CONIFEX

CONIFEX TIMBER INC.

2022 MANAGEMENT'S DISCUSSION AND ANALYSIS

March 7, 2023

*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, 2022 relative to 2021. This MD&A should be read together with our audited consolidated financial statements for the year ended December 31, 2022 and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") and filed under Conifex's profile on SEDAR at www.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; our expectations regarding our results of operations and performance; our planned operating format and expected operating rates; our perception of the industries or markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and our expected cost for wood fibre; our expectation for market volatility associated with, among other things, the softwood lumber dispute with the United States of America; that we could be negatively impacted by the duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; continued positive relations with Indigenous groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; our ability to receive full reimbursement of losses suffered from the disruption of operations at our Mackenzie power plant; the availability and use of credit facilities or proceeds therefrom; future capital expenditures; expectations regarding our liquidity levels; and our expectations for U.S. dollar benchmark prices.

Material factors or assumptions that were applied in drawing a conclusion or making an estimate set out in the forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; that the US housing market will continue to improve; our ability to ship our products in a timely manner; that there will be no additional unforeseen disruptions affecting the operation of our power generation plant and that we will be able to continue to deliver power therefrom; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; our ability to obtain and maintain required governmental and community approvals; the impact of changing government regulations and shifting political climates; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our filings with the Canadian Securities Regulatory Authorities available on SEDAR at www.sedar.com. These risks, as well as others, could cause actual results and events to vary significantly. Conifex does not undertake any obligation to update any forward-looking information, except as required by applicable securities laws.

BUSINESS OVERVIEW

We are a British Columbia ("**BC**") forestry company that owns and operates a sawmill and bioenergy facility in the interior region of BC. Our lumber operations primarily manufacture, sell and distribute dimension lumber. We operate a two-line sawmill (the "**Mackenzie Mill**") in Mackenzie, BC. We hold a forest licence with a total annual allowable cut of 632,500 cubic metres in the timber supply area ("**TSA**") in and around Mackenzie and own 50% of a joint venture which holds a forest licence with a total annual allowable cut of 300,000 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis.

We operate a 36 megawatt biomass power generation plant (the "**Power Plant**"), located at the site of our Mackenzie Mill. Feedstock for the Power Plant is primarily sourced from a portion of the residuals and former waste products produced by our lumber manufacturing and log harvesting operations. The Power Plant's output capacity is in excess of 230 gigawatt hours ("**GWh**") of electricity per year which we sell to British Columbia Hydro and Power Authority ("**BC Hydro**") under a fixed price electricity purchase agreement ("**EPA**") and related load displacement agreement ("**LDA**") which expires in 2033. Under the LDA, we supply the energy requirements of our Mackenzie Mill over the term of the agreement.

RECENT DEVELOPMENTS

Revenue Diversification Opportunity

We completed hosting a 3 megawatt trial of our data center hosting operations in September 2022. We gained valuable first-hand experience which validated our belief that our power and corporate service teams have the expertise required to successfully develop and operate sites serving high-performance computing ("**HPC**") customers.

On December 21, 2022, the Lieutenant-Governor in Council for the Province of British Columbia issued an order in council directing the British Columbia Utilities Commission to, among other things, accept BC Hydro's request to suspend its obligation to supply service to certain new cryptocurrency mining projects in

British Columbia for a period of 18 months. We continue to evaluate the impact of the order in council on our potential hosting service business.

We have identified a new customer for our 3 megawatt site and expect to commence hosting the new customer in or about the first quarter of 2023. We are continuing to investigate the feasibility of scaling up our HPC hosting operations.

There is no assurance that we will establish a data center hosting business.

Sawmill Operating Schedule Changes

Our Mackenzie Mill operating schedule was reduced to a one-shift basis commencing August 29, 2022 as a result of acute transportation challenges that affected the overall industry since about November 2021 and which continued to persist through to the third quarter of 2022. A temporary curtailment of sawmill operations for two weeks between October 11 and October 24, 2022 was necessitated by the combined effect of a steep decline in lumber prices and BC Ministry of Forests policies and practices that position sawmills in the BC interior region at the high end of the industry cost curve. Our sawmill production was temporarily curtailed for a two week period after the period end due to unsustainable inventory levels arising from transportation challenges impacting the BC Interior.

Power Plant Resumes Operations

In July 2022, during a scheduled outage for annual major maintenance, we discovered damage to our Power Plant's turbine which delayed the restart of the plant. We successfully recommissioned operations and began producing electricity at normalized rates after the period end on January 31, 2023.

Normal Course Issuer Bid

We believe that the market price of our common shares does not reflect the value of our underlying business and future prospects. Therefore, we consider an allocation of capital to repurchase some of our common shares an attractive option.

In August 2022, we announced that we were implementing a normal course issuer bid ("**NCIB**") for our common shares. Under the NCIB, we are authorized to make purchases for a period of one year of up to 2,461,754 common shares, representing 10% of our "public float" at the commencement of the bid. The NCIB commenced on September 1, 2022 and will terminate on August 31, 2023, or earlier if we complete the maximum purchases permitted under the NCIB or if we otherwise determine that it is appropriate to suspend or terminate the bid. As of the date hereof, we have purchased 443,100 common shares under the NCIB.

