



CONIFEX

CONIFEX TIMBER INC.

2021 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2022

This Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. ("Conifex", "us", "we", or "our"), on a consolidated basis, for the fiscal year ended December 31, 2021 relative to 2020. This MD&A should be read together with our audited consolidated financial statements for the year ended December 31, 2021 and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this MD&A, reference is made to "EBITDA" and "adjusted EBITDA". EBITDA represents earnings before finance costs, taxes, depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items that are not ongoing and do not reflect our ongoing operations. We disclose EBITDA and adjusted EBITDA as it is a measure used by analysts and by our management to evaluate our performance. As EBITDA and adjusted EBITDA are not generally accepted earnings measures under IFRS, and neither has a standardized meaning prescribed by IFRS, they may not be comparable to EBITDA and adjusted EBITDA calculated by other companies. In addition, EBITDA and adjusted EBITDA are not substitutes 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 any high-performance computing or data center operations; the growth and future prospects of our business, including the impact of COVID-19 thereon; our expectations regarding our results of operations and performance; our planned operating format and expected operating rates; our perception of the industries or markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and our expected cost for wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the US; that we could be negatively impacted by the duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; continued positive relations with Indigenous groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our ability to receive full reimbursement of losses suffered from the disruption at our Mackenzie power plant; the availability and use of credit facilities or proceeds therefrom; and future capital expenditures.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; that the US housing market will continue to improve; our ability to ship our products in a timely manner; that there will be no 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 contained herein and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

RECENT DEVELOPMENTS

Revenue Diversification Opportunity

Over the past two years, our management and board of directors have been exploring opportunities to utilize the unique attributes of our power generation asset base to strengthen Conifex. Given the Mackenzie site's location in a relatively cool climate, the availability of affordable and renewable power from BC Hydro and Power Authority ("**BC Hydro**"), our large property relative to the size of our power generation facility and our highly flexible and technical work force at the power generation facility, we concluded that our site is ideally suited to host a data center or other high-performance computing ("**HPC**") operations, such as digital asset mining. The electrical expertise of our existing power plant engineers and employee base, combined with familiarity of continuous operations are important components to providing hosting services for HPC operators.

In partnership with the Tsay Keh Dene First Nations, we commenced hosting an initial 1.5 megawatts of capacity on a trial basis in December 2021, with an additional 1.5 megawatts of hosting capacity planned for mid-March 2022. Through the trial, we have gained valuable experience operating an HPC data center under extreme winter weather conditions. Should the trial prove successful, we plan to host a larger data center operation at our Mackenzie site. We expect the capital outlays for the initial phase of HPC operations will be modest as we plan to redeploy the legacy power infrastructure at our site. We have identified a partner with relevant industry experience who wishes to utilize our Mackenzie site for digital asset mining and work with us to invest in, operate, and maintain the HPC operations equipment. The potential exists to build out our hosting business in phases and utilize cash flow generated from the initial phases to fund the development of additional hosting capacity. There is no assurance that we will establish any data center operation in the time contemplated by our management or at all.

Issuer Bids

In November 2020, we announced that the Toronto Stock Exchange ("**TSX**") accepted our notice of intention to implement a normal course issuer bid ("**NCIB**") for our common shares. We commenced the bid because we believed that the market price of our common shares did not reflect the value of our

underlying business and future prospects. Therefore, we considered an allocation of capital to repurchase some of our common shares an attractive option.

Pursuant to the NCIB, we were authorized to make purchases for a period of one year, of up to a maximum of 2,944,320 of our common shares, representing 10% of our "public float" at the commencement of the bid. The NCIB terminated in September 2021, by which time we had completed the purchase of the maximum number of common shares available under the bid. We paid an average price of \$2.01 per share under the NCIB.

Having completed our NCIB, we considered alternative methods to return capital to our shareholders. Following such review, we concluded that a substantial issuer bid ("**SIB**") was the most efficient way of doing so. In November 2021, we commenced a SIB to purchase up to 4,000,000 of our common shares at a price of \$2.25 per share for a total aggregate purchase price of up to \$9.0 million. We completed the SIB on December 20, 2021 and purchased for cancellation 3,999,999 of our common shares.

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SUMMARY OF 2021 RESULTS

We generated net income of \$27.2 million or \$0.60 per share in 2021. Net loss was \$6.5 million in 2020, comprised of net loss from continuing operations of \$6.8 million or \$0.14 per share and net income from discontinued operations of \$0.3 million or \$nil per share.

The following table summarizes our net operating results from our Mackenzie sawmill, power plant and our previously owned sawmill in Fort St. James, British Columbia (“BC”), which was largely curtailed in May 2019 and sold in November 2019. Operating and financial results in 2020 were materially impacted by the curtailment of our Mackenzie sawmill from April 6 to July 6, 2020 due to COVID-19 related disruptions.

Selected Financial Information ⁽¹⁾

(in millions of dollars, except earnings per share and share information)	2021	2020	2019
Sales			
Lumber – Conifex produced	180.2	98.4	106.2
Lumber – wholesale	36.9	3.3	15.6
By-products	9.9	2.3	9.8
Bioenergy	23.5	24.7	25.8
	250.5	128.7	157.4
Operating income (loss)	38.4	3.4	(40.2)
EBITDA from continuing operations ⁽²⁾	51.8	9.7	14.1
Net income (loss) from continuing operations	27.2	(6.8)	(30.4)
Net income (loss) from discontinued operations	-	0.3	(169.8)
Net income (loss)	27.2	(6.5)	(200.2)
Basic and diluted earnings (loss) per share			
Continuing operations	0.60	(0.14)	(0.65)
Discontinued operations	-	-	(3.63)
Total basic and diluted earnings (loss) per share	0.60	(0.14)	(4.28)
Shares outstanding – weighted average (millions)	45.2	47.0	46.7
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	27.2	(6.8)	(30.4)
Add: Finance costs	4.6	7.2	42.1
Amortization	10.8	9.7	13.2
Income tax expense (recovery)	9.2	(0.4)	(10.8)
EBITDA from continuing operations ⁽²⁾	51.8	9.7	14.1

Selected Operating Information

Production – WSPF lumber (MMfbm) ⁽³⁾	184.1	136.8	185.0
Shipments – WSPF lumber (MMfbm) ⁽³⁾	172.1	134.4	211.9
Shipments – wholesale lumber (MMfbm) ⁽³⁾	18.6	4.1	22.3
Electricity production (GWh)	184.6	202.5	211.0
Average exchange rate –\$/US\$ ⁽⁴⁾	0.798	0.745	0.754
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁵⁾	\$872	\$556	\$360
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁶⁾	\$1,090	\$746	\$478

(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) MMfbm represents million board feet.

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

(5) Random Lengths Publications Inc.

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

REVIEW OF 2021 FINANCIAL RESULTS

Lumber Operations

Our lumber production was 184.1 million board feet in 2021, reflecting an annualized operating rate of 77% of capacity. Lumber production in the second half of 2021 was impacted by extreme winter weather conditions throughout British Columbia, COVID-19 related shift scheduling issues, and a two-week temporary lumber production curtailment necessitated by the combined impact of record high delivered log costs and a collapse in lumber prices following the record high peak in pricing seen in the first half of the year. In 2020, our Mackenzie sawmill produced 136.8 million board feet of lumber due to the pandemic-related curtailment of our Mackenzie sawmill from April 6 to July 6, 2020 and gradual ramp-up to normalized operating levels following the restart.

