets are grouped into cash-generating units (CGUs). CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU's net assets exceeds its recoverable amount, an impairment loss is recognized. The recoverable amount is the higher of fair value less costs of disposal and value in use.</p> <p data-bbox="254 1375 876 1732">As disclosed by management, the carrying amount of the Company's net assets as at December 31, 2021 was greater than its market capitalization, and as a result, management performed an impairment test of the Company's CGUs. Management determined the recoverable amounts based on the value in use method using discounted cash flow models. The key assumptions applied by management in estimating the recoverable amounts under the value in use method included the future estimated revenues, operating expenses and the discount rate.</p> <p data-bbox="254 1753 876 1829">We considered this a key audit matter due to the judgment by management in determining the</p>	<p data-bbox="876 573 1529 640">Our approach to addressing the matter included the following procedures, among others:</p> <ul data-bbox="876 661 1529 1829" style="list-style-type: none"><li data-bbox="876 661 1529 903">• Tested how management determined the recoverable amounts under the value in use method which included the following:<ul data-bbox="876 756 1529 903" style="list-style-type: none"><li data-bbox="876 756 1529 903">– Evaluated the appropriateness of the method used by management and tested the mathematical accuracy of the discounted cash flow models.<li data-bbox="876 913 1529 976">– Tested the underlying data used in the discounted cash flow models.<li data-bbox="876 987 1529 1197">– Tested the reasonableness of future estimated revenues by comparing future prices with external market and industry data and by considering underlying long-term contracts and production outputs historically achieved by the CGUs.<li data-bbox="876 1207 1529 1417">– Tested the reasonableness of future estimated operating expenses by considering third party forecasts of operating expenses, if applicable, and historical operating expenses incurred by the CGUs.<li data-bbox="876 1428 1529 1638">– Professionals with specialized skill and knowledge in the field of valuation assisted us in testing the reasonableness of the discount rate used in the discounted cash flow models based on available data of comparable companies.<li data-bbox="876 1648 1529 1753">• Compared the recoverable amounts of the CGUs to their carrying values to determine whether an impairment charge needed to be recorded.<li data-bbox="876 1764 1529 1829">• Tested the disclosures made in the consolidated



Key audit matter	How our audit addressed the key audit matter
recoverable amounts of the Company's CGUs, including the development of key assumptions. This, in turn, resulted in significant audit effort and subjectivity in performing audit procedures to test the recoverable amounts determined by management. Professionals with specialized skill and knowledge in the field of valuation assisted us in performing our procedures.	financial statements with regard to the impairment assessments of the Company's CGUs.

Other information

Management is responsible for the other information. The other information comprises the Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.



Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.



We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is David Neale.

/s/PricewaterhouseCoopers LLP

Chartered Professional Accountants

Vancouver, British Columbia
March 8, 2022

Conifex Timber Inc.

Consolidated balance sheets

As at December 31, 2021 and 2020

(thousands of Canadian dollars)	Notes	As at December 31, 2021	As at December 31, 2020
		\$	\$
Assets			
<i>Current assets</i>			
Cash		6,354.0	11,159.6
Cash - restricted	12	6,477.6	3,627.1
Trade and other receivables		8,770.1	10,365.4
Prepaid expenses and deposits		15,794.5	10,701.7
Inventories	4	40,345.0	12,994.5
Current assets		77,741.2	48,848.3
Property, plant and equipment	5	125,427.6	130,027.2
Intangible assets	6	3,141.4	3,482.3
Goodwill		1,875.0	1,875.0
Long-term investments and other	7	22,647.8	22,661.7
Deferred income tax assets	20	628.5	9,861.7
Total assets		231,461.5	216,756.2
Liabilities			
<i>Current liabilities</i>			
Trade payables, accrued liabilities and other payables		18,761.6	14,841.3
Current portion of reforestation obligations	8	4,916.5	3,548.4
Employee liabilities		2,097.3	1,007.2
Current portion of long-term debt	12	4,622.2	4,490.8
Current liabilities		30,397.6	23,887.7
Reforestation obligations	8	7,191.5	7,016.2
Environmental liabilities	9	422.1	987.5
Other long-term liabilities	10	8,856.2	9,537.5
Long-term debt	12	54,762.1	58,907.8
Non-current liabilities		71,231.9	76,449.0
Total liabilities		101,629.5	100,336.7
Equity			
Share capital	13	248,254.4	287,446.6
Contributed surplus		43,644.9	18,235.2
Deficit		(162,631.0)	(189,826.3)
Accumulated other comprehensive income		563.7	564.0
Total equity		129,832.0	116,419.5
Total liabilities and equity		231,461.5	216,756.2

Refer to subsequent event (note 27)

The accompanying notes are an integral part of these consolidated financial statements.

Conifex Timber Inc.

Consolidated statements of net income (loss) and comprehensive income (loss)
Years ended December 31, 2021 and 2020

(thousands of Canadian dollars)	Notes	Year ended December 31,	
		2021	2020
		\$	\$
Revenue	16	250,533.4	128,710.8
Costs and expenses			
Cost of goods sold		166,486.7	90,098.5
Freight and distribution costs		24,001.6	16,297.4
Softwood lumber duties	26	11,602.8	10,500.8
Selling, general and administrative	17	9,979.7	6,459.3
Restructuring charges		31.7	1,933.8
		212,102.5	125,289.8
Operating income		38,430.9	3,421.0
Gain on disposal of assets		40.0	33.8
Finance costs and accretion	18	(4,580.2)	(7,184.6)
Loss on derivative financial instruments		(1,550.8)	(3,254.4)
Other income	19	3,488.1	0.7
Foreign exchange loss on long-term debt		-	(2,109.2)
Foreign exchange gain		568.5	1,918.4
		(2,034.4)	(10,595.3)
Income (loss) before taxes		36,396.5	(7,174.3)
Income tax expense (recovery):	20		
Current		(32.0)	-
Deferred		9,233.2	(406.1)
		9,201.2	(406.1)
Income (loss) from continuing operations		27,195.3	(6,768.2)
Income from discontinued operations, net of tax		-	308.4
Net income (loss)		27,195.3	(6,459.8)
Other comprehensive income (loss), net of tax			
Foreign exchange translation of foreign operations, net of tax		(0.3)	9.9
Other comprehensive income (loss), net of tax		(0.3)	9.9
Total comprehensive income (loss) for the year		27,195.0	(6,449.9)
Net income (loss) per share, basic and diluted (in dollars):	21		
Net income (loss) per share from continuing operations		0.60	(0.14)
		0.60	(0.14)

The accompanying notes are an integral part of these consolidated financial statements.