Under our previous issuer bids which were completed in 2021, we repurchased and cancelled 5,944,319 common shares.

Special Dividend

We paid a one-time special cash dividend of $0.20 per common share on August 8, 2022 from cash on hand to shareholders of record on July 15, 2022, resulting in an aggregate distribution of approximately $8.0 million.

SUMMARY OF 2022 RESULTS

We generated net income of $24.5 million or $0.61 per share in 2022. Net income was $27.2 million or $0.60 per share in 2021. While our Power Plant was not operational during the second half of 2022, we realized the benefit of expected business interruption insurance proceeds and a recovery of softwood lumber duties reflecting the difference between the cash deposit rates and the published final rates for lumber shipments to the United States ("**US**") in 2019 and 2020.

Continuing operations for the comparative periods discussed in this MD&A comprise operating results from our Mackenzie Mill and Power Plant. Operating and financial results in 2020 were materially impacted by the curtailment of our Mackenzie Mill 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, share information and select Operating Information)	2022	2021	2020
Revenue			
Lumber – Conifex produced	176.6	180.2	98.4
Lumber – wholesale	16.1	36.9	3.3
By-products and other	25.2	9.9	2.3
Bioenergy	13.4	23.5	24.7
	231.3	250.5	128.7
Operating income (loss)	27.5	38.4	3.4
EBITDA from continuing operations(2)	46.7	51.8	9.7
Net income (loss) from continuing operations	24.5	27.2	(6.8)
Net income (loss) from discontinued operations	-	-	0.3
Net income (loss)	24.5	27.2	(6.5)
Basic and diluted earnings (loss) per share	0.61	0.60	(0.14)
Cash dividends paid per share(3)	0.20	-	-
Shares outstanding – weighted average (millions)	40.1	45.2	47.0
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	24.5	27.2	(6.8)
Add: Finance costs	4.3	4.6	7.2
Amortization	8.4	10.8	9.7
Income tax expense (recovery)	9.5	9.2	(0.4)
EBITDA from continuing operations(2)	46.7	51.8	9.7

Selected Operating Information

Production – WSPF lumber (MMfbm)(4)	165.9	184.1	136.8
Shipments – WSPF lumber (MMfbm)(4)	174.3	172.1	134.4
Shipments – wholesale lumber (MMfbm)(4)	10.6	18.6	4.1
Electricity production (GWh)	109.7	184.6	202.5
Average exchange rate –$/US$(5)	0.768	0.798	0.745
Average WSPF 2x4 #2 & Btr lumber price (US$)(6)	$771	$872	$556
Average WSPF 2x4 #2 & Btr lumber price ($)(7)	$994	$1,090	$746

(1) Reflects results of continuing operations, except where otherwise noted.
(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.
(3) Cash dividends of $0.20 per share were declared and paid on August 8, 2022 to shareholders of record as of July 15, 2022.
(4) MMfbm represents million board feet.
(5) Bank of Canada, www.bankofcanada.ca.
(6) Random Lengths Publications Inc.
(7) Average SPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

REVIEW OF 2022 FINANCIAL RESULTS

Lumber Operations

Our lumber production was 165.9 million board feet in 2022, reflecting an annualized operating rate of 69%. Lumber production was impacted by a reduction in our operating schedule to a one-shift basis for a six-week period beginning in August to address unsustainable inventory levels due to rail transportation challenges. A further temporary curtailment for two weeks in October 2022 was necessitated by a combination of a steep decline in lumber prices on softer global market demand and government policies and practices impacting our operations. In 2021, our Mackenzie Mill produced 184.1 million board feet of lumber for an annualized operating rate of 77%. Production in 2021 was impacted by extreme winter weather, COVID-19 related disruptions, and a temporary lumber production curtailment resulting from 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 2021.

Shipments of Conifex produced lumber totaled 174.3 million board feet in 2022. Shipments of Conifex produced lumber increased by 1% from 2021 as a result of improved transportation availability following weather-related rail and truck service disruptions that arose during the fourth quarter of 2021 and continued through the first half of 2022. Our wholesale lumber program shipped 10.6 million board feet in 2022 compared to 18.6 million board feet in 2021. Our wholesale lumber shipments decreased 43% as a global shortage of wood experienced in 2021 eased.

Revenues from lumber products were $192.7 million in 2022 and represented a decrease of 11% from 2021. Lower revenues were driven by less wholesale activity and lower mill net realizations resulting from lower overall benchmark lumber prices in 2022, offset partially by a small increase in Conifex produced lumber shipment volumes.