Shipments of Conifex produced lumber totaled 172.1 million board feet in 2021. Shipments of Conifex produced lumber increased by 28% from 2020 as a result of increased production volumes, which were offset partially by an increase in inventory in the second half of the year due to weather related rail and truck service disruptions. Our wholesale lumber program shipped 18.6 million board feet in 2021 compared to 4.1 million board feet in 2020 as we resumed a moderate volume of wholesale lumber shipments in 2021.

Revenues from lumber products were \$217.1 million in 2021 and represented an increase of 113% from 2020. Higher revenues were driven by higher shipment volumes and wholesale activity and significantly higher mill net realizations resulting from higher overall benchmark lumber prices in 2021.

The North American lumber market experienced significant price volatility in 2021. Market prices reached record high levels in the second quarter of the year, before sharply declining in the third quarter and recovering in the fourth quarter. The continued strong demand for new home construction and repair and remodelling activities, combined with low inventory volumes, resulted in a 46% increase to the average Canadian dollar-denominated benchmark Western Spruce/Pine/Fir ("**WSPF**") lumber price from the prior year to \$1,090 in 2021¹.

Cost of goods sold in 2021 were 85% higher than 2020 as a result of increased production and shipment volumes and higher log costs. Unit manufacturing costs were largely consistent year-over-year. We did not record any inventory valuation adjustment in 2021 whereas we recorded a positive inventory valuation adjustment of \$2.1 million in 2020.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of \$11.6 million in 2021, an increase of 10% from 2020. The duty deposits were based on a combined rate of 20.23% from January 1 to December 1, 2020, 8.99% to December 1, 2021 and 17.90% thereafter. The export taxes were significantly higher than 2020 due to the higher average lumber prices and increased lumber shipments made to the US market during 2021.

Bioenergy Operations

Our Mackenzie power plant sold 184.6 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro in 2021, representing approximately 83% of targeted operating rates. In 2020, our Mackenzie power plant sold 202.5 gigawatt hours of electricity, representing 92% of targeted operating rates. The decrease in 2021 production was driven by a disruption in December 2020 caused by damage to the plant's generator. A replacement for the failed component of the power plant was procured from the original equipment manufacturer and installed in February 2021. The power plant was successfully recommissioned and began producing electricity at normalized rates on February 21, 2021.

Our EPA with BC Hydro, similar to other electricity purchase agreements, provides BC Hydro with the option to "turn down" electricity purchased from us during periods of low demand by issuing a "dispatch order".

¹ Source: Random Lengths Publications Inc.

BC Hydro issued a dispatch order for a period of 61 days, commencing May 1 to June 30, 2021. In 2020, our power plant was dispatched for 117 days from April 24 to August 19, 2020. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts. During any dispatch period, we continue to produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro (the "**LDA**").

In 2021, we submitted an insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations from December 2020 to February 2021. We expect to be fully reimbursed for capital expenditures related to the replacement of our generator, subject to deductible amounts, and for lost income for the period covered under our business interruption policy, being the period between the expiry of the waiting period and the recommencement of the power plant. We recognized \$3.5 million as other income to reflect the estimated settlement for lost income under our business interruption policy.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs of \$10.0 million in 2021 reflected an increase of 54% from 2020. The year-over-year increase is primarily attributable to higher selling costs on increased wholesale lumber volumes, variable compensation costs including equity-based compensation, and an increased commitment for First Nations and community charitable donations.

Finance costs and accretion

Finance costs and accretion of \$4.6 million in 2021 were 36% lower than finance costs of \$7.2 million in 2020 as a result of the repayment of the previous secured credit facility that supported our lumber mills (the "**Retired Lumber Credit Facility**") on February 1, 2020. Finance costs incurred subsequent to February 1, 2020 relate primarily to our term loan supporting our bioenergy operations (the "**Power Term Loan**").

Gain or Loss on Derivative Financial Instruments

Gains or losses on lumber derivative instruments are recognized as they are settled or as they are marked to market for each reporting period.

In early 2021, we entered into lumber futures contracts for downside price protection on a small percentage of our estimated second and third quarter 2021 production. Due to lumber market conditions characterized by rapidly rising prices in the first half of 2021, we recorded a loss from lumber derivative instruments of \$1.6 million in 2021. We recorded a loss from lumber derivative instruments of \$3.3 million in 2020.

There were no outstanding futures contracts in place as at December 31, 2021.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash and working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation gain of \$0.6 million in 2021, compared to a foreign exchange gain of \$1.9 million in 2020. In 2020, a foreign exchange loss of \$2.1 million was recognized on the repayment of the US dollar denominated Retired Lumber Credit Facility.

Income tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. We recorded a deferred income tax expense of \$9.2 million in 2021, and a deferred income tax recovery of \$0.4 million in 2020. As at December 31, 2021, we have recognized net deferred income tax assets of \$0.6 million.

Discontinued Operations

In February 2020, we sold our US sawmill business, consisting of our El Dorado, Cross City and Glenwood sawmills and related operations (the “**US Sawmill Business**”) for US\$172.8 million, including net working capital of US\$9.8 million. In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for the US Sawmill Business were restated as discontinued operations for the relevant periods and separated from continuing operations.

Net income from discontinued operations was nil in 2021 compared to net income from discontinued operations of \$0.3 million in 2020. For further information on discontinued operations, see Note 6 of our consolidated financial statements for the years ended December 31, 2020 and 2019 available on SEDAR at www.sedar.com.

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SUMMARY OF FOURTH QUARTER 2021 RESULTS

The following table summarizes our net operating results.

Selected Financial Information ⁽¹⁾

(in millions of dollars, except earnings per share and share information)	Q4 2021	Q3 2021	Q4 2020
Sales			
Lumber – Conifex produced	34.5	25.9	42.0
Lumber – wholesale	14.7	12.5	1.7
By-products	2.7	2.1	-
Bioenergy	8.0	7.1	6.1
	59.9	47.6	49.8
Operating income (loss)	(3.0)	(0.7)	4.6
EBITDA from continuing operations ⁽²⁾	1.0	3.3	6.8
Net income (loss) from continuing operations	(2.5)	(0.9)	2.2
Net income (loss) from discontinued operations	-	-	0.1
Net income (loss)	(2.5)	(0.9)	2.3
Basic and diluted earnings (loss) per share			
Continuing operations	(0.06)	(0.02)	0.05
Discontinued operations	-	-	-
Total basic and diluted earnings (loss) per share	(0.06)	(0.02)	0.05
Shares outstanding – weighted average (millions)	43.8	44.6	47.0
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	(2.5)	(0.9)	2.2
Add: Finance costs	1.2	1.1	1.3
Amortization	3.1	3.4	2.8
Income tax expense (recovery)	(0.8)	(0.3)	0.5
EBITDA from continuing operations ⁽²⁾	1.0	3.3	6.8

Selected Operating Information

Production – WSPF lumber (MMfbm) ⁽³⁾	44.0	40.1	48.3
Shipments – WSPF lumber (MMfbm) ⁽³⁾	44.7	34.1	49.1
Shipments – wholesale lumber (MMfbm) ⁽³⁾	6.1	6.0	1.8
Electricity production (GWh)	54.9	53.7	41.7
Average exchange rate –\$/US\$ ⁽⁴⁾	0.794	0.794	0.767
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽⁵⁾	\$739	\$478	\$700
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁶⁾	\$931	\$602	\$912

(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) MMfbm represents million board feet.