Conifex Timber Inc.

Consolidated statements of changes in equity
Years ended December 31, 2021 and 2020

(thousands of Canadian dollars)	Share capital	Contributed surplus	Retained earnings (deficit)	Accumulated other comprehensive income	Total equity
	\$	\$	\$	\$	\$
Balance at December 31, 2019	290,702.9	16,722.6	(183,366.5)	554.1	124,613.1
Net loss for the year ended					
December 31, 2020	-	-	(6,459.8)	-	(6,459.8)
Repurchase of common shares	(3,617.4)	2,725.7			(891.7)
Issue of common shares upon vesting of share-based payment	361.1	(361.1)	-	-	-
Recognition of share-based payments	-	(852.0)	-	-	(852.0)
Foreign exchange translation of foreign operations, net of tax	-	-	-	9.9	9.9
Balance at December 31, 2020	287,446.6	18,235.2	(189,826.3)	564.0	116,419.5
Net income for the year ended					
December 31, 2021	-	-	27,195.3	-	27,195.3
Repurchase of common shares	(39,307.7)	24,997.3	-	-	(14,310.4)
Issue of common shares upon vesting of share-based payment	115.5	(115.5)	-	-	-
Recognition of share-based payments	-	527.9	-	-	527.9
Foreign exchange translation of foreign operations, net of tax	-	-	-	(0.3)	(0.3)
Balance at December 31, 2021	248,254.4	43,644.9	(162,631.0)	563.7	129,832.0

The accompanying notes are an integral part of these consolidated financial statements.

Conifex Timber Inc.

Consolidated statements of cash flows

Years ended December 31, 2021 and 2020

(thousands of Canadian dollars)	Year ended December 31,	
	2021	2020
	\$	\$
Cash flows from operating activities		
Net income (loss) from continuing operations	27,195.3	(6,768.2)
Items not affecting cash:		
Amortization and depreciation	10,787.6	9,710.3
Change in mark-to-market value of lumber price derivatives	-	533.8
Change in reforestation obligations	1,543.4	(417.0)
Finance costs and accretion	4,580.2	7,184.6
Income tax expense (recovery)	9,201.2	(406.1)
Share-based compensation	527.9	(852.0)
Load Displacement Agreement accretion	(627.4)	(639.5)
Gain on disposal of assets	(40.0)	(33.8)
Foreign exchange loss on long-term debt	-	2,109.2
Share of loss of joint venture	14.0	14.0
Income taxes recovered	32.0	-
	53,214.2	10,435.3
Change in:		
Trade and other receivables	1,595.3	2,737.0
Prepaid expenses and deposits	(5,143.4)	(1,654.0)
Inventories	(27,350.6)	2,294.0
Trade payables, accrued liabilities and other payables	3,895.5	(19,192.5)
Environmental liabilities	(565.4)	(166.1)
Employee liabilities	1,090.0	597.3
Operating cash flows from discontinued operations	-	(1,352.7)
Net cash provided from (used in) operating activities	26,735.6	(6,301.7)
Cash flows from investing activities		
Additions to property, plant and equipment	(6,401.0)	(2,222.2)
Net proceeds from insurance claim settlement	554.0	-
Proceeds on disposal of assets, net	40.0	117.1
Investing cash flows from discontinued operations	-	223,589.3
Net cash provided from (used in) investing activities	(5,807.0)	221,484.2
Cash flows from financing activities		
Repurchase of common shares	(14,310.4)	(891.7)
Repayment of leases	(886.6)	(1,417.7)
Repayment of revolving credit facility	-	(11,729.9)
Repayment of term loans	(3,278.0)	(183,153.5)
Financing fees	(75.9)	(550.1)
Interest paid	(4,332.5)	(9,612.2)
Change in restricted cash	(2,850.5)	3,098.7
Financing cash flows from discontinued operations	-	(54.0)
Net cash used in financing activities	(25,733.9)	(204,310.4)
Net increase (decrease) in cash	(4,805.3)	10,872.1
Foreign exchange effect on cash	(0.3)	(632.0)
Cash, beginning of year	11,159.6	919.5
Cash, end of year	6,354.0	11,159.6

The accompanying notes are an integral part of these consolidated financial statements.

Conifex Timber Inc.

Notes to the consolidated financial statements

December 31, 2021 and 2020

(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

In these notes, “Conifex” or the “Company” means Conifex Timber Inc. and its subsidiaries.

1. NATURE OF OPERATIONS

The primary business of Conifex includes timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing and the production of electricity for external sale and internal supply. Conifex's lumber products are sold primarily in the United States, Canadian, and Japanese markets.

Conifex is a publicly traded company listed on the Toronto Stock Exchange under the symbol CFF. The Company is incorporated under the Canada Business Corporations Act and is headquartered in Vancouver, BC, Canada.

The address of its registered office is 1000 Cathedral Place, 925 West Georgia Street, Vancouver, BC V6C 3L2.

2. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of the consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance

The consolidated financial statements of Conifex have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements were approved by the Board of Directors on March 8, 2022.

2.2 Basis of measurement

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2.3 Basis of consolidation

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses are eliminated on consolidation, where appropriate. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Company.

Joint ventures are accounted for using the equity method.

2.4 Business combinations

The Company applies the acquisition method to account for business combinations. Goodwill is initially measured as the excess of the aggregate of the consideration transferred over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss. Acquisition-related costs are expensed as incurred.

Conifex Timber Inc.

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2.5 Functional and presentation currency

The Canadian dollar is the functional and presentation currency of the Company.

2.6 Foreign currency translation

Foreign currency denominated monetary assets and liabilities of the Company are translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Gains or losses on translation of these items are included in earnings.