The North American lumber market experienced significant price volatility in 2022. Market prices were elevated in the first half of 2022 to near-record levels before experiencing a steep slide in the second half driven by a slowdown in new home construction demand in the US due to higher mortgage rates and reduced affordability. US housing starts on a seasonally adjusted annual basis declined, averaging 6.2 million starts in 2022,[1] down 4% from 2021. The reduced housing demand resulted in a 9% decrease in the average Canadian dollar-denominated Western Spruce/Pine/Fir (“**WSPF**”) lumber price, falling from $1,090 in 2021 to $994 in 2022.[2]

Cost of goods sold in 2022 were 6% lower than 2021 largely as a result of reduced wholesale lumber shipment volumes. Overall production costs in 2022 was largely unchanged from 2021 as reductions to log costs were offset by higher unit manufacturing costs. Unit manufacturing costs were elevated by low operating rates and disruptions from production curtailments which adversely impacted productivity and resulted in higher fixed cost absorption. We recorded an inventory valuation adjustment of $2.2 million in 2022 as benchmark lumber prices declined substantially in the last quarter of 2022, whereas no inventory valuation adjustments were recorded in 2021.

We expensed countervailing ("**CV**") and anti-dumping ("**AD**") duty deposits of $9.6 million in 2022, a decrease of 17% from 2021. The duty deposits were based on a combined rate of 8.99% until December 1, 2021, 17.91% until August 8, 2022 and 8.59% thereafter.

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

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[1] Source: Forest Economic Advisors, LLC.

[2] Source: Random Lengths Publications Inc.

(in millions of dollars)	2022	2021	2020
Softwood lumber duty impact			
Cash deposits paid	15.3	11.6	10.5
Adjustment to final published rates	(5.7)	-	-
Softwood lumber duties, net	9.6	11.6	10.5

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

We recognized a recovery of $5.7 million in 2022 pertaining to the difference between the cash deposit rates in effect at the time of shipment and the final published rates of 17.91% and 8.59%, respectively, for shipments made to the US market in the years ended December 31, 2019 and 2020. The net duty recoverable has been included as a long-term asset on our balance sheet.

Cumulative duties of US$64.0 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. In 2019, we sold our right to refunds of cumulative duties to June 30, 2019 of US$32.7 million for proceeds of US$13.9 million. We have recorded the duty deposits as an expense, except for US$4.3 million which are recorded as a long-term receivable.

Bioenergy Operations

Our Power Plant sold 109.7 gigawatt hours of electricity under our EPA with BC Hydro in 2022, representing approximately 50% of targeted operating rates. In 2021, our Power Plant sold 184.6 gigawatt hours of electricity, representing 83% of targeted operating rates. The decrease in 2022 production was driven by the disruption caused by damage to the plant’s turbine discovered in July 2022, which was successfully recommissioned after the period end on January 31, 2023. Production in 2021 was impacted by damage to the plant’s generator in December 2020, which was repaired in February 2021.

Due to the power plant being inoperable during the second half of 2022, electricity production contributed revenues of $13.4 million in 2022, a decrease of 43% from 2021.

We have submitted an insurance claim for physical damage to our equipment and for the loss of revenues from the interruption of operations as a result of the turbine damage. We expect to be fully reimbursed for capital expenditures related to the repair of the turbine, subject to customary deductible, and for lost income for the period the power plant was not operating after the customary waiting period. We recognized $9.6 million as other income in our statement of net income and comprehensive income in 2022 to reflect the estimated insurance claim for lost income under our business interruption policy.

The insurance claim for lost income submitted in 2021 was settled and recognized as other income in our statement of net income and comprehensive income in 2021. The final portion of the insurance settlement for physical damage and business interruption was received in July 2022.

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". BC Hydro issued a dispatch order for a period of 61 days commencing in May. In 2021, our Power Plant was also dispatched for 61 days commencing May. 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 LDA with BC Hydro.

Selling, General and Administrative Costs

Selling, general and administrative ("**SG&A**") costs of $11.0 million in 2022 reflected an increase of 10% from 2021. The year-over-year increase is primarily attributable to higher salary and wages to adequately support our operations, variable compensation costs, including non-cash equity-based compensation, and the vesting of long-term incentive awards.

Finance Costs and Accretion

Finance costs and accretion relate primarily to our term loan supporting our bioenergy operations (the "**Power Term Loan**"). Finance costs and accretion of $4.3 million in 2022 were 6% lower than finance costs of $4.6 million in 2021 as a result of scheduled repayments of the Power Term Loan during the year.

Gain or Loss on Derivative Financial Instruments

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

During 2022, we did not enter into any lumber futures contracts. In early 2021, we utilized 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 had no outstanding futures contracts in place as at December 31, 2022.

Other Income

We recognized other income of $9.6 million in 2022 and $3.5 million in 2021 from our business interruption insurance claims related to the Power Plant. See "*Recent Developments – Power Plant Resumes Operations*" and "*Bioenergy Operations*" above for additional information on the Power Plant disruptions.

Foreign Exchange Translation Gain or Loss

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

The US dollar averaged US$0.768 for each Canadian dollar during 2022, a level which represented a weakening of the Canadian dollar over the previous year. [3]

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 $1.2 million in 2022, compared to a foreign exchange gain of $0.6 million in 2021.