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

(5) Random Lengths Publications Inc.

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

REVIEW OF FOURTH QUARTER 2021 FINANCIAL RESULTS

During the fourth quarter of 2021, we incurred a net loss from continuing operations of \$2.5 million or \$0.06 per share compared to \$0.9 million or \$0.02 per share in the previous quarter and net income of \$2.2 million or \$0.05 per share in the fourth quarter of 2020. The net loss in the fourth quarter was primarily as a result of lower production and shipment volumes due to COVID-19 related shift reductions and weather related transportation and logistics challenges.

North American lumber market prices recovered in the fourth quarter of 2021 following a sharp decline in prices in the first half of the third quarter. Canadian dollar-denominated benchmark WSPF prices, which

averaged \$931 in the fourth quarter, increased by 55% or \$329 from the previous quarter and by 2% or \$19 from the fourth quarter of 2020. The market price recovery was fueled by the strong demand from repair and remodelling activities, new home construction activity in the US and industry supply chain challenges driven by rail and truck service disruptions. US housing starts on a seasonally adjusted annual basis averaged 1,580,000 in the fourth quarter of 2021, up 1% from the previous quarter and consistent with the fourth quarter of 2020².

Lumber Operations

We produced 44.0 million board feet of lumber in the fourth quarter of 2021, representing approximately 73% of annualized capacity. Lumber production in the fourth quarter of 2021 was impacted by COVID-19 shift reductions and severe winter weather in December. In the previous quarter, lumber production was temporarily curtailed for two weeks in August, resulting in 40.1 million board feet produced. In the fourth quarter of 2020, 48.3 million board feet of lumber was produced.

Shipments of Conifex produced lumber totaled 44.7 million board feet in the fourth quarter of 2021, representing an increase of 31% from the 34.1 million board feet of lumber shipped in the previous quarter and a decrease of 9% from the 49.1 million board feet of lumber shipped in the fourth quarter of 2020. Heavy rains and flooding in the Province of British Columbia, which prompted a state of emergency, had an adverse impact on our shipments in the fourth quarter of 2021 as rail and highway transportation infrastructure were temporarily closed.

Our wholesale lumber program shipped 6.1 million board feet in the fourth quarter of 2021, representing a 2% increase from the 6.0 million board feet shipped in the third quarter of 2021 and 239% increase from the 1.8 million board feet shipped in the fourth quarter of 2020.

Revenues from lumber products were \$49.2 million in the fourth quarter of 2021 representing an increase of 31% from the previous quarter and an increase of 13% from the fourth quarter of 2020. Compared to the previous quarter, the higher revenues in the current quarter were driven by the higher shipment volumes, while mill net realizations remained steady. The revenue increase in the current quarter over the same period in the prior year is largely the result of the higher proportion of premium grade lumber and wholesale inventory volumes shipped and sold. Our lumber is typically sold 2-4 weeks in advance of its shipment date, resulting in a lag in our realized lumber prices when compared to concurrent reported lumber prices. Benchmark lumber prices began to rise towards the end of the fourth quarter, as a result, we will not fully realize the benefit of the higher mill nets until our lumber products are shipped in 2022.

Cost of goods sold in the fourth quarter of 2021 increased by 29% from the previous quarter and 56% from the fourth quarter of 2020. This increase in cost of goods sold from the prior quarter is mainly due to higher 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 stumpage fees and production challenges due shift scheduling and mechanical issues.

We expensed CV and AD duty deposits of \$2.5 million in the fourth quarter of 2021, \$1.3 million in the previous quarter and \$4.5 million in the fourth quarter of 2020. The export taxes during the fourth quarter of 2021 were significantly higher than the previous quarter due to the increased volume of lumber shipments to the US market and the increase in duty deposit rates in December 2021 with the issuance of the final determination by the US Department of Commerce (“USDOC”) on shipments made in 2019.

Bioenergy Operations

Our Mackenzie power plant sold 54.9 gigawatt hours of electricity under our EPA with BC Hydro in the fourth quarter of 2021, representing approximately 101% of targeted operating rates. The Mackenzie power

² Source: Forest Economic Advisors, LLC

plant sold 53.7 and 41.7 gigawatt hours of electricity in the previous quarter and fourth quarter of 2020, respectively.

Electricity production contributed revenues of \$8.0 million in the fourth quarter of 2021, an increase of 14% from the previous quarter and an increase of 32% from the fourth quarter of 2020. In comparison to the previous quarter, revenues were higher due to an increased number of billable gigawatt hours at seasonally higher rates under the EPA.

Selling, General and Administrative Costs

SG&A costs were \$2.4 million in the fourth quarter of 2021, \$2.3 million in the previous quarter, and \$1.1 million in the fourth quarter of 2020. Strong wholesale lumber sales contributed to an incremental increase in selling expense over the comparative quarter of 2020.

Finance costs and accretion

Finance costs and accretion totaled \$1.2 million in the fourth quarter of 2021, \$1.1 million in the previous quarter and \$1.3 million in the fourth quarter of 2020. Finance costs were reduced compared to the fourth quarter of 2020 as a result of the overall lower outstanding debt balance in 2021.

Other income

Other income totaled \$0.7 million in the fourth quarter of 2021, nil in the previous quarter and nil in the fourth quarter of 2020. Other income primarily consists of the estimated business interruption claim settlement in respect of the generator failure at our power generation plant in late 2020.

SUMMARY OF FINANCIAL POSITION

(in millions of dollars, unless otherwise noted)	2021	2020	2019
Cash	6.4	11.2	0.9
Cash – restricted	6.5	3.6	6.7
Operating working capital ⁽¹⁾	39.1	14.7	2.8
Current portion of revolver and long-term debt	(4.6)	(4.5)	(194.0)
Assets held for sale	-	-	236.5
Liabilities held for sale	-	-	(21.5)
Net current assets	47.4	25.0	31.4
Property, plant and equipment	125.4	130.0	137.3
Other long-term assets	28.3	37.9	38.0
	201.1	192.9	206.7
Non-interest bearing long-term liabilities	16.5	17.6	18.8
Long-term debt – Power Term Loan	53.7	57.0	60.2
Long-term debt – other ⁽²⁾	1.1	1.9	3.1
Shareholders' equity	129.8	116.4	124.6
	201.1	192.9	206.7
Ratio of current assets to current liabilities	2.6	2.0	1.1
Net debt to capitalization	26%	29%	67%
Net debt (cash) to capitalization excluding Power Term Loan	(1%)	(3%)	61%

(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 and 2020.

Operating working capital increased by \$24.4 million in 2021 due primarily to an increase in inventory of \$27.3 million and prepaid expenses and deposits of \$5.1 million. This increase in operating working capital

was partially offset by a reduction in trade and other receivables of \$1.6 million and an increase in trade payables and employee liabilities of \$6.4 million. Inventory levels were significantly higher than the prior year due to a larger volume of log and lumber inventory held at December 31, 2021.