Foreign operations with a functional currency that differs from the Company's presentation currency have their assets and liabilities translated using the rate of exchange prevailing at the reporting date. Revenues and expenses are measured at average rates during the period. Foreign exchange differences are recognized in other comprehensive income.

2.7 Cash

In the consolidated statement of cash flows, cash includes cash on hand, deposits held with banks, and other short-term highly liquid investments.

2.8 Financial instruments

(a) Non-derivative financial instruments

The Company measures non-derivative financial assets that have fixed or determinable payments that are not quoted in an active market at amortized cost using the effective interest rate method. The amortized costs are reduced by any impairment losses. These financial assets are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial. Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after initial recognition, the estimated future cash flows of the asset have been impacted.

(b) Derivative financial instruments

The Company at times utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and interest rate variability. Lumber derivatives are classified as financial assets at fair value through profit and loss ("FVTPL"). These financial assets are initially recognized at fair value on the date a lumber derivative contract is entered into and are subsequently re-measured at their fair value. The fair values are determined by using observable market inputs for identical assets and liabilities and thus reflect the estimated amount that the Company would have paid or received if required to settle all outstanding contracts at period end. The resulting gain or loss is recognized as a gain (loss) on lumber derivative instruments in the statement of net income each period unless the lumber derivative is designated as a hedging instrument under IFRS. If the lumber derivative is designated as a hedging instrument, any unrealized gains or losses are deferred and recognized in earnings when the related hedge transaction occurs.

(c) Share capital

Common shares are classified as equity. Incremental costs directly attributable to the issue of new common shares or options are shown in equity as a deduction from the proceeds.

Conifex Timber Inc.

Notes to the consolidated financial statements

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

2.9 Inventories

Logs and lumber inventories are valued at the lower of average cost and net realizable value. The cost of logs and lumber comprises all costs that relate to purchasing, harvesting and delivery of the logs to their present location, plus costs of production, including labour, overhead and amortization. It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated cost for completion and applicable variable selling expenses.

Operating and maintenance supplies are valued at the lower of average cost and replacement cost.

2.10 Goodwill and intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries and associates and represents the excess of the consideration transferred over the fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. Goodwill impairment is assessed by comparing the fair value of the cash generating unit ("CGU") to the underlying carrying amount of the CGU's net assets, including goodwill. CGUs are the lowest levels of business units for which there are separately identifiable cash flows. When the carrying amount of the CGU exceeds its recoverable amount, the recoverable amount of the CGU's goodwill is compared with its carrying amount to measure the amount of impairment loss, if any. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

(b) Other intangible assets

Other intangible assets, comprising forestry licences and software licences, are stated at cost less accumulated amortization.

The forestry licences are amortized on a straight-line basis over 60 years. Software licences are amortized on a straight-line basis over their useful lives.

2.11 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditures that are directly attributable to the acquisition of the assets.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Land and assets classified as held for sale are not depreciated. All other assets are depreciated on a straight-line basis over their estimated useful lives. When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Estimated useful lives of property, plant and equipment are reflected with the following rates:

Buildings and fixtures	2% - 5%
Computer hardware	10% - 50%
Machinery and equipment	5% - 50%
Mobile equipment	20% - 50%
Roads and bridges	10% - 50%

Conifex Timber Inc.

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

The rates of depreciation are intended to fully depreciate manufacturing and non-manufacturing assets over their useful lives. These periods are assessed at least annually to ensure that they continue to approximate the useful lives of the related assets. The carrying amount of an asset is written down if it is determined to be greater than the asset's estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

Property, plant and equipment includes right-of-use ("ROU") assets related to office spaces, mobile and other equipment. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the income statement.

2.12 Government grants

Government grants are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Company will comply with all attached conditions.

Government grants relating to property, plant and equipment are recorded as a reduction to the cost base of the related asset and are credited to the income statement through the recognition of a lower depreciation expense than would be recognized in the absence of the grant.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

2.13 Impairment of non-financial 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.

For the purposes of assessing impairment, assets are grouped into CGUs. The recoverable amount of a CGU is the greater of its value in use and its fair value less costs of disposal. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the CGU.

An impairment loss is recognized in net income at the amount the asset's carrying amount exceeds its recoverable amount. Non-financial assets other than goodwill that have suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.14 Employee benefits

The Company has a defined contribution plan, which is a post-employment benefit plan under which the Company makes contributions to a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense when they are earned.

2.15 Provisions

Provisions for reforestation, environmental restoration, restructuring costs and legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is charged to the income statement in the same expense category as the original expense related to the obligation.

Conifex Timber Inc.

Notes to the consolidated financial statements

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(Tabular amounts expressed in thousands of Canadian dollars except per share amounts)

2.16 Share-based compensation

The Company operates a long-term performance incentive plan and a stock option plan which provide for options, restricted share units, performance share units and deferred share units to be awarded as consideration for services from directors, employees and consultants. The fair value of the equity instrument and the employee services received in exchange for the grant of the options or share awards is measured at the grant date.

The share awards and stock options vest over multiple periods. The fair value of each tranche is considered to be a separate grant based on its vesting period. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period based on the Company's estimate of equity instruments that will eventually vest.

2.17 Revenue recognition

Revenue from the sale of goods is measured based on the transaction price, net of rebates and discounts, as specified in contracts with customers. The Company recognizes revenue when transfer of control occurs.

Amounts charged to customers for freight and distribution are recognized as revenue as the services are provided. Freight and distribution costs and softwood lumber duties incurred by the Company are recorded to cost of sales in the income statement.

The Company markets and sells a range of lumber grades by various dimensions and by-products.

For lumber sales, revenue is recognized when control is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time lumber is loaded onto the mode of transportation. The amount of revenue recognized is adjusted for discounts related to early payment and rebates related to purchase volumes at the time that control is transferred.

For lumber by-products sales, revenue is recognized when control over by-products is transferred to the customer. The timing of the transfer of control varies depending on the individual terms of the contract of sale. The transfer of control typically occurs at the time the by-products leave the Company's sawmill. The amount of revenue is recognized at that point in time. The Company does not offer discounts or rebates on by-products sales.