Income Tax

We recorded income tax expense in 2022 of $9.5 million, compared to income tax expense of $9.2 million in 2021. Our effective tax rate was 28% in the current year and 25% in 2021. See note 20 of our consolidated financial statements for the years ended December 31, 2022 and 2021 for a reconciliation of income taxes calculated at the statutory rate to the income tax expense.

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[3] Source: Bank of Canada, www.bankofcanada.ca.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities on our balance sheet and the amounts used for income tax purposes. As at December 31, 2022, we have recognized a deferred income tax liability of $8.9 million.

SUMMARY OF FOURTH QUARTER 2022 RESULTS

The following table summarizes our net operating results in the fourth quarter of 2022 and comparative periods.

Selected Financial Information (1)

(in millions of dollars, except earnings per share, share information and select Operating Information)	**Q4 2022**	**Q3 2022**	**Q4 2021**
Revenue			
Lumber – Conifex produced	22.1	35.5	34.5
Lumber – wholesale	1.6	3.8	14.7
By-products and other	2.8	7.9	2.7
Bioenergy	0.2	0.4	8.0
	26.7	47.7	59.9
Operating income (loss)	(8.5)	1.3	(3.0)
EBITDA from continuing operations(2)	2.3	4.2	1.0
Net income (loss) from continuing operations	(0.2)	0.9	(2.5)
Net income (loss) from discontinued operations	-	-	-
Net income (loss)	(0.2)	0.9	(2.5)
Basic and diluted earnings (loss) per share	-	0.02	(0.06)
Cash dividends paid per share(3)	-	0.20	-
Shares outstanding – weighted average (millions)	39.9	40.2	43.8
Reconciliation of EBITDA to net income (loss)			
Net income (loss) from continuing operations	(0.2)	0.9	(2.5)
Add: Finance costs	1.0	1.1	1.2
Amortization	1.4	1.8	3.1
Income tax expense (recovery)	0.1	0.4	(0.8)
EBITDA from continuing operations(2)	2.3	4.2	1.0

Selected Operating Information

Production – WSPF lumber (MMfbm)(4)	27.9	39.5	44.0
Shipments – WSPF lumber (MMfbm)(4)	31.6	44.7	44.7
Shipments – wholesale lumber (MMfbm)(4)	1.5	3.0	6.1
Electricity production (GWh)	-	1.2	54.9
Average exchange rate –$/US$(5)	0.736	0.766	0.794
Average WSPF 2x4 #2 & Btr lumber price (US$)(6)	$402	$568	$739
Average WSPF 2x4 #2 & Btr lumber price ($)(7)	$546	$742	$931

(1) Reflects results of continuing operations, except where otherwise noted.
(2) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.
(3) Cash dividends of $0.20 per share were declared and paid on August 8, 2022 to shareholders of record as of July 15, 2022.
(4) MMfbm represents million board feet.
(5) Bank of Canada, www.bankofcanada.ca.
(6) Random Lengths Publications Inc.
(7) Average SPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

REVIEW OF FOURTH QUARTER 2022 FINANCIAL RESULTS

During the fourth quarter of 2022, we incurred a net loss from continuing operations of $0.2 million or nil per share compared to net income of $0.9 million or $0.02 per share in the previous quarter and net loss of $2.5 million or $0.06 per share in the fourth quarter of 2021. The net loss in the fourth quarter was primarily the result of lower lumber production and shipment volumes, largely offset by the recognition of the expected business interruption insurance claim for the loss of earnings from our Power Plant.

North American lumber market prices continued their decline in the fourth quarter of 2022. Canadian dollar-denominated benchmark WSPF prices, which averaged $546 in the fourth quarter, decreased by 26% or $196 from the previous quarter and by 41% or $385 from the fourth quarter of 2021.[4] The market price slide was fueled by the reduction in new home construction activity in the US, elevated offshore lumber import levels to US markets, and inflationary pressures negatively impacting repair and remodeling activities. US housing starts on a seasonally adjusted annual basis averaged 1,368,000 in the fourth quarter of 2022, down 6% from the previous quarter and 19% from the fourth quarter of 2021.[5]

Lumber Operations

We produced 27.9 million board feet of lumber in the fourth quarter of 2022, representing approximately 47% of annualized capacity. Lumber production was affected by a two-week curtailment of the Mackenzie Mill in the period and overall depressed operating rates. In the previous quarter, lumber production totaled 39.5 million board feet on a reduced production schedule to one-shift over 6 weeks beginning August 29, 2022. Lumber production of 44.0 million board feet or approximately 73% of operating capacity in the fourth quarter of 2021 was impacted by COVID-19 shift reductions and severe winter weather in December 2021.

Shipments of Conifex produced lumber totaled 31.6 million board feet in the fourth quarter of 2022, representing a decrease of 29% from the 44.7 million board feet of lumber shipped in the previous quarter and the fourth quarter of 2021. Lumber shipments were constrained by weak lumber production and the temporary curtailment of our Mackenzie Mill during the quarter. Our wholesale lumber program shipped 1.5 million board feet in the fourth quarter of 2022, representing a 50% decrease from the 3.0 million board feet shipped in the third quarter of 2022 and a 75% decrease from the 6.1 million board feet shipped in the fourth quarter of 2021. Wholesale lumber shipments were negatively impacted by a slowdown in construction activity in Asia.