Overall debt was \$59.4 million at December 31, 2021 compared to \$63.4 million at December 31, 2020. The reduction of \$4.0 million in debt was comprised of net lease repayments of \$0.9 million and Power Term Loan repayments of \$3.1 million. 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, 2021, we had \$57.2 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was \$2.2 million.

The ratio of current assets to current liabilities was 2.6:1 at December 31, 2021 compared to 2.0:1 at December 31, 2020. The year-over-year change was primarily attributable to an increase in inventory and prepaid expenses and deposits on hand as at December 31, 2021.

As at December 31, 2021, \$100.7 million of our consolidated property, plant and equipment was attributable to our power operations, compared to \$103.1 million at December 31, 2020.

We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as interest-bearing debt less cash. Total capitalization is calculated as the sum of net debt and equity. Net debt at December 31, 2021 decreased by \$2.0 million to \$46.6 million from \$48.6 million at December 31, 2020. The net debt to capitalization ratio was approximately 26% at December 31, 2021 and 29% at December 31, 2020.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(in millions of dollars)

	2021	2020	2019
Cash generated from (used in)			
Operating activities	53.2	10.4	(9.1)
Change in non-cash working capital	(26.5)	(16.7)	52.0
Investing activities	(5.8)	221.5	47.2
Financing activities and other	(25.7)	(207.4)	(107.2)
Increase (decrease) in cash	(4.8)	7.8	(17.1)

Operating Activities

We operate in a cyclical industry. Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and prices, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to help maintain adequate supply of fibre to our Mackenzie sawmill during the spring months. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates can impact the level of lumber inventories. We believe our practices with respect to working capital conform to common business practices in our industry.

Operating activities before changes in non-cash working capital generated \$53.2 million of cash in 2021, compared to \$10.4 million in 2020. Changes in non-cash working capital used \$26.5 million of cash in 2021 and used \$16.7 million in 2020. The increase in operating cash flows in 2021 compared to 2020 primarily reflects the positive earnings in the period arising from the market price of lumber, partially offset by the increase in log and lumber inventories.

Investing Activities

Investing activities utilized cash of \$5.8 million in 2021 and generated cash of \$221.5 million in 2020. Investing activities in 2021 were comprised of investments in property, plant and equipment, net of insurance claim proceeds received. Investing activities in 2020 were comprised primarily of the receipt of \$223.6 million from the sale of our US Sawmill Business.

Financing Activities

Our financing activities used net cash of \$25.7 in 2021 and utilized \$207.4 million in 2020. Net cash usage in 2021 was primarily comprised of purchases of our common shares under the NCIB and SIB and Power Term Loan repayments and finance expenses. In 2020, financing activities included \$191.8 million to repay in full our previous lumber credit facility and payment of finance expenses of \$9.6 million.

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 is available for a term of 3 years, expiring on October 13, 2023 and is substantially secured by our lumber inventory, equipment and accounts receivable. The Revolving Credit Facility was undrawn at December 31, 2021.

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

At December 31, 2021, we had total liquidity of \$16.4 million, compared to \$21.2 million at December 31, 2020. Liquidity at December 31, 2021 was comprised of unrestricted cash of \$6.4 million and unused availability of \$10.0 million under the Revolving Credit Facility. The change in our liquidity in 2021 compared to December 31, 2020 was due primarily to an increased investment in non-cash working capital driven by higher overall inventory levels.

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\$19.4 million paid by Conifex, 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. 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, 2021. 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 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:

	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	83.7	7.0	14.0	14.0	48.7
Leases	2.2	1.2	1.0	-	-
Reforestation obligations	12.6	4.9	2.2	1.2	4.3
Trade payables and accrued liabilities	18.8	18.8	-	-	-
Provisions and other liabilities	11.6	2.1	8.9	0.1	0.5
	128.9	34.0	26.1	15.3	53.5

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at December 31, 2021 were comprised of standby letters of credit totalling \$5.6 million posted by our subsidiary Conifex Power Limited Partnership. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, we had no transactions between related parties in 2021.

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SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, unless otherwise noted)	2021				2020			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	59.9	47.6	96.5	46.6	49.8	37.6	10.8	30.6
Operating income (loss)	(3.0)	(0.7)	33.5	8.7	4.6	7.0	(1.4)	(6.8)
Net income (loss) from continuing operations	(2.5)	(0.9)	26.1	4.5	2.2	2.0	(2.7)	(8.2)
Net income (loss) – total operations	(2.5)	(0.9)	26.1	4.5	2.3	2.0	(3.0)	(7.7)
Net income (loss) per share – basic and diluted from continuing operations	(0.06)	(0.02)	0.56	0.10	0.05	0.04	(0.05)	(0.18)
Net income (loss) per share – basic and diluted – total operations	(0.06)	(0.02)	0.56	0.10	0.05	0.04	(0.06)	(0.17)
EBITDA from continuing operations ⁽¹⁾	1.0	3.3	37.8	9.7	6.8	7.6	(1.2)	(3.5)
Shares outstanding – weighted average (in millions)	43.8	44.6	46.0	46.4	47.0	47.0	46.9	46.9
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	44.0	40.1	49.0	51.0	48.3	48.0	2.4	38.2
Shipments – WSPF lumber	44.7	34.1	55.5	37.8	49.1	39.2	8.5	37.6
Shipments – wholesale lumber	6.1	6.0	5.8	0.7	1.8	0.7	1.6	-
Electricity production – GWh	54.9	53.7	50.9	25.0	41.7	54.9	51.2	54.8
Average exchange rate – \$/US\$ ⁽²⁾	0.794	0.794	0.814	0.790	0.767	0.751	0.722	0.744
Average WSPF 2x4 #2 & Btr lumber price (US\$) ⁽³⁾	\$739	\$478	\$1,290	\$982	\$700	\$768	\$357	\$399
Average WSPF 2x4 #2 & Btr lumber price (\$) ⁽⁴⁾	\$931	\$602	\$1,584	\$1,244	\$912	\$1,023	\$494	\$536
Reconciliation of Adjusted EBITDA to net income (loss)								
Net income (loss) from continuing operations	(2.5)	(0.9)	26.1	4.5	2.2	2.0	(2.7)	(8.2)
Add: Finance costs	1.2	1.1	1.1	1.1	1.3	1.2	1.2	3.5
Amortization	3.1	3.4	2.1	2.2	2.8	2.9	1.1	2.9
Deferred income tax expense (recovery)	(0.8)	(0.3)	8.5	1.9	0.5	1.5	(0.8)	(1.7)
EBITDA ⁽¹⁾	1.0	3.3	37.8	9.7	6.8	7.6	(1.2)	(3.5)
Add: Foreign exchange (gain) loss on long-term debt	-	-	-	-	-	-	-	2.1
Restructuring costs	-	-	-	-	-	-	0.1	1.9
Adjusted EBITDA from continuing operations ⁽⁵⁾	1.0	3.3	37.8	9.7	6.8	7.6	(1.1)	0.5

(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.

(5) Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, and restructuring costs.

