CONIFEX

CONIFEX TIMBER INC.
SECOND QUARTER 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 11, 2020

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial condition and results of operations of Conifex Timber Inc. ("**Conifex**", "**us**", "**we**", or "**our**"), on a consolidated basis, for the quarter ended June 30, 2020 relative to the quarters ended March 31, 2020 and June 30, 2019. This interim MD&A should be read together with our unaudited condensed consolidated interim financial statements for the quarters ended June 30, 2020 and 2019, and our 2019 annual MD&A and our December 31, 2019 audited consolidated financial statements 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 interim 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. Adjusted EBITDA excludes foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets. 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 April 2019, we sold Lignum Forest Products LLP ("**Lignum**"), through which we operated a lumber marketing and distribution business, and in October 2019, we ceased operations at 0318587 B.C. Ltd. (previously Navcor Transportations Services Inc.) ("**031 BC**") through which we provided third party logistics services. In February 2020, we sold our US Sawmill Business (as defined herein). In accordance with IFRS 5, Non-Current Assets Held for Sale and Discontinued Operations, the operating results previously reported for Lignum, 031 BC and the US Sawmill Business were restated as discontinued operations for the relevant periods and separated from our continuing operations. Unless otherwise indicated, our discussion and analysis herein reflects our continuing operations. In accordance with IFRS 8, Operating Segments, we also combined our previous reporting segments, including our lumber and bioenergy operating segments, into a single reportable segment. Accordingly, all previously segmented information has been restated to conform to the current presentation for all periods presented. For further information, refer to Note 6 to our unaudited condensed consolidated interim financial statements for the quarter ended June 30, 2020.*

In this interim MD&A, all references to "$" are to Canadian dollars and references to "US$" are to United States dollars.

Forward-Looking Statements

This interim MD&A contains certain forward-looking information that reflects our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, *uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: the realization of expected benefits of completed, current and any contemplated capital projects and the expected timing and budgets for such projects; the growth and future prospects of our business, 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 U.S.; 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 Aboriginal groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; our ability to develop new revenue streams; the availability and use of credit facilities or proceeds therefrom; 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; 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.*

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 improve; 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 interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 23, 2020 available on SEDAR at www.sedar.com 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

COVID-19 Impact and Response

In March 2020, the World Health Organization declared the spread of COVID-19 a pandemic. The rapid spread of the virus resulted in various governments around the world, including federal and provincial governments in Canada, implementing various temporary emergency measures to contain the virus, including travel bans and restrictions, quarantines, business closures, social distancing protocols and lockdowns and shelter-in-place orders.

In response to the pandemic, in late March, we instituted certain measures to protect the health and safety of our employees. This included adopting a pandemic contingency plan which includes restricting access to our offices and operation sites, restricting business travel for employees, mandating self-isolation for any staff is exhibiting symptoms or has been exposed, or believes he or she has been exposed, to the virus, practising appropriate social distancing at our premises and increasing the frequency and emphasis on cleaning and sanitizing.

COVID-19's impact, and government and business responses to contain the virus, also resulted in a rapid deterioration of global market conditions, including global demand for forest products. In response, in early April, we temporarily curtailed operations at our Mackenzie, British Columbia sawmill. The temporary curtailment, which was initially scheduled for two weeks, was extended to July 6, 2020, which materially impacted our results of operations for the second quarter of 2020. We recommenced sawmill operations on July 6, 2020 and expect production to return to normalized operating rates during the third quarter of 2020.

Sale of US Sawmill Business

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$173 million, including estimated working capital of US$10 million.

We utilized a majority of the proceeds from the sale to retire our previous secured credit facility that supported our lumber mills (the "**Lumber Credit Facility**"). Our Conifex term loan supporting our electricity generation operations (the "**Power Term Loan**"), which is secured against our power assets and largely non-recourse to our lumber operations, represents substantially all of our remaining long-term debt.

SUMMARY

Continuing operations for the comparative periods discussed in this MD&A primarily comprise operating results from our Mackenzie sawmill and power plant, our previously owned sawmill in Fort St. James, British Columbia, which was largely curtailed in May 2019 and sold in November 2019, and corporate costs and other unallocated items.