For bioenergy sales, revenue is recognized when control over electrical energy is transferred to the customer. The timing of the transfer of control and recognition of revenue occurs at the time electrical energy is generated as agreed to within the Electricity Purchase Agreement ("EPA") and Load Displacement Agreement ("LDA"). The Company does not offer discounts or rebates on electrical energy sales.

2.18 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

2.19 Leases and ROU assets

At the inception of a contract, the Company assesses whether the contract is a lease or contains a lease. A contract is a lease or contains a lease when it conveys the right to use an underlying asset over a period of time in exchange for consideration. The ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

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The lease liability is initially measured based on the present value of the future lease payments discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize ROU assets and lease obligations for leases with a term of twelve months or less, and leases for low-value assets. Lease payments associated with these leases are recognized to the consolidated statement of net income as payments are made over the lease term.

2.20 Income taxes

The income tax expense for the period comprises current and deferred tax.

Current income tax is the expected tax payable on the taxable income for the period, and any adjustment to tax payable in respect of previous years.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2.21 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive management team that makes strategic decisions.

2.22 Critical judgements and 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 differences in estimates are recognized when realized on a prospective basis.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and judgements have been applied in a manner consistent with prior periods. 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 include valuation of inventory, income taxes, provision for accrued liabilities, environmental and reforestation obligations, share-based compensation, impairment of non-financial assets and contingencies.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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2.23 Accounting standards issued and not yet adopted

There are no accounting standards, amendments or interpretations to existing standards issued but not yet effective which are expected to have a material impact on the Company's consolidated financial statements.

2.24 Reclassification of comparative amounts

Certain comparative amounts for the prior year have been reclassified to conform to the current year's presentation.

3. SEASONALITY OF OPERATIONS

The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories at its mill during the fall and winter months to ensure adequate supply of fibre to its mill during the spring months when logging operations are largely curtailed due to road conditions.

The operating results of the bioenergy operation will experience variability as a result of the application of a "time of delivery factor" to electricity pricing which adds a seasonal effect to quarterly revenues. The lowest revenues are expected to be generated in the spring months and the highest in the fall and winter months of each year.

4. INVENTORIES

	2021	2020
	\$	\$
Logs	19,482.7	2,116.4
Lumber	13,754.9	5,935.9
Supplies	5,552.6	4,086.2
By-products	1,554.8	856.0
	40,345.0	12,994.5

The above inventory balances are stated after inventory write-downs from cost to net realizable value. Inventory has not been written down at December 31, 2021 and 2020. Write-downs are included in cost of goods sold when incurred.

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5. PROPERTY, PLANT AND EQUIPMENT

	Land	Buildings / equipment	Right of use assets	Capital work in progress	Total
	\$	\$	\$	\$	\$
<i>Cost</i>					
At December 31, 2019	2,912.8	195,369.6	3,507.5	443.7	202,233.6
Net additions	-	2,187.7	40.9	(98.9)	2,129.7
Disposals	-	(143.9)	(215.8)	-	(359.7)
At December 31, 2020	2,912.8	197,413.4	3,332.6	344.8	204,003.6
Net additions *	-	3,732.7	216.5	1,897.9	5,847.1
Disposals	-	-	(352.0)	-	(352.0)
At December 31, 2021	2,912.8	201,146.1	3,197.1	2,242.7	209,498.7
<i>Accumulated depreciation</i>					
At December 31, 2019	-	(64,200.6)	(767.4)	-	(64,968.0)
Depreciation charge for the year	-	(8,509.5)	(754.7)	-	(9,264.2)
Disposals	-	110.7	145.1	-	255.8
At December 31, 2020	-	(72,599.4)	(1,377.0)	-	(73,976.4)
Depreciation charge for the year	-	(9,776.1)	(670.6)	-	(10,446.7)
Disposals	-	-	352.0	-	352.0
At December 31, 2021	-	(82,375.5)	(1,695.6)	-	(84,071.1)
<i>Carrying amount</i>					
At December 31, 2020	2,912.8	124,814.0	1,955.6	344.8	130,027.2
At December 31, 2021	2,912.8	118,770.6	1,501.5	2,242.7	125,427.6

* Insurance proceeds received during the year ended December 31, 2021 of \$0.6 million (2020 – nil) have been netted against the capital work in progress additions.

As the Company's net assets as at December 31, 2021 exceeded its market capitalization, the Company performed an impairment test for all CGU's through a value in use method using a discounted cash flow model. Key assumptions in estimating the recoverable amount under the value in use method include future estimated revenues, operating expenses and the pre-tax discount rate. The key assumptions were determined using external sources and historical data from internal sources. Specifically, product pricing has been estimated by reference to average historical prices as well as third-party analyst projections of long-term product pricing. Based on a pre-tax discount rate of 10%, the estimated recoverable amount of the CGU groups exceeded their respective carrying amounts and as such, no impairment loss was recognized for the year ended December 31, 2021 (2020 – nil).

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6. INTANGIBLE ASSETS

	Forestry licences	Software licences	Total
	\$	\$	\$
<i>Cost</i>			
At December 31, 2019	5,299.1	694.3	5,993.4
Net additions	-	92.6	92.6
At December 31, 2020	5,299.1	786.9	6,086.0
Net additions	-	-	-
At December 31, 2021	5,299.1	786.9	6,086.0
<i>Accumulated amortization</i>			
At December 31, 2019	(1,586.1)	(570.2)	(2,156.3)
Amortization charge for the year	(322.1)	(125.3)	(447.4)
At December 31, 2020	(1,908.2)	(695.5)	(2,603.7)
Amortization charge for the year	(290.6)	(50.3)	(340.9)
At December 31, 2021	(2,198.8)	(745.8)	(2,944.6)
<i>Carrying amount</i>			
At December 31, 2020	3,390.9	91.4	3,482.3
At December 31, 2021	3,100.3	41.1	3,141.4

7. LONG-TERM INVESTMENTS AND OTHER

	2021	2021
	\$	\$
Joint venture investment	19,972.1	19,986.0
Timber inventory development	2,232.9	2,232.9
Deposits and long-term receivables	442.8	442.8
	22,647.8	22,661.7

The Company's 50% ownership interest in a company which holds a forestry licence with an annual timber harvest of 300,000 m³ is classified as a joint venture. At December 31, 2021, the carrying value of the equity investment is \$20.0 million (2020 – \$20.0 million).