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 sawmill during the spring months when logging operations are generally largely curtailed due to unstable road conditions. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

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

OUTLOOK

We expect lumber markets to remain strong in 2022 as supply constraints continue to persist. We expect US housing starts and continued strength in the repair and remodeling sector to maintain market demand for lumber products. At our Mackenzie sawmill, we expect to see an increase in lumber production over 2021, with the expectation of achieving annualized operating rates of approximately 90% in 2022. We anticipate an improvement in operating costs in 2022 as a result of decreased unit fixed costs on higher lumber production volumes and availability of sufficient logs. Our Mackenzie power plant is forecasted to continue to generate a steady and diversified source of cash flow throughout 2022.

We are optimistic that we will realize a higher volume of lumber shipments in 2022 as we unwind lumber inventory accumulated in the second half of 2021 due to transportation challenges in the Province of British Columbia. Although repairs to several critical rail and truck routes have progressed, our ability to ship products in a timely manner remains a challenge. While we are unable to estimate when full transportation services will resume, we continue to utilize alternative transportation routes and methods to the extent they are available to continue shipments to our customers.

Our liquidity and financial position are forecasted to continue to remain strong throughout 2022. We continue to prioritize funding quick payback sawmill upgrades. We have deferred any decision on modernizing and/or expanding our sawmill until we are satisfied that the Ministry of Forests has developed a plan to restore competitiveness in the Mackenzie TSA and has disclosed the outcome of its consultations with First Nations about old-growth ecosystem conservation, wildlife protection set asides, and other factors that may impact the economically available timber supply in the Mackenzie region.

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 not written down as at December 31, 2021 and 2020.

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. Timber licences are amortized 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 Conifex's 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 2021.

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 \$10.0 million in 2021 (2020 – \$8.9 million). Amortization costs related to corporate assets are included in selling, general and administration expenses. We recorded amortization expense of \$0.7 million to SG&A costs in 2021 (2020 – \$0.8 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 2021 (2020 – \$2.1 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 the lumber operations. There were no accruals made in 2021 or 2020.

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 Conifex operates. 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, 2021, we recognized deferred income tax assets of \$0.6 million and deferred income tax expense of \$9.2 million from continuing operations. As at December 31, 2020, we had deferred income tax assets of \$9.9 million and recorded deferred income tax recovery of \$0.4 million from continuing operations.

At December 31, 2021, we had unused non-capital tax losses carried forward totalling \$27.0 million from continuing operations (December 31, 2020 – \$56.6 million) and \$154.9 million from discontinued operations (December 31, 2020 – \$152.0 million). Conifex has not recognized deferred income tax assets related to discontinued operations due to the uncertainty of future realization.

RISKS AND UNCERTAINTIES

Conifex is exposed to many risks and uncertainties in conducting its business, including, but not limited to those factors described below.

Fluctuations in Prices and Demand for and Selling Price of Lumber

Our financial performance principally depends on the demand for and selling price of lumber, which is subject to significant fluctuations. The markets for lumber are highly volatile and are affected by many factors such as North American economic conditions, including the strength of the US housing market, the Asian market, changes in industry production capacity, changes in inventory levels and other factors beyond our control. In addition, unemployment levels, interest rates, the availability of mortgage credit and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influence the demand for and price of lumber. A decline in demand and a corresponding reduction in prices for our products may adversely affect our financial condition and results of operations.

Liquidity Risk

Liquidity risk is the risk that a company will be unable to meet its financial obligations on a current basis. We manage liquidity risk through regular cash flow forecasting and undertaking appropriate financing activities as required. We intend to finance our planned capital expenditures and scheduled debt payments from existing cash reserves and cash flow from operations.

Although we believe our actions will result in sufficient liquidity, there can be no assurance that we will be successful or that market conditions or competition will not work to offset our actions. The availability of funding, or other sources of capital, is dependent on capital markets at the relevant time and may not be available on acceptable terms or at all. In the event that debt or equity capital is not available on acceptable terms, or at all, in the future, we may need to explore other strategic alternatives. In addition, our credit facilities require us to satisfy certain financial covenants. There can be no assurance that we will be able to meet such covenants. A failure to meet such covenants could also result in our lenders accelerating some or all of our then outstanding indebtedness under our loans, which would have a material adverse effect on our business, financial condition and operating results. A failure to meet our financial covenants could also result in our lenders seeking to enforce their security against our assets, which would materially adversely affect our business, financial condition and operating results.

Fibre Availability and Cost

Our Mackenzie mill's log requirements are met using logs harvested from our timber tenures, by long-term trade and purchase agreements and by purchases on the open market and through timber sale bids. Currently, the timberlands in which we operate are owned by the Province of British Columbia and administered by the Ministry of Forests. The Forest Act, RSBC 1996, c 157 (the "**Forest Act**") empowers the Ministry of Forests to grant timber tenures to producers. The Provincial Chief Forester conducts a review of the annual allowable cut ("**AAC**") for each timber supply area ("**TSA**") on a periodic basis, which generally occurs once every five to ten years. This review then provides the basis upon which the AAC for licences issued by the Province of British Columbia under the Forest Act are determined. There are many factors that affect AAC, such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes.

In the fourth quarter of 2021, the Province of British Columbia introduced Bill 23, the *Forest Statutes Amendment Act, 2021*, and amended the *Forest and Range Practices Act* (B.C.) ("**FRPA**") to improve the framework for stakeholder engagement in long-term forest planning and announced its intention to work in partnership with First Nations on the proposed deferral of harvesting in 2.6 million hectares of BC forests described as "old-growth" forests. The proposed deferrals have been identified as temporary, are subject to First Nations engagement, and have not yet been implemented. The impact of the amended forestry statutes and old growth deferral proposals cannot be determined at this time, however, these could have a material impact on our ACC and the amount of timber that we are able to harvest.

We rely on third party independent contractors to harvest timber in areas over which we hold timber tenures. Increases in rates charged by these independent contractors or the limited availability of these independent contractors may increase our timber harvesting costs. Additionally, in order to ensure uninterrupted access to logs harvested from our timber tenures, we must focus on the continuous development of road networks and the maintenance of remote logging camps, vessels and equipment related to delivery of logs by waterways. In addition, our ability to harvest fibre for use in our operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations.

Fluctuations in the price, quality or availability of log supply could have a material effect on our business, financial position, results of operations and cash flow.

Risks Related to the Integration of Our HPC Operations

Commencing, and then integrating, any HPC Operations will be complex, time consuming and potentially expensive and will be subject to various risks, including, among others:

- diversion of management's attention from our primary business;
- difficulty integrating operations, including financial and accounting functions, sales and marketing procedures, technology and other corporate administrative functions;
- difficulties in managing expanded operations; and
- challenges in attracting and retaining key personnel.

Many of these factors will be outside of our control and any one of them could result in increased costs, decreases in expected revenues and diversion of management's time and energy, which could adversely affect our results of operations, financial condition and cash flows.

Public Health Crises, including COVID-19

Our business, operations and financial condition could be materially adversely affected by the outbreak of epidemics, pandemics or other health crises, such as the ongoing COVID-19 pandemic. The international response to the spread of COVID-19 has led to significant restrictions on travel, temporary business closures, quarantines, global stock market volatility and a general reduction in consumer activity. Such public health crises can result in operating and supply chain delays and disruptions, global stock market and financial market volatility, declining trade and market sentiment, reduced movement of people and labour shortages, and travel and shipping disruption and shutdowns, including as a result of government

regulation and prevention measures, or a fear of any of the foregoing, all of which could affect commodity prices, interest rates, credit ratings, credit risk and inflation.