Revenues from lumber products were $23.7 million in the fourth quarter of 2022 representing a decline of 40% from the previous quarter and 52% from the fourth quarter of 2021. Compared to the previous quarter and comparative quarter in 2021, decreased revenues in the current quarter were driven by lower shipment volumes, combined with a reduction in mill net realizations. The revenue decrease in the current quarter over the same period in the prior year was also driven by the result of the higher proportion of premium grade lumber and wholesale inventory volumes shipped and sold in 2021 compared to 2022.

Cost of goods sold in the fourth quarter of 2022 decreased by 31% from the previous quarter and 46% from the fourth quarter of 2021. The decrease from the prior quarter was mainly due to lower shipment volumes in the current quarter. However, unit log and manufacturing costs also increased in comparison to the previous quarter as a result of production challenges, mechanical issues, higher fixed cost absorption and inventory write-downs of $2.2 million. We recorded inventory valuation reserves in the fourth quarter of 2022 as a result of the decline in lumber pricing at the end of the year which adversely impacted cost of goods sold.

Our investment in capital expenditures related to our lumber operations in 2022 increased substantially from 2021. The implementation of these improvements adversely affected production in the fourth quarter as certain improvements to our sawmilling and finishing lines necessitated longer periods of inactivity to

[4] Source: Random Lengths Publications Inc.
[5] Source: Forest Economic Advisors, LLC.

complete. The effect of tying in improvements and optimization adjustments contributed to increased manufacturing costs and lower production in the last quarter of 2022.

We recorded CV and AD duty deposits expense of $1.1 million in the fourth quarter of 2022, a recovery of $3.6 million in the previous quarter and expense of $2.5 million in the fourth quarter of 2021.

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

(in millions of dollars)	**Q4 2022**	**Q3 2022**	**Q4 2021**
Softwood lumber duty impact			
Cash deposits paid	1.1	2.1	2.5
Adjustment to final published rates	-	(5.7)	-
Softwood lumber duties, net	1.1	(3.6)	2.5

Cash deposits paid during the fourth quarter of 2022 decreased compared to the previous quarter and comparative quarter in 2021 due to lower lumber shipment volumes and average lumber prices, in addition to overall reduced cash deposit rates in effect at the time of shipment as a result of the issuance of the final rate determinations by the US Department of Commerce ("**USDOC**") on shipments made in 2020.

Bioenergy Operations

Our Power Plant did not operate during the fourth quarter of 2022 as a result of the turbine damage discovered in July 2022. The Power Plant sold 1.2 and 54.9 gigawatt hours of electricity in the previous quarter and fourth quarter of 2021, respectively.

Electricity production contributed revenues of $0.2 million in the fourth quarter of 2022, a decrease of 64% from the previous quarter and 98% from the fourth quarter of 2021, due to the power plant being inoperable during the quarter.

Selling, General and Administrative Costs

SG&A costs were $1.4 million in the fourth quarter of 2022, $3.2 million in the previous quarter and $2.4 million in the fourth quarter of 2021. The reduction in SG&A costs compared to the previous quarter was largely due to the vesting of long-term incentive awards in the prior quarter. Reduced SG&A costs in the current quarter compared to the comparative quarter in the preceding year were primarily related to lower selling costs associated with the wholesale lumber program on lower shipment volumes.

Finance Costs and Accretion

Finance costs and accretion totaled $1.0 million in the fourth quarter of 2022, $1.1 million in the previous quarter and $1.2 million in the fourth quarter of 2021. Finance costs in the current quarter were reduced compared to the fourth quarter of 2021 due to an overall lower outstanding debt balance in 2022.

Other Income

Other income totaled $9.6 million in the fourth quarter of 2022, nil in the previous quarter and $0.7 million in the fourth quarter of 2021. Other income primarily consists of the estimated business interruption claim proceeds in respect of the turbine failure during 2022 and the generator failure at the Power Plant in late 2020.

Foreign Exchange Translation Gain or Loss

The US dollar averaged US$0.736 for each Canadian dollar during the fourth quarter of 2022, a level which represented a weakening of the Canadian dollar over the previous quarter and the fourth quarter of 2021. [6]

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on cash and working capital balances resulted in a foreign exchange translation loss of $0.2 million in the fourth quarter of 2022, compared to a foreign exchange gain of $1.1 million in the third quarter of 2022 and $0.1 million in the fourth quarter of 2021.

Income Tax

The fourth quarter 2022 results include a current tax recovery of $0.8 million, compared to a recovery of $0.7 million in the previous quarter and nil in the fourth quarter of 2021. We recorded deferred income tax expense of $0.9 million in the fourth quarter of 2022, $1.1 million in the previous quarter and deferred income tax recovery of $0.8 million in the fourth quarter of 2021.