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8. REFORESTATION OBLIGATIONS

	2021	2020
	\$	\$
Reforestation obligations		
Current	4,916.5	3,548.4
Non-current	7,191.5	7,016.2
	12,108.0	10,564.6
	2021	2020
	\$	\$
Balance at beginning of year	10,564.6	10,981.6
Additional provisions recognized	3,169.7	2,127.3
Reductions arising from payment	(2,537.3)	(2,307.0)
Change arising from re-measurement or settlement without cost	911.0	(237.3)
	12,108.0	10,564.6

The total undiscounted amount of the future estimated expenditures required to settle the reforestation obligation at December 31, 2021 is \$12.6 million (2020 – \$11.8 million). The reforestation expenditures are expected to occur over the next one to 20 years and have been discounted at a risk-free interest rate of 1% (2020 – 3%). Reforestation expenses resulting from obligations arising from current year activities, changes in estimated future expenses and accretion of the discount are included in cost of sales for the year.

9. ENVIRONMENTAL LIABILITIES

	2021	2020
	\$	\$
Balance at beginning of year	987.5	1,153.7
Reductions arising from payment	(565.4)	(166.1)
Change arising from re-measurement or settlement without cost	-	(0.1)
	422.1	987.5

10. OTHER LONG-TERM LIABILITIES

	2021	2020
	\$	\$
Other liabilities	472.2	526.1
Deferred revenue	8,384.0	9,011.4
	8,856.2	9,537.5

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Deferred revenue of \$8.4 million (2020 – \$9.0 million) comprises the incentive funds drawn under the Load Displacement Agreement (“LDA”) with BC Hydro and is secured by letters of credit totaling \$5.6 million (2020 – \$5.6 million). The incentive funding is recognized in earnings over the term of the LDA. The incentive funding began on April 30, 2015 and has a term of 20 years. The Company recognized \$0.6 million (2020 – \$0.6 million) of the incentive funding as revenue during the year.

11. OPERATING LOAN

The Company entered into a three-year \$10.0 million secured revolving asset based credit facility (the “ABL Facility”) with a chartered bank on October 13, 2020. The ABL Facility contains an accordion feature to increase the limit of the ABL Facility to \$15.0 million, subject to certain conditions. Under the terms of the ABL Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, net of specific reserves. Borrowings can be in Canadian or US dollars. Interest rates on borrowings are based on either Canadian Dollar Offered Rate (“CDOR”) or London Inter-bank Offered Rate (“LIBOR”), plus an applicable margin.

The Company initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16) (“The Phase 2 Amendments”) effective January 1, 2021. The Phase 2 Amendments provide practical relief from certain requirements in IFRS standards relating to the modification of financial instruments, lease contracts, or hedging relationships triggered by a replacement of a benchmark interest rate in a contract with a new alternative benchmark rate.

At December 31, 2021, these amendments did not affect the Company’s consolidated financial statements as the Company had not yet transitioned any agreement that are exposed to LIBOR or to an alternative benchmark interest rate.

Subsequent to the year end, the ABL Facility was amended to exercise the accordion feature to increase the limit of the ABL Facility to \$15.0 million (note 27).

The portion of the commitment that is not drawn is subject to a standby fee. The ABL Facility is primarily secured by a first priority security interest on certain existing and after acquired lumber operations assets. The Company is subject to customary covenants, including a fixed charge coverage ratio.

As at December 31, 2021, the Company has not drawn against the ABL Facility. The Company intends to utilize the ABL Facility for working capital, capital expenditures and other general corporate purposes.

12. BORROWINGS

	2021	2020
	\$	\$
Non-current		
Leases (a)	1,095.2	1,908.7
CP Partnership term loan (b)	53,666.9	56,999.1
Total non-current borrowings	54,762.1	58,907.8
Current		
Current portion of leases (a)	1,139.6	1,212.8
Current portion of CP Partnership term loan (b)	3,482.6	3,278.0
Total current borrowings	4,622.2	4,490.8
Total borrowings	59,384.3	63,398.6

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The aggregate amount of contractual cash outflows for borrowings, which reflects payments in full before accretion, is as follows:

	Amount
	\$
2022	4,664.6
2023	4,361.4
2024	4,304.7
2025	4,193.3
2026	4,436.8
Thereafter	39,440.5
	61,401.3

(a) Leases

Leases are for office spaces, mobile and other equipment. The leases expire between 2022 and 2025 and the weighted average incremental borrowing rate is 5.7% per annum. The principal balance outstanding at December 31, 2021 is \$2.2 million (2020 – \$3.1 million).

Interest expense on lease obligations for the year ended December 31, 2021 was nil (2020 – \$0.1 million). Total payments for leases, including interest, in the year was \$1.4 million (2020 – \$1.4 million).

(b) CP Partnership term loan

CP Partnership, a wholly-owned subsidiary of the Company, completed a \$70.0 million secured term loan (the "CP Partnership Term Loan") with a syndicate of private lenders in October 2018. The CP Partnership Term Loan is for a term of 15 years, repayable quarterly commencing December 2018 and bears interest at a fixed rate of 6.1% per annum. On December 4, 2019, an amendment to the CP Partnership Term Loan resulted in a temporary increase in the fixed rate interest rate of 0.5% applicable for the period from the amendment date to January 31, 2021.

The CP Partnership Term Loan is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy operations. The CP Partnership Term Loan is non-recourse to the Company's other operations.

Under the terms of the CP Partnership Term Loan agreement, a distribution test must be met for the cash held by CP Partnership to be available to the Company's other operations. CP Partnership was in compliance with debt covenants under the CP Partnership Term Loan and met the distribution conditions for the period ended December 31, 2021.

As at December 31, 2021, CP Partnership held \$6.5 million of cash in restricted accounts (2020 – \$3.6 million). Funds from restricted accounts are distributed in accordance with the terms of the CP Partnership Term Loan.