Following initial disruptions to global demand for forest products and resultant curtailment to our operations in 2020, COVID-19 has not had a material adverse impact on our operations, which follows overall improved benchmark lumber prices for lumber as global demand for forest products has outpaced supply. However, we may experience business interruption, including suspended or reduced operations at our Mackenzie mill and power plant, expenses and delays, relating to COVID-19 as the pandemic continues to evolve and other such events outside of our control, which could have a material adverse impact on our business, operating results, financial condition and the market for our securities. Given the ongoing and dynamic nature of the pandemic, it is difficult to predict the impact on our business. The extent of any impact will depend on future developments, including the detection of new strands or variants of the virus. Our exposure to such public health crises also includes risks to employee health and safety.

Currency Risk

Our Mackenzie mill sells a significant majority of its lumber at prices denominated in US dollars or based on prevailing US dollar prices, but nearly all of our operating costs and expenses are incurred in Canadian dollars. Therefore, an increase in the value of the Canadian dollar relative to the US dollar reduces the revenue in Canadian dollar terms realized by our Mackenzie mill from sales in US dollars, which reduces operating margin and cash flow available to fund operations. We are also exposed to the risk of exchange rate fluctuations in the period between sale and payment, which results in significant earnings sensitivity to changes in the Canadian/US dollar exchange rate.

We do not currently hedge our foreign exchange exposure with financial forward or open contracts, as the Canadian/US dollar exchange rate is affected by a broad range of factors, making future rates difficult to predict.

Competition

Markets for our lumber are highly competitive. Our ability to maintain or improve the cost of producing and delivering products to those markets is crucial. Factors such as cost and availability of raw materials, energy, labour, the ability to maintain high operating rates and low per-unit manufacturing costs and the quality of our final products and customer service all affect earnings. Additionally, our products are sold in markets where we compete against many producers, many of whom have larger capacity than us, including when measured by the number of mills owned and operated. Many of our competitors have existed for a longer period of time and have significantly greater financial resources than us.

Commodity products have few distinguishing properties from producer to producer, therefore competition for these products is based primarily on price, which is determined by supply, relative to demand and competition from substitute products. The prices we receive for our products are affected by many factors that are outside of our control and we have little to no influence over the timing and extent of price changes, which can be volatile. Accordingly, our revenues and results from operations may be negatively affected by pricing decisions made by our competitors and by the decision of our customers to purchase products from our competitors.

Softwood Lumber Trade Dispute

Canadian softwood lumber exports to the US have been the subject of trade disputes and managed trade arrangements for the last several decades. After the expiry of the last trade agreement between Canada and the US in 2015, a group of US lumber producers and timberland owners petitioned the USDOC and the US International Trade Commission (the "**USITC**") to impose trade sanctions against Canadian softwood lumber exports to the US. The USDOC announced its preliminary determination on CV Duty ("**CVD**") and AD Duty ("**ADD**") rates in April and June 2017, respectively. On December 28, 2017, the USITC published its notice of final affirmative determination of material injury, which brought into effect the final amended "all other" CVD rate of 14.19% and ADD rate of 6.04%, for a combined rate of 20.23%.

The US duty rate determinations are subject to annual Administrative Reviews and revised combined CVD and ADD rates for the years ended December 31, 2017 and 2018 of 8.83% and 8.99%, respectively, were announced on December 1, 2020. In the fourth quarter of 2021, the USDOC published the final CVD and ADD rates for the year ended December 31, 2019 of 6.31% and 11.59%, respectively. The combined CVD and ADD rate of 17.90% applies for all lumber shipments from December 1, 2021 onwards, subject to the annual Administrative Reviews of the USDOC. On January 10, 2022, the USDOC amended its notice of final results and increased the CVD rate by 0.01%, resulting in a CVD rate of 6.32% and a combined rate of 17.91%, which will apply for all lumber shipments from the date of publication.

The duties are likely to remain in place until and unless some form of trade agreement can be reached between Canada and the US or a final binding determination is made as a result of litigation. Unless the additional costs imposed by duties can be passed to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production becoming unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is influenced by a number of factors.

Like other Canadian forest product companies and the Canadian federal and provincial governments, we deny the US allegations and disagree with the final determinations made by the USDOC and USITC, and collectively continue to aggressively defend the Canadian industry in this trade dispute. The federal government is appealing the US findings and will defend itself against claims of unfair trade practices made by the US. As in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time.

The emergence of significant demand from other export markets in recent years has somewhat reduced our dependence on the US market and the impact of potential cross-border trade disputes. Revenues generated from electricity sales and hosting of HPC operators are expected to provide further sources of cash flow diversification to mitigate the adverse effects of trade sanctions on softwood lumber by the US.

Cumulative duties of US\$52.1 million paid by Conifex since inception of the current trade dispute remain held in trust by the US pending the conclusion of all appeals of US decisions. We have recorded the duty deposits as an expense. 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.

Capital Projects

We undertake ongoing maintenance activities and capital improvement projects at our facilities. Capital projects require significant commitment of our financial and other resources, and the results of a project may not be immediately known or assessable. We conduct cost-benefit and other analyses prior to the commencement of each capital project to measure the feasibility and expected benefits of proposed projects against pre-established criteria. Each material capital project is approved by our Board. We assign experienced project managers to each project and commit other resources as required, and, to date, have employed demonstrated technology. We are subject to numerous risks related to the undertaking of capital projects, including extensive reliance on third party equipment manufacturers and installers, material cost and time overruns, equipment or technology failure, major unplanned disruptions to existing operations and the failure of a completed project to deliver expected benefits. The realization of any of these risks could have a material adverse effect on our business, financial condition and operating results.

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Conifex continues to take steps to mitigate the risks of combustible dust incident at our Mackenzie mill, including significant capital investment, a formalized wood dust control program, and employee training. Regulatory agencies have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives including stop work conditions within the industry have occurred and continue to be a possibility.

Transportation Limitations

We rely primarily on third parties for transportation of our products, as well as delivery of raw materials, a significant portion of which are transported by railroads, trucks and ships. If any of our third party transportation providers fails to deliver the raw materials or products or to distribute them in a timely manner, we may be unable to sell those products at full value, or at all, or may be unable to manufacture our products in response to customer demand, which could have a material adverse effect on our financial condition and results of operations. In addition, if any of these third parties ceases operations, suffers labour-related or other disruptions (including blockades), or ceases doing business with us, our operations or cost structure may be adversely impacted. From time to time, we may also face shortages of rail cars, trucks, containers, ships or other transportation methods that may limit raw material deliveries to us and product deliveries by us to our customers, which may have a material adverse effect on our business.