SUMMARY OF FINANCIAL POSITION

(in millions of dollars, other than ratios and percentages)	**2022**	**2021**	**2020**
Cash	8.4	6.4	11.2
Cash – restricted	6.8	6.5	3.6
Operating working capital(1)	55.1	39.1	14.7
Operating loan	(6.5)	-	-
Current portion of long-term debt	(4.7)	(4.6)	(4.5)
Net current assets	59.1	47.4	25.0
Property, plant and equipment	129.9	125.4	130.0
Other long-term assets	34.1	28.3	37.9
	223.1	201.1	192.9
Non-interest bearing long-term liabilities	25.3	16.5	17.6
Long-term debt – Power Term Loan	50.1	53.7	57.0
Long-term debt – other(2)	1.4	1.1	1.9
Shareholders' equity	146.3	129.8	116.4
	223.1	201.1	192.9
Ratio of current assets to current liabilities	2.7	2.6	2.0
Net debt to capitalization	25%	26%	29%
Net debt (cash) to capitalization excluding Power Term Loan	2%	(1%)	(3%)

(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 2020, 2021 and 2022.

Operating working capital increased by $16.0 million in 2022 due to an increase in inventory of $8.8 million, trade receivables of $1.6 million and prepaid expenses and deposits of $2.7 million, together with an overall decrease in payables of $2.9 million. Inventory levels were significantly higher in 2022 than in the prior year due to a larger volume of logs necessary to support continuous operations at our Mackenzie Mill which was partially offset by a reduction in finished lumber inventory held at December 31, 2022.

Overall debt was $62.8 million at December 31, 2022 compared to $59.4 million at December 31, 2021, with the change mainly driven by a $6.5 million draw against our secured revolving credit facility with Wells Fargo Finance Corporation Canada (the "**Revolving Credit Facility**") in the fourth quarter of 2022 to bolster

[6] Source: Bank of Canada, www.bankofcanada.ca.

operating working capital. The increase in debt was partially offset by Power Term Loan repayments of $3.5 million during the year. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our outstanding long-term debt. At December 31, 2022, we had $53.8 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, totalled $2.5 million.

The ratio of current assets to current liabilities was 2.7:1 at December 31, 2022 compared to 2.6:1 at December 31, 2021. The year-over-year change was primarily attributable to an increase in inventory, trade receivables and prepaid expenses and deposits on hand as at December 31, 2022, partially offset by the draw against the Revolving Credit Facility.

As at December 31, 2022, $100.6 million of our consolidated property, plant and equipment was attributable to our power operations, compared to $100.7 million at December 31, 2021.

We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as interest-bearing debt less cash and cash equivalents. Total capitalization is calculated as the sum of net debt and equity. Net debt at December 31, 2022 increased by $1.0 million to $47.6 million from $46.6 million at December 31, 2021. The net debt to capitalization ratio was approximately 25% at December 31, 2022 and 26% at December 31, 2021.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(in millions of dollars)	**2022**	**2021**	**2020**
Cash generated from (used in)			
Operating activities	45.9	53.2	10.4
Change in non-cash working capital	(21.1)	(26.5)	(16.7)
Investing activities	(12.8)	(5.8)	221.5
Financing activities and other	(10.0)	(25.7)	(207.4)
Increase (decrease) in cash	2.0	(4.8)	7.8

Operating Activities

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

Operating activities before changes in non-cash working capital generated $45.9 million of cash in 2022, compared to $53.2 million in 2021. Changes in non-cash working capital used $21.1 million of cash in 2022 and used $26.5 million in 2021. The decrease in cash flows from operating activities in 2022 compared to 2021 primarily reflects the lower earnings in the year arising from the decline in the market price of lumber, the increase in log inventories and increased prepaid amounts pertaining to softwood lumber duties recovery and accrued interest recognized.

Investing Activities

Investing activities utilized cash of $12.8 million in 2022 and $5.8 million in 2021. Investing activities consisted of investments in property, plant and equipment, net of insurance claim proceeds received. Investments in property, plant and equipment during 2022 included several key improvements to our sawmilling and finishing lines designed to improve our lumber production performance.

Financing Activities

Our financing activities used net cash of $10.0 million in 2022 and utilized $25.7 million in 2021. Net cash usage in 2022 was primarily comprised of the payment of our special dividend of approximately $8.0 million, Power Term Loan repayments, payment of finance expenses and purchases of our common shares under the NCIB of approximately $0.8 million. Overall cash usage for financing activities was reduced by proceeds of $6.5 million drawn against the Revolving Credit Facility. Net cash usage in the prior year included purchases of our common shares under a previous normal course issuer bid, our substantial issuer bid for $14.3 million and Power Term Loan repayments and payment of finance expenses.

Liquidity

Our principal sources of funds are cash on hand, cash flow from operations and cash available under our Revolving Credit Facility. The Revolving Credit Facility was amended in March 2022 to increase the facility to $15.0 million from $10.0 million. The Revolving Credit Facility is substantially secured by our lumber inventory, equipment and accounts receivable. As at December 31, 2022, we have drawn $6.5 million against the Revolving Credit Facility compared to nil at December 31, 2021. We are currently working with our lender, and exploring available options, to extend or replace the Revolving Credit Facility following its scheduled expiry in October 2023.