Operating and financial results in the second quarter of 2020 were materially impacted by the curtailment of our Mackenzie sawmill for most of the quarter, extending from April 6 to July 6, 2020.

Selected Financial Information[1]

(unaudited, in millions of dollars, except share and exchange rate information)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Sales					
Lumber – Conifex produced	4.7	20.9	25.6	29.4	72.0
Lumber – wholesale	1.2	-	1.2	3.6	15.3
By-products	0.2	1.7	1.9	2.7	6.9
Bioenergy	4.7	8.0	12.7	4.4	12.6
	10.8	30.6	41.4	40.1	106.8
Operating income (loss)	(1.4)	(6.8)	(8.2)	(11.7)	(20.2)
Adjusted EBITDA from continuing operations	(1.1)	0.5	(0.6)	(9.1)	(13.2)
Net income (loss) from continuing operations	(2.7)	(8.2)	(10.9)	(1.1)	(8.6)
Net income (loss) from discontinued operations	(0.3)	0.5	0.2	(7.9)	(12.4)
Net income (loss)[2]	(3.0)	(7.7)	(10.7)	(9.0)	(21.0)
Basic and diluted earnings (loss) per share					
Continuing operations	(0.05)	(0.18)	(0.23)	(0.02)	(0.18)
Discontinued operations	(0.01)	0.01	-	(0.17)	(0.27)
Total basic and diluted earnings (loss) per share	(0.06)	(0.17)	(0.23)	(0.19)	(0.45)
Shares outstanding – weighted average (millions)	46.9	46.9	46.9	46.6	46.6
Average exchange rate – US$/$[3]	0.722	0.744	0.733	0.748	0.750
Reconciliation of Adjusted EBITDA to net income (loss)					
Net income (loss) from continuing operations	(2.7)	(8.2)	(10.9)	(1.1)	(8.6)
Add: Finance costs	1.2	3.5	4.7	7.4	13.4
Amortization	1.1	2.9	4.0	2.5	6.6
Deferred income tax recovery	(0.8)	(1.7)	(2.5)	(0.9)	(3.0)
EBITDA from continuing operations[4]	(1.2)	(3.5)	(4.7)	7.9	8.4
Add: Foreign exchange loss (gain) on long-term debt	-	2.1	2.1	(4.4)	(8.9)
Restructuring costs	0.1	1.9	2.0	-	-
Gain on sale of assets	-	-	-	(12.6)	(12.7)
Adjusted EBITDA from continuing operations[5]	(1.1)	0.5	(0.6)	(9.1)	(13.2)

(1) Reflects results of continuing operations, except where otherwise noted.
(2) May not total due to rounding.
(3) Bank of Canada, www.bankofcanada.ca.
(4) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
(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, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets.

During the second quarter of 2020, we incurred a net loss from continuing operations of $2.7 million, or $0.05 per share, compared to a net loss from continuing operations of $8.2 million or $0.18 per share in the previous quarter and $1.1 million or $0.02 per share in the second quarter of 2019.

Our revenues totaled $10.8 million in the second quarter of 2020, a decrease of 65% from the prior quarter and a decrease of 73% from the second quarter of 2019. The lower revenues were primarily attributable to the curtailment of our Mackenzie sawmill operations for most of the second quarter of 2020. Revenues from the second quarter of 2019 also included sales from our previously owned Fort St. James sawmill which we sold in November 2019.

We recorded operating losses of $1.4 million in the second quarter of 2020, $6.8 million in the previous quarter and $11.7 million in the second quarter of 2019. Operating results included countervailing ("**CV**") and anti-dumping ("**AD**") duties expense of $0.2 million in the second quarter of 2020, $2.0 million in the first quarter of 2020 and $2.5 million in the second quarter of 2019. Due to the significant reduction in revenues during the second quarter, we accessed the Canadian Emergency Wage Subsidy ("**CEWS**") established by the federal government which resulted in approximately $2.0 million of employee wage cost subsidies during the second quarter of 2020.

Selling, general and administrative ("**SG&A**") costs of $1.9 million in the second quarter of 2020 reflected an increase of 7% from the prior quarter and a decrease of 48% from the second quarter of last year. We significantly reduced SG&A costs by reducing management personnel and overhead costs to better align our corporate support functions with our operating footprint. We incurred restructuring costs of $0.1 million and $1.9 million in the second quarter of 2020 and the first quarter of 2020, respectively, in relation to these cost reduction initiatives.