We experienced significant transportation disruptions in British Columbia in the fourth quarter of 2021 as a result of severe weather and flooding in British Columbia which materially impacted our ability to ship lumber. To the extent that climate change results in more frequent severe weather occurrences, we may experience increased frequency of transportation disruptions in future years which may again result in a disruption of our ability to deliver our ability to ship lumber and other products that we manufacture. In addition, the potential of increased frequency of severe weather events may ultimately result in increased transportation costs as transportation providers, including railways, undertake capital expenditures to improve the ability of the transportation infrastructure to withstand severe weather events or to repair damage from severe weather events in order to maintain services.

Operational Curtailments

From time to time, we may suspend or curtail operations at our Mackenzie mill, Mackenzie power plant, or one or more of our logging operations in response to market conditions, environmental risks, workplace health and safety concerns or other operational issues, including power failure, equipment breakdown, dry forest conditions, adverse weather conditions, labour disruptions, fire hazards or public health restrictions. These unscheduled operational suspensions or curtailments could have a material adverse effect on our financial condition and results of operations. Furthermore, pulp and paper mill production curtailments may require sawmills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber production.

Regulatory Risks

Our operations are subject to extensive general and industry-specific federal, provincial, municipal and other local laws and regulations, including those governing forestry, exports, taxes, employees, labour standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. We are required to obtain approvals, permits and licences for our operations, which may impose conditions that must be complied with. If we are unable to extend or renew, or are delayed in extending or renewing, a material approval permit or licence, our operations or financial condition could be adversely affected. There is no assurance that these laws, regulations or government policy, or the administrative interpretation or enforcement of existing laws, regulations and government policies, will not change in the future in a manner that may require us to incur significant capital expenditures or could adversely affect our operations or financial condition. Failure to comply with applicable laws or regulations, including approvals, permits and licences and new laws and regulations, could result in fines, penalties or enforcement actions, including orders suspending or curtailing our operations or requiring corrective measures or remedial actions.

Reliance on Directors, Management and Other Key Personnel

Our success depends in part on our ability to attract and retain senior management and other key employees. Competition for qualified personnel depends on, among other things, economic and industry conditions, competitors' hiring practices and the effectiveness of our compensation programs. The loss of, or inability to recruit and retain, any such personnel could impact our ability to execute on our strategies.

Information Systems Security Threats

We use information technologies ("IT") to assist in managing our operations and various business functions. We rely on various IT to process, store and report on our business and to communicate electronically between our facilities, personnel, customers and suppliers. We also use IT to process financial information and results of operations for internal reporting purposes and to comply with regulatory, legal and tax requirements. We have entered into agreements with third parties for hardware, software, telecommunications and other IT services in connection with our operations. Our operations depend, in part, on how well we and our IT suppliers protect networks, equipment, IT systems and software against damage from a number of threats, including, but not limited to, cable cuts, damage to physical plants, natural disasters, terrorism, fire, power loss, telecommunications failure, hacking, computer viruses, vandalism and theft and other security issues. Our IT systems may also be breached due to employee error, malfeasance or other disruptions. Our operations also depend on the timely maintenance, upgrade and replacement of networks, equipment, IT systems and software, as well as pre-emptive expenses to mitigate the risks of failures. Any of these and other events could result in information system failures, misappropriation of sensitive data, delays and/or increases in capital expenses. The failure of information systems or a component of information systems could, depending on the nature of any such failure, adversely impact our reputation, business, financial condition and results of operations or subject us to civil or criminal sanctions.

Although we have not to date experienced any material losses relating to cyber-attacks or other information security breaches, there can be no assurance that we will not incur such losses in the future. Our risk and exposure to these matters cannot be fully mitigated because of, among other things, the evolving nature of these threats. As a result, cyber security and the continued development and enhancement of controls, processes and practices designed to protect systems, computers, software, data and networks from attack, damage or unauthorized access remain a priority. As cyber threats continue to evolve, we may be required to expend additional resources to continue to modify or enhance protective measures or to investigate and remediate any security vulnerabilities.

Natural and Human-Made Disasters and Climate Change

Our operations are subject to adverse natural events such as forest fires, severe weather conditions, climate change, timber disease and insect infestation and earthquake activity. These events could damage or destroy our physical facilities or our timber supply, and similar events could also affect the facilities of our suppliers or customers. Any such damage or destruction could adversely affect our financial results.

Changing weather patterns and climate conditions due to natural and human-made causes have added to the unpredictability of the risks to our timber tenures and other standing forests, in particular forest fires, wind storms, insect infestations and disease. Procedures and controls are in place to manage such risk through prevention and early detection. Most of the timber that we harvest comes from Crown tenures, and insurance coverage is maintained only for loss of logs due to fire and other occurrences following harvesting. However, this coverage does not extend to standing timber, and there is no assurance that our coverage would be adequate to provide protection against all eventualities, including natural catastrophes.

In addition, our operations may be adversely affected by fluctuations in the water levels in Williston lake as well as severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to the Mackenzie mill. We are unable to predict the impact of all these factors on our tenures or our forest practices.

While we maintain insurance coverage which we believe is standard in our industry, we cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks. As is common in our industry, we do not insure loss of standing timber for any cause.

Forest Health

The Mountain Pine Beetle ("**MPB**") infestation is believed to have largely run its course. However, the MPB infestation's impact on our operations remains uncertain. The potential effects include a reduction in future AAC levels to below current and pre-MPB AAC levels, a diminished grade and volume of lumber recoverable from MPB-killed logs, decreased quality of wood chips produced from such logs and increased production costs. The Chief Forester of British Columbia has reduced the AAC's of MPB impacted TSAs and we expect this trend to continue in the foreseeable future. The containment or further spread of the MPB infestation will depend on a number of factors including the harvesting of timber in MPB infested areas and weather conditions.

The Mackenzie TSA has more recently seen an outbreak of spruce beetle infestation. While recent aerial surveys conducted show a reduction in the spruce beetle affected area, the impact on our operations remains uncertain. We have shifted to harvesting into timber stands that are under imminent threat or have a high susceptibility to beetle infestation. Together with the Ministry of Forests and other forest companies in the region, we continue to work on developing strategies to limit any damage caused by the spruce beetle.

A number of different tactics are being employed to mitigate the spread of the spruce beetle, and the impact on our operations appears to be manageable at this time. However, the timing and extent of the effect on our timber supply, lumber grade and recovery, wood chip quality and production costs by both the MPB and spruce beetle will depend on a variety of factors which cannot be determined at this time with any certainty.

Environment

Our operations are subject to regulation by federal, provincial, state, municipal and local environmental authorities, including industry specific environmental regulations, permits, guidelines and policies relating to air emissions and pollutants, wastewater discharges, solid waste, landfill operations, clean-up of unlawful discharges, dangerous goods and hazardous materials, forestry practices, land use planning, municipal zoning, employee health and safety, site remediation and the protection of endangered species and critical habitat. In addition, as a result of our operations, we may be subject to remediation, clean-up or other administrative orders or amendments to our operating permits, and we may be involved from time to time in administrative and judicial proceedings or inquiries. Future orders, proceedings or inquiries could have a material adverse effect on our business, financial condition and results of operations. Environmental laws and land use laws and regulations are constantly changing. New regulations or the increased enforcement of existing laws could have a material adverse effect on our business and financial condition. In addition, compliance with regulatory requirements is expensive, at times requiring the replacement, enhancement or modification of equipment, facilities or operations. There can be no assurance that we will be able to maintain our profitability by offsetting any increased costs of complying with future regulatory requirements.