Deferred financing costs of \$2.0 million were netted against the CP Partnership Term Loan as at December 31, 2021 (2020 – \$2.2 million).

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13. SHARE CAPITAL

Authorized

Unlimited number of common voting shares without par value.

Common share activity of the Company is as follows:

	Number of common shares (in thousands)	Amount \$
Balance at December 31, 2019	46,924	290,702.9
Repurchase of common shares	(584)	(3,617.4)
Shares vested under share-based compensation plan (note 14)	113	361.1
Balance at December 31, 2020	46,453	287,446.6
Repurchase of common shares	(6,360)	(39,307.7)
Shares vested under share-based compensation plan (note 14)	56	115.5
Balance at December 31, 2021	40,149	248,254.4

On November 10, 2020, the Company's Board of Directors approved a normal course issuer bid ("NCIB") for the purchase of up to 2,944,320 common shares, representing 10% of the Company's public float. The NCIB commenced on December 1, 2020.

In the year ended December 31, 2021, the Company repurchased 2,359,920 common shares for \$5.0 million (2020 – 584,400 common shares for \$0.9 million). In connection with the repurchases, \$14.6 million (2020 – \$3.6 million) was charged against share capital based on the average per share amount for common shares as at the transaction dates and a recovery of \$9.6 million (2020 – \$2.7 million) was charged to contributed surplus.

The NCIB terminated with the completion of the purchase of the maximum number of permitted securities on September 24, 2021.

In November 2021, the Company commenced a substantial issuer bid ("SIB") for the purchase and cancellation of up to 4,000,000 common shares at a purchase price of \$2.25 per common share. The SIB expired on December 20, 2021, and the Company purchased 3,999,999 common shares for an aggregate purchase price of \$9.3 million. In connection with the repurchases, \$24.7 million was charged against share capital based on the average per share amount and a recovery of \$15.4 million was charged to contributed surplus.

14. SHARE-BASED COMPENSATION

14.1 Stock option plan

The Company has a stock option plan primarily applicable to directors and officers. The total outstanding stock options are limited to 10% of the outstanding common shares of the Company at any one time.

There are no options outstanding and no expense related to the stock option plan was recognized in the years ended December 31, 2021 and 2020.

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14.2 Long-term performance incentive plan

The Company operates a long-term performance incentive plan which provides for long-term incentive plan units, restricted share units, performance share units and deferred share units to be awarded to directors, executives and salaried employees. The Company measures the fair value of the services received as consideration for equity instruments indirectly by reference to the fair value of the equity instruments granted. The fair value is measured on the basis of an observable market price.

(a) Long-term incentive plan units and restricted share units

The following table illustrates the number and weighted average fair value (“WAFV”) of, and movements in, long-term incentive plan awards and restricted share units granted during the year:

	2021	2021	2020	2020
	Number	WAFV	Number	WAFV
		\$		\$
Outstanding at January 1	657,000	1.32	1,361,058	2.14
Granted during the year	860,000	2.20	100,000	0.58
Forfeited during the year	(50,000)	1.14	(549,058)	2.37
Vested during the year	(107,000)	4.03	(255,000)	3.11
Outstanding at December 31	1,360,000	1.67	657,000	1.32

The awards typically vest in three years. The fair value of each tranche is determined separately and recognized as compensation expense over the term of its respective vesting period.

Expense related to the grant of long-term incentive plan awards and restricted share units of \$0.2 million was recognized in the year ended December 31, 2021 (2020 – \$0.9 million). The compensation expense is allocated between cost of goods sold and selling, general and administrative expense. Cash payments of \$0.1 million were made in regard to vested long-term incentive plan awards and restricted share units in the year ended December 31, 2021 (2020 – \$0.1 million).

(b) Performance share units

Performance share units (“PSUs”) generally vest on the third anniversary of the issuance date with the number of vesting shares determined by the 10-day volume-weighted average share price at vesting relative to the share price at issuance. Payments for vested units can be made in cash at the discretion of the Company’s Board of Directors. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. Expense related to the grant of PSU’s of \$0.3 million was recognized in the year ended December 31, 2021 (2020 – nil). No cash payments were made in regards to vested PSUs in the years ended December 31, 2021 and 2020.

(c) Deferred share units

Deferred share units (“DSUs”) are awarded to directors who elect to have all or a portion of their directors’ fees compensated by DSU awards rather than cash. The election can be made annually. The DSUs may only be redeemed upon a director’s retirement from the Company, its subsidiaries or any affiliated entity. The number of DSUs awarded is determined by the 10-day volume-weighted average share price at the time of the award. The Company records an expense based on the 10-day volume-weighted average share price at each balance sheet date. No expense was recognized for the grant of DSUs in the year ended December 31, 2021 (2020 – \$0.1 million).

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15. WARRANTS

	Number of warrants (in thousands)	Amount \$
Balance at December 31, 2018, 2019 and 2020	3,500	4,969.3
Warrants cancelled during 2021	(2,305)	(3,272.5)
Balance at December 31, 2021	1,195	1,696.8

In connection with the acquisition of the Cross City and Glenwood Mills in July 2018, the Company issued share purchase warrants to purchase up to an aggregate of 3,500,000 common shares of the unissued capital stock of the Company at a price of \$8.78 per share until July 9, 2023. The fair market value of the warrants was recorded to contributed surplus.

In December 2021, the Company cancelled 2,304,878 of the issued share purchase warrants.

16. REVENUE

The Company has one reportable segment comprising of activities that include timber harvesting, reforestation, forest management, processing logs into lumber and wood chips, value added lumber finishing and generation of electrical power that is complementary to the Company's harvesting and manufacturing operations.

	2021 \$	2020 \$
Lumber	217,146.9	101,706.6
Lumber by-products	9,898.4	2,262.1
Bioenergy	23,488.1	24,742.1
	250,533.4	128,710.8

Revenues by geographic area were as follows:

	2021 \$	2020 \$
United States	153,642.2	80,255.2
Canada	48,562.5	36,585.6
Japan	47,530.9	11,748.4
Other	797.8	121.6
	250,533.4	128,710.8

The Company's harvesting, manufacturing and power generation operations are located in Mackenzie, British Columbia, Canada.