Net income from continuing operations included a foreign exchange loss on long-term debt of $nil in the second quarter of 2020 compared to foreign exchange loss on long-term debt of $2.1 million in the previous quarter and a gain of $4.4 million in the second quarter of 2019. Finance costs were $1.2 million in the second quarter of 2020, $3.5 million in the previous quarter and $7.4 million in the second quarter of 2019.

We recognized deferred income tax recovery of $0.8 million in the second quarter of 2020, $1.7 million in the previous quarter and $0.9 million for the second quarter of 2019.

Adjusted EBITDA was negative $1.1 million in the second quarter of 2020, positive $0.5 million in the previous quarter and negative $9.1 million in the second quarter of 2019. Adjusted EBITDA in the second quarter of 2020 reflected the curtailment of the Mackenzie sawmill for most of the period, offset partially by steady and positive results from bioenergy operations.

Discontinued Operations

Net loss from discontinued operations was $0.3 million in the second quarter of 2020 compared to net income from discontinued operations of $0.5 million and a net loss $7.9 million in the previous quarter and the second quarter of 2019, respectively.

For further information on discontinued operations, see "Recent Developments – Sale of US Sawmill Business" above, and Note 6 to the unaudited condensed consolidated interim financial statements for the quarter ended June 30, 2020.

REVIEW OF OPERATING RESULTS

Selected Production and Statistical Information

	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Statistics					
Production – WSPF lumber (MMfbm)(1)	2.4	38.2	40.6	47.6	121.1
Shipments – WSPF lumber (MMfbm)(1)	8.5	37.6	46.1	60.4	139.1
Shipments – wholesale lumber (MMfbm)(1)	1.6	-	1.6	5.4	22.0
Electricity production (GWh)	51.2	54.8	106.0	47.2	102.8
Average exchange rate – US$/$(2)	0.722	0.744	0.733	0.748	0.750
Average WSPF 2x4 #2 & Btr lumber price (US$)(3)	357	399	378	333	353
Average WSPF 2x4 #2 & Btr lumber price ($)(4)	494	536	515	445	471

(1) MMfbm represents million board feet.
(2) Bank of Canada, www.bankofcanada.ca.
(3) Random Lengths Publications Inc.
(4) Average SPF 2x4 #2 & Btr lumber prices (US$) divided by average exchange rate.

Lumber markets were significantly impacted by the COVID-19 pandemic towards the end of the first quarter and into the second quarter of 2020. Reflecting the impacts from the pandemic, US housing starts, on a seasonally adjusted annual rate basis, dropped to 934,000 in April before recovering to 974,000 and 1,186,000 in May and June, respectively. The second quarter of 2020 averaged 1,044,000 US housing starts, down 30% from the previous quarter. Partially offsetting the lower US housing starts was an uptick in lumber demand from repair and remodeling activity in the quarter. With improving demand, and lumber supply disruptions caused by COVID-19 response measures, the benchmark Western SPF lumber price recovered through the quarter, improving from an average of US$317 in April 2020 to US$392 in June 2020.

The US dollar averaged US$0.722 for each Canadian dollar during the second quarter of 2020, a level which represented a weakening of the Canadian dollar over the previous quarter and the second quarter of last year.[1] Canadian dollar-denominated benchmark Western SPF prices, which averaged $494 in the second quarter of 2020, decreased by 8% or $42 from the previous quarter and decreased 1% or $3 from the second quarter of 2019.

Lumber Operations

Our lumber operating results in the second quarter of 2020 were materially impacted by the curtailment of our Mackenzie sawmill for most of the quarter. Lumber was produced during the first week of April, followed by a curtailment which was extended to July 6, 2020. Our Mackenzie sawmill produced 2.4 million board feet during this single-shift operating week. In the previous quarter, lumber production from our Mackenzie sawmill was 38.2 million board feet, representing an annualized operating rate of 64%. In the second quarter of 2019, lumber production included volume from our previously owned sawmill in Fort St. James, British Columbia.