We are subject to liability for environmental damage at the facilities that we own or operate, including damage to neighbouring landowners, residents or employees, particularly as a result of the contamination of soil, groundwater or surface water and especially drinking water. The costs of such liabilities can be substantial. Our potential liability may include damages resulting from conditions existing before we purchased or operated these facilities. We may also be subject to liability for any offsite environmental contamination caused by pollutants or hazardous substances that we or our predecessors arranged to transport, store, treat or dispose of at other locations. In addition, we may be held legally responsible for liabilities as a successor owner of businesses that we acquire or have acquired. The Mackenzie mill has been operating for decades, and we have not done invasive testing to determine whether or to what extent any such environmental contamination exists. As a result, there may be liabilities for conditions that we discover or that become apparent, including liabilities arising from non-compliance with environmental laws by prior owners. Because of the limited availability of insurance coverage for environmental liability, any substantial liability for environmental damage could materially adversely affect our results of operations and financial condition.

We have in place internal programs under which our forestry and manufacturing operations are audited for compliance with environmental laws and accepted standards and with our management systems. Our woodlands operations and the harvesting operations of our key suppliers are third party certified to internationally recognized sustainable forest management standards. Our operations and our ability to sell products could be adversely affected if those operations did or do not, or were perceived by the public as failing to, comply with applicable laws and standards, including responsible environmental and sustainable forestry standards.

Enactment of new environmental laws or regulations or changes in existing laws or regulations might require significant capital expenditures. We may be unable to generate sufficient funds or to access other sources of capital to fund unforeseen environmental liabilities or expenditures.

Stumpage Fees

Substantially all of our log requirements at our Mackenzie mill are harvested from Crown lands in British Columbia. The Province of British Columbia charges stumpage fees to companies that harvest timber from Crown land. Stumpage fees for a specific harvesting area are based on a competitive Market Pricing System ("**MPS**") that has been established for the interior region of British Columbia. The stumpage system is complex and the subject of discussion involving, among other things, lumber trade agreements between Canada and the United States. The primary variable in the MPS is log pricing established through an open market auction for standing timber administered by BC Timber Sales. In addition to bid prices, there are a number of operational and administrative factors that will influence an individual stumpage rate for each cutting permit. Stumpage rates are also adjusted quarterly to reflect changes in lumber prices.

Periodic changes in the provincial government's administrative policy can affect the market price for timber and the viability of individual logging operations. There can be no assurance that current or future changes will not have a material impact on stumpage rates.

Indigenous Claims

Canadian court decisions have recognized the existence of Indigenous title and rights, which may include title or rights of use to lands historically used or occupied by Indigenous groups. Indigenous groups have claimed Indigenous rights and/or title over a significant portion of British Columbia, and few treaties are in place between the Crown and Indigenous groups in British Columbia. While certain Indigenous groups in British Columbia have entered into treaty negotiations with the Crown, such negotiations involve complex issues that may take many years to resolve, if at all, and the results of such negotiations cannot be predicted.

Courts have held that the Crown has an obligation to consult with Indigenous groups when the Crown has knowledge of either existing rights or the potential existence of Indigenous title or rights and is contemplating actions that may potentially impact such title or rights. Failure of the Government of British Columbia to adequately discharge its obligations to Indigenous groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights.

In 2014, the Supreme Court of Canada ("**SCC**") released the *Tsilhqot'in Nation v. British Columbia* decision in which for the first time the SCC recognized the existence of Indigenous title over land in British Columbia. The SCC also found that provincial laws of general application may apply to land subject to Indigenous title, provided that certain conditions are met, including that the laws are not unreasonable, impose no undue hardship and do not deny the holders of such Indigenous title of certain rights. As a result, future court decisions may be required to determine whether and to what extent provincial laws, including the Forest Act and licences granted by the Provincial Crown thereunder, apply on lands subject to Indigenous title. While Indigenous title has not been established or formally recognized in areas overlapping with our forest tenures, there can be no assurance that Indigenous title will not in the future be recognized over all or any portion of the area covered by our forest tenures. We cannot assure that Indigenous claims will not in the future have a material adverse effect on our timber harvesting rights, our ability to exercise or renew them or our ability to secure other timber harvesting rights.

Additionally, the Canadian Federal government and the Province of British Columbia have made commitments to review their relationships with indigenous groups, and both the Canadian Federal government and the government of British Columbia have adopted United Nations Declaration on the Rights of Indigenous Peoples ("UNDRIP"). British Columbia also brought into force the Declaration on the Rights of Indigenous Peoples Act, SBC 2019, c 44 in November 2019. At this time, we are unable to assess the effect, if any, that the adaption and implementation of UNDRIP may have on land claims and consultation requirements, but the impact may be material.

The BC government may take actions concerning its relationships with Indigenous groups under the recent amendments to the Forest Act and the FRPA and its recently announced plan to defer logging in "old growth" forest areas, and these actions may ultimately reduce the available timber supply from our British Columbia forest licences. If the BC government does take such actions our ability to secure timber supply from affected areas may be impacted by our ability to foster and maintain good relations with First Nations in the impacted areas, and their willingness to approve or consent to logging of portions of our forest licenses that are considered "old growth" forests. The unwillingness of First Nations to approve or consent to logging in areas impacted by the deferral could reduce the amount of timber supply available to us.

Labour Relations

Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on our business. We employ a unionized work force in our sawmilling and power generation operations. In 2019, our union employees at the Mackenzie mill ratified a new, five-year collective labour agreement with the USW. In January 2020, our union employees at the Mackenzie power plant also ratified a new, five-year collective labour agreement with the USW. Both agreements are retroactive to July 1, 2018 and expire on June 30, 2023. We believe our current labour relations are stable and do not anticipate any significant related disruptions to our operations in the foreseeable future.

We also depend on a variety of third parties that employ unionized workers to provide critical services. Labour disputes experienced by these third parties could lead to disruptions at our facilities.

Maintenance Obligations and Facility Disruptions

Our manufacturing processes are vulnerable to operational problems that could impair our ability to manufacture products. We could experience a breakdown in any of our machines or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during normal hours of operation. Such disruptions could cause a loss of production, which could potentially have a material adverse effect on our business, financial condition and operating results.

Periodic Litigation

We may from time to time become party to claims and litigation proceedings that arise in the ordinary course of business. Such matters are subject to many uncertainties, and we cannot predict with assurance the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against us in the future will be resolved in our favour or that the insurance we carry will be available or paid to cover any litigation exposure. Any losses from settlements or adverse judgments arising out of these claims could be materially adverse to us.

Tax Exposures

In the normal course of business, we take various tax filing positions without the assurance that tax authorities will accept and not challenge such positions. In addition, we are subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. We maintain

reserves for known estimated tax exposures in all jurisdictions. These exposures are settled primarily through the closure of audits with the jurisdictional taxing authorities.

OUTSTANDING SECURITIES

As at March 7, 2022, we had 40,149,111 common shares, 2,297,875 long-term incentive plan awards and 1,195,122 warrants 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 effected 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, 2021 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, 2021.

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, 2021 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, 2021.

ADDITIONAL INFORMATION

Additional information about our company is available on SEDAR at www.sedar.com.