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, 2022, we had total liquidity of $16.9 million, compared to $16.4 million at December 31, 2021. Liquidity at December 31, 2022 was comprised of unrestricted cash of $8.4 million and unused availability of $8.5 million under the Revolving Credit Facility. The change in 2022 compared to the prior year was due primarily to increased investment in non-cash working capital driven by higher log 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$31.3 million paid by Conifex, net of certain prior sales of such refunds, since the inception of the current trade dispute remain held in trust by the US pending the administrative reviews and conclusion of all appeals of US decisions. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits to the extent additional costs on US destined shipments are not mitigated by higher lumber prices.

We monitor our expected liquidity levels and compliance with debt covenants under our Power Term Loan and Revolving Credit Facility by regularly preparing rolling cash flow forecasts to consider upcoming operational requirements, debt service commitments and future business development. Our Power Term Loan also contains certain customary restrictions on the ability of our power subsidiaries to transfer funds outside of the power entities. We did not have any material commitments for capital expenditures at December 31, 2022. Based on our current level of operations and our present expectations for future periods in light of the existing economic environment, we believe that cash flow from operations, flexibility in levels of investment in operating working capital and availability under the Revolving Credit Facility (or any future credit facility in extension or replacement thereof) will be adequate to meet our obligations over the next twelve months.

Contractual Obligations

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

		Payments due by Period			
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Long-term debt	76.7	7.0	14.0	14.0	41.7
Operating loan	6.5	6.5	-	-	-
Leases	2.5	1.0	1.2	0.3	-
Reforestation obligations	12.9	4.1	2.2	1.4	5.2
Trade payables and accrued liabilities	17.2	17.2	-	-	-
Provisions and other liabilities	11.2	1.8	8.1	0.6	0.7
	127.0	37.6	25.5	16.3	47.6

Contractual obligations not included in the above table are:

- Interest payments associated with floating rate debt that depend on the Canadian Dollar Offered Rate or London Inter-bank Offered Rate during the year of payment.

- Purchase obligations and contractual obligations related to ongoing commercial commitments in the ordinary course to purchase timber, fibre, energy and other operating inputs. For these commitments, our obligations can vary significantly from contracted amounts depending on our requirements.

- Our wholly-owned subsidiary Conifex Power Limited Partnership ("**Conifex Power**") has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Power Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met.

Off-Balance Sheet Arrangements

Our off-balance sheet arrangements as at December 31, 2022 and 2021 were comprised of standby letters of credit totalling $5.6 million posted by Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA in the event of failure to remit amounts owing to BC Hydro arising from default or termination of the agreements. The standby letters of credit are secured by performance bonds.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, we had no transactions between related parties in 2022.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(in millions of dollars, except where otherwise noted)	2022 Q4	2022 Q3	2022 Q2	2022 Q1	2021 Q4	2021 Q3	2021 Q2	2021 Q1
Revenue	26.7	47.7	85.1	71.8	59.9	47.6	96.5	46.6
Operating income (loss)	(8.5)	1.3	17.6	17.1	(3.0)	(0.7)	33.5	8.7
Net income (loss) from continuing operations	(0.2)	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5
Net income (loss) – total operations	(0.2)	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5
Net income (loss) per share – basic and diluted from continuing operations	-	0.02	0.31	0.28	(0.06)	(0.02)	0.56	0.10
Net income (loss) per share – basic and diluted – total operations	-	0.02	0.31	0.28	(0.06)	(0.02)	0.56	0.10
EBITDA from continuing operations[1]	2.3	4.2	20.1	20.1	1.0	3.3	37.8	9.7
Shares outstanding – weighted average (in millions)	39.9	40.2	40.2	40.1	43.8	44.6	46.0	46.4
Statistics (in millions, except rate, prices and GWh)								
Production – WSPF lumber	27.9	39.5	51.4	47.1	44.0	40.1	49.0	51.0
Shipments – WSPF lumber	31.6	44.7	55.5	42.5	44.7	34.1	55.5	37.8
Shipments – wholesale lumber	1.5	3.0	1.2	4.9	6.1	6.0	5.8	0.7
Electricity production – GWh	-	1.2	54.6	53.9	54.9	53.7	50.9	25.0
Average exchange rate – $/US$[2]	0.736	0.766	0.783	0.790	0.794	0.794	0.814	0.790
Average WSPF 2x4 #2 & Btr lumber price (US$)[3]	$402	$568	$827	$1,288	$739	$478	$1,290	$982
Average WSPF 2x4 #2 & Btr lumber price ($)[4]	$546	$742	$1,056	$1,631	$931	$602	$1,584	$1,244
Reconciliation of Adjusted EBITDA to net income (loss)								
Net income (loss) from continuing operations	(0.2)	0.9	12.3	11.4	(2.5)	(0.9)	26.1	4.5
Add: Finance costs	1.0	1.1	1.1	1.1	1.2	1.1	1.1	1.1
Amortization	1.4	1.8	2.0	3.2	3.1	3.4	2.1	2.2
Income tax expense (recovery)	0.1	0.4	4.7	4.3	(0.8)	(0.3)	8.5	1.9
EBITDA from continuing operations[1]	2.3	4.2	20.1	20.1	1.0	3.3	37.8	9.7