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17. SELLING, GENERAL AND ADMINISTRATIVE

	2021	2020
	\$	\$
Salaries and benefits	3,162.7	2,860.9
Legal, professional and organizational	1,555.6	1,840.1
Selling and marketing expenses	1,869.6	613.9
Depreciation and amortization	757.4	820.9
Other administrative expenses	2,634.4	323.5
	9,979.7	6,459.3

18. FINANCE COSTS

	2021	2020
	\$	\$
Interest expense	4,303.3	6,483.8
Financing expense	276.9	700.8
	4,580.2	7,184.6

19. OTHER INCOME

	2021	2020
	\$	\$
Insurance claim settlement	3,456.8	-
Other income	31.3	0.7
	3,488.1	0.7

The bioenergy operations experienced a disruption to operations caused by damage to the power plant's generator in December 2020. The power plant was successfully recommissioned in February 2021. The insurance claim settlement reflects the recovery of lost income associated with this disruption for the period covered under the Company's business interruption policy.

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20. INCOME TAX

20.1 Current income taxes

The components of income tax expense (recovery) for operations are as follows:

	2021	2020
	\$	\$
Current	(32.0)	-
Deferred	9,233.2	(406.1)
	9,201.2	(406.1)

The reconciliation of income taxes calculated at the statutory rate to the actual income tax provision is as follows:

	2021	2020
	\$	\$
Income (loss) before taxes	36,396.5	(7,174.3)
Income tax expense (recovery) at corporation rate of 27.0% (2020 - 27.5%)	9,827.0	(1,971.1)
Non-deductible (non-taxable) items for tax purposes	198.2	975.1
Rate differentials between jurisdictions	-	32.3
Change in deferred tax assets not recognized	(786.2)	630.9
Recognition of benefit of prior years tax losses	(32.0)	-
Other	(5.8)	(73.3)
Total income tax expense (recovery)	9,201.2	(406.1)

20.2 Deferred income taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on the consolidated balance sheet and the amounts used for income tax purposes. The Company has not recognized any tax assets related to its discontinued operations due to the uncertainty of future realization.

The source of deferred income tax assets (liabilities) is as follows:

	2021	2020
	\$	\$
Property, plant, equipment and intangibles	(9,907.1)	(9,073.2)
Loss carryforwards	7,283.8	15,289.2
Reforestation and environmental obligations	3,383.1	3,119.0
Other	(131.3)	526.7
	628.5	9,861.7

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20.3 Non-capital loss carryforwards

As at December 31, 2021, the Company has non-capital losses from the following years:

Year of loss	Non-capital loss amount
	\$
2011	301.7
2013	267.5
2014	270.7
2015	84.9
2016	1,268.6
2017	6,935.2
2018	16,960.6
2019	51,706.5
2020	104,010.0
2021	44.8
	181,850.5

As at December 31, 2021, non-capital losses of \$27.0 million and \$154.9 million relate to continuing and discontinued operations, respectively. The non-capital losses can be carried forward for 20 years from the year the loss was incurred.

21. NET INCOME (LOSS) PER SHARE

	Year ended December 31, 2021			Year ended December 31, 2020		
	Net income	Weighted average number of shares	Per share	Net loss	Weighted average number of shares	Per share
	\$		\$	\$		\$
Basic and diluted						
Continuing operations	27,195.3		0.60	(6,768.2)		(0.14)
Discontinued operations	-		-	308.4		-
Total per share	27,195.3	45,202	0.60	(6,459.8)	46,972	(0.14)

22. RELATED PARTY TRANSACTIONS

Key management personnel

Compensation of key management (directors and officers) consists of amounts paid and accrued as at the year end.

	2021	2020
	\$	\$
Short-term benefits	2,661.7	3,784.2
Share-based payments	307.6	(173.2)
	2,969.3	3,611.0

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23. COMMITMENTS

The Company has committed to leases of office spaces, mobile and other equipment as outlined in note 13(a). In the ordinary course of business activities, the Company may be subject to, or enter into, commitments that are for terms of less than one year or are low dollar value leases. These amounts are included in the statement of net income and comprehensive income as charges are incurred.

24. FINANCIAL RISK AND CAPITAL MANAGEMENT

Financial risk management

The Company's activities expose it to a variety of financial risks: liquidity risk, market risk (including foreign exchange risk, commodity price risk and interest rate risk), and credit risk. The Company's overall financial risk management activities focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance. The Company uses derivative financial instruments to reduce certain risk exposures.

The Company's financial risk management activities are governed by Board-approved financial policies that cover risk identification, tolerance, measurement, hedging limits, hedging products, and authorization levels.

(a) Market risk

(i) Foreign exchange risk

The Company is exposed to currency risk, primarily with respect to the US dollar, as its products are sold principally in US dollars and its costs of production at its BC mills are incurred principally in Canadian dollars. Foreign exchange risk arises from future commercial transactions and recognized assets and liabilities. The Company does not currently use financial derivative instruments for its foreign exchange risk management program.

As at December 31, 2021, the Company's operations in Canada has US dollar denominated accounts receivable totaling US\$2.4 million (2020 – US\$5.5 million) and accounts payable totaling US\$1.1 million (2020 – US\$1.2 million). The US dollar denominated amount drawn on the operating loan is nil (2020 – nil).

(ii) Commodity price risk

The Company is exposed to commodity price risk related to the sale of lumber and residual products and purchase of certain manufacturing inputs which are purchased primarily on the open market. From time to time, the Company enters into futures contracts on the Chicago Mercantile Exchange to reduce its exposure to risks associated with fluctuations in lumber prices. The Company did not hold any lumber futures as at December 31, 2021 and 2020.

(iii) Interest rate risk

Exposure to interest risk arises primarily when financial assets and financial obligations bear variable interest rates.

The Company may utilize interest rate swaps to reduce its interest rate risk associated with its financial obligations that bear variable interest rates. The Company had no fixed interest rate swaps outstanding at December 31, 2021 and 2020.

(b) Credit risk

Credit risk is the risk of financial loss to the Company in the event a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily related to its trade receivable balances. The Company's credit department is responsible for managing and analyzing the credit

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risk for each new client before standard payment and delivery terms and conditions are offered. The Company utilizes a combination of credit insurance, letters of credit and self-insurance to manage risks associated with its trade receivables. Management regularly reviews the collectability of trade receivables and makes provisions where the collectability is uncertain. The Company does not have significant credit risk related to its cash and cash equivalent balances as deposits are held with major Canadian and US banks.

Capital management

The Company's objective when managing capital is to maintain a strong balance sheet that ensures adequate capital resources to support operations and to sustain future business development.

The Company monitors capital on the basis of the net debt to total capitalization ratio. Net debt is calculated as current and non-current borrowings (note 12) less cash and cash equivalents. Total capital is calculated as the sum of net debt and equity.

The Company's capital structure at year end consisted of the following:

	2021	2020
	\$	\$
Borrowings, current	4,622.2	4,490.8
Borrowings, non-current	54,762.1	58,907.8
Less: cash	(12,831.6)	(14,786.7)
Net debt	46,552.7	48,611.9
Shareholders' equity	129,832.0	116,419.5
Total capitalization	176,384.7	165,031.4
Net debt to capitalization	26%	29%

The Company's capital structure, excluding borrowings by CP Partnership as described in note 12, at year end consisted of the following:

	2021	2020
	\$	\$
Borrowings, current (excluding non-recourse borrowings)	943.0	1,047.2
Borrowings, non-current (excluding non-recourse borrowings)	1,095.2	1,712.1
Less: cash	(3,064.9)	(6,301.6)
Net debt	(1,026.7)	(3,542.3)
Shareholders' equity	129,832.0	116,419.5
Total capitalization	128,805.3	112,877.2
Net debt to capitalization	-1%	-3%

There were no changes in the Company's approach to capital management during the year.

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25. FINANCIAL INSTRUMENTS

The Company's financial assets, with the exception of certain derivative instruments, and financial liabilities are measured at amortized cost subsequent to initial recognition. Cash and cash equivalents and derivative instruments are measured at FVTPL.

Financial assets and liabilities that are measured subsequent to initial recognition at fair value are classified within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of the fair value hierarchy are:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

The Company did not hold any financial instruments measured at fair value as at December 31, 2021 and 2020.

26. COUNTERVAILING AND ANTI-DUMPING DUTIES

On November 25, 2016, a coalition of US lumber producers petitioned the US Department of Commerce ("USDOC") and the US International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing ("CV") and anti-dumping ("AD") duties against Canadian imports of softwood lumber. On January 6, 2017, a preliminary determination was announced by the USITC that there was reasonable indication that the US industry is materially injured by imports of Canadian softwood lumber products and the USDOC imposed duties on such shipments into the US.

CV duties were imposed from April 28, 2017 until August 26, 2017 and from December 28, 2017 onwards, initially at 19.88%, but subsequently amended to 14.19%. AD duties were imposed from June 30, 2017 through December 26, 2017 and from December 28, 2017 onwards, initially at 6.87%, but subsequently amended to 6.04%.

The USDOC published the final CV and AD duty rates based on the completion of its first administration review of shipments for the years ended December 31, 2017 and 2018 on December 1, 2020, and November 30, 2020, respectively. The final 2018 CV and AD duty rates of 7.42% and 1.57% respectively, was applied as the cash deposit rate on lumber shipments from the publication date until publication of the final rates under the second administration review.

On December 2, 2021, the USDOC published its final determination of the second administrative review of shipments for the year ended December 31, 2019. The final 2019 CV and AD duty rates of 6.32% and 11.59% respectively will be applied as the cash deposit rate on new lumber shipments from the date of publication.

On January 31, 2022, the USDOC released the preliminary determination of its third administration review for shipments in the year ended December 31, 2020. The preliminary 2020 CV and AD rates are 6.88% and 4.76% respectively. The USDOC may further amend these preliminary duty rates at any time, with final rate determinations expected to be published in August 2022. At such time, the final rates determined and published for 2020 will be applied to new lumber shipments.

The fourth administrative review covering the 2021 fiscal period was announced on January 3, 2022.

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The following table summarizes the cash deposit and final rates that are in effect for each period:

Effective dates	Cash deposit rates	Final rates
January 1, 2019 to December 31, 2019		
CV	14.19%	6.32%
AD	6.04%	11.59%
Total	20.23%	17.91%
January 1, 2020 to November 30, 2020		
CV	14.19%	N/A
AD ¹	6.04%	N/A
Total	20.23%	N/A
December 1, 2020 to December 31, 2020		
CV	7.42%	N/A
AD	1.57%	N/A
Total	8.99%	N/A
January 1, 2021 to December 1, 2021		
CV	7.42%	N/A
AD	1.57%	N/A
Total	8.99%	N/A
December 2, 2021 to December 31, 2021		
CV ²	6.31%	N/A
AD	11.59%	N/A
Total	17.90%	N/A

¹ The AD rate for November 30, 2020 is 1.57%, for a combined total rate of 15.76%.

² Following the year-end, the USDOC amended the CV rate to 6.32% effective January 10, 2022.

The Company expensed CV and AD duty deposits totaling \$11.6 million in the year ended December 31, 2021 (2020 – \$10.5 million) based on the cash deposit rates in effect at the time of the shipment. No adjustments have been recorded in the consolidated financial statements as of December 31, 2021 to reflect the revised cash deposit and final rates.

Notwithstanding the deposit rates assigned under the investigations, the Company's final liability for the assessment of CV and AD will not be determined until each annual administrative review process is complete and related appeal processes are completed. Cumulative duties of US\$19.4 million paid by the Company, net of sales of the right to 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.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, the Company denies the US allegations and strongly disagrees with the current CV and AD determinations made by the USDOC. The Federal Government has proceeded with legal challenges under the North American Free Trade Agreement and through the World Trade Organization, where Canadian litigation has proven successful in the past.

27. SUBSEQUENT EVENT

On March 8, 2022, the Company completed an amendment to the ABL Facility which increases the limit from \$10.0 million to \$15.0 million.