(1) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.
(2) Bank of Canada, www.bankofcanada.ca.
(3) Random Lengths Publications Inc. (Western Spruce/Pine/Fir, per thousand board feet).
(4) Average WSPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

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

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

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

OUTLOOK

We expect lumber markets to continue to experience volatility through 2023 as global market conditions continue to evolve. The effect of inflationary pressures and higher interest rates affecting consumer spending in the housing and repairs and remodeling markets will result in weaker lumber market prices than seen in recent years. While US builder confidence has seen an uptick in recent weeks, lagging US housing completions and tempered repair and remodeling activity affect market demand for lumber products.

At our Mackenzie Mill, we expect to see an increase in lumber production over 2022, with the expectation of achieving annualized operating rates of approximately 85% in 2023 on improved sawmill operating rates. We anticipate an improvement in operating costs in 2023 as a result of decreased unit fixed costs on higher lumber production volumes and availability of sufficient logs for continuous operations at our sawmill. We are optimistic that we will realize a higher volume of lumber shipments in 2023 as transportation issues are not anticipated to be as severe or persist as long as the challenges faced in 2022. 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 Power Plant is forecasted to generate a steady and diversified source of cash flow throughout 2023 following its restart on January 31, 2023. Our Power Plant has achieved uptime of approximately 98% during the periods of operations following restart and we expect to average uptime in excess of 90% for the remainder of 2023. We anticipate that BC Hydro may not exercise its turn down option in 2023 based on anticipated energy requirements and expect that our Power Plant will largely be generating electricity continuously through 2023.

We anticipate our financial position to remain strong throughout 2023 as we maintain high levels of working capital. While inventory levels in the beginning months of 2023 have been impacted by rail transport challenges, we anticipate operating cash flow levels and available liquidity will strengthen as we progress through the year and will support our expected capital spending estimates. We continue to prioritize funding quick payback sawmill upgrades and exploring the potential development of our HPC business.

CRITICAL ACCOUNTING ESTIMATES

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

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

Valuation of Inventory

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

Write-downs of inventory cost to net realizable value, if any, are included in cost of goods sold when incurred and reported in the lumber operations operating results. Inventory was written down by $2.2 million as at December 31, 2022. Inventory was not written down at December 31, 2021.

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 our products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges.

Net impairment losses and recoveries are reported as a separate line item on the financial statements as non-operating items. We did not record any impairment losses or recoveries in 2022 and 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 $7.5 million in 2022 (2021 – $10.0 million). Amortization costs related to corporate assets are included in selling, general and administration expenses. We recorded amortization expense of $0.9 million to SG&A costs in 2022 (2021 – $0.7 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 $4.6 million in 2022 (2021 – $3.2 million) for future estimated reforestation obligations.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Estimated costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable. Accruals for estimated environmental remediation obligations are charged to cost of goods sold in our lumber operations. We accrued $1.0 million in 2022 (2021 – nil) for future estimated environmental remediation costs.

Deferred Income Taxes

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

As at December 31, 2022, we had deferred income tax liabilities of $8.9 million and recorded deferred income tax expense of $9.5 million. As at December 31, 2021, we had deferred income tax assets of $0.6 million and recorded deferred income tax expense of $9.2 million.

At December 31, 2022, we had unused non-capital tax losses carried forward totalling $6.7 million from continuing operations (December 31, 2021 – $27.0 million) and $165.5 million from discontinued operations (December 31, 2021 – $154.9 million). We have not recognized deferred income tax assets related to discontinued operations due to the uncertainty of future realization.

ACCOUNTING STANDARDS ISSUED AND NOT YET APPLIED

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

IAS 1, Presentation of Financial Statements

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

RISKS AND UNCERTAINTIES

Conifex is exposed to many risks and uncertainties in conducting its business, including: fluctuations in prices and demand for and selling price of lumber; liquidity risk; fibre availability and cost; risks related to the integration and build-out of our HPC operations; public health; currency risk; competition; softwood lumber trade dispute; capital projects; wood dust management; transportation limitations; operational curtailments; regulatory risks; reliance on directors, management and other key personnel; information systems security threats; natural and human-made disasters and climate change; forest health environment; stumpage fees; indigenous claims; labour relations; maintenance obligations and facility disruptions; periodic litigation; and tax exposure. A comprehensive discussion of risk factors is included in, and reader are referred to, Conifex's annual information form dated March 7, 2022, and other filings with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com.

OUTSTANDING SECURITIES

As at March 6, 2023, we had 39,751,011 common shares, 2,682,875 long-term incentive plan awards and 1,195,122 warrants outstanding.

EVALUATION OF INTERNAL CONROLS 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, 2022 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, 2022.

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, 2022 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, 2022.

ADDITIONAL INFORMATION

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