Shipments of Conifex produced lumber totaled 8.5 million board feet in the second quarter of 2020. Shipments of lumber declined by 77% from the previous quarter and by 86% from the second quarter of 2019 as a result of reduced production volumes, offset partially by shipments of finished inventory from the

[1] Bank of Canada, www.bankofcanada.ca.

previous quarter. Our wholesale lumber program shipped 1.6 million board feet in the second quarter of 2020.

Revenues from lumber products were $5.9 million in the second quarter of 2020 and represented a decrease of 72% from the previous quarter and a decrease of 80% from the second quarter of 2019. Decreased revenues were primarily the result of the curtailment of our Mackenzie sawmill and results from the second quarter of 2019 also included sales from our previously owned Fort St. James sawmill which we sold in November 2019.

Overall operating costs in the second quarter of 2020 were significantly lower than in previous quarters as a result of the curtailment of our Mackenzie sawmill. Cost of goods sold included fibre and manufacturing costs attributed to lumber shipments early in the second quarter and fixed costs incurred during the curtailment. Due to the significant reduction in revenues during the second quarter, we accessed the CEWS established by the federal government which resulted in approximately $2.0 million of employee wage cost subsidies during the second quarter of 2020.

We recorded a positive inventory valuation adjustment of $0.4 million in the second quarter of 2020 compared to a negative $0.7 million adjustment in the previous quarter and $0.4 million in the second quarter of 2019.

We expensed CV and AD duty deposits of $0.2 million in the second quarter of 2020, $2.0 million in the previous quarter and $2.5 million in the second quarter of 2019. The duty deposits were based on a combined rate of 20.23%. The results of the US Department of Commerce’s second administrative review for 2019 are not expected to be finalized until 2021.

Lumber derivative instruments generated a loss of $0.7 in the second quarter of 2020, reflecting the mark-to-market loss on futures contracts placed for downside price protection purposes on a small percentage of our estimated second-half production. We recorded $nil in the prior quarter and a loss of $0.2 million in the second quarter of 2019 on our lumber derivatives.

Bioenergy Operations

Our Mackenzie power plant sold 51.2 gigawatt hours of electricity under our Electricity Purchase Agreement ("**EPA**") with BC Hydro and Power Authority ("**BC Hydro**") in the second quarter of 2020, representing approximately 93% of targeted operating rates.

The effective power rate is highest during the first and fourth quarters of each year. Electricity production contributed revenues of $4.7 million in the second quarter of 2020, a decrease of 41% from the previous quarter and an increase of 7% over the comparable quarter of 2019. In comparison to the second quarter of 2019, revenues were higher in the current quarter due to an 8% increase in electricity production in the period.

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 advising of a dispatch period of approximately 117 days, from April 24 to August 19, 2020. In 2019, our power plant was dispatched for 114 days, commencing in early May to August 31, 2019. 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**").

Selling, General and Administrative Costs

SG&A costs were $1.9 million in the second quarter of 2020, $1.7 million in the previous quarter and $3.4 million in the second quarter of 2019. We significantly reduced SG&A costs in comparison to prior year periods by reducing management personnel and overhead costs to better align our corporate support functions with our operating footprint in 2020. We incurred restructuring costs of $0.1 million and $1.9 million in the second and first quarters of 2020, respectively, in relation to such initiatives.

Interest Expense and Finance Costs

Interest and finance costs totaled $1.2 million in the second quarter of 2020, $3.5 million in the previous quarter and $7.4 million in the second quarter of 2019. Interest and finance costs in the first quarter of 2020 were lower than in prior periods due to the repayment of the Lumber Credit Facility on February 1, 2020. Finance and interest costs subsequent to February 1, 2020 relate primarily to the Power Term Loan.

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, working capital balances and revolving loans for Canadian operations 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 exchange rate for one Canadian dollar was US$0.734 at June 30, 2020, US$0.705 at March 31, 2020, and US$0.764 at June 30, 2019.[2] We recorded a foreign exchange translation loss of $0.2 million in the second quarter of 2020, a gain of $2.5 million in the previous quarter and a gain of $0.1 million in the second quarter of 2019.

The foreign exchange translation impacts arising from the variability in exchange rates at each measurement period on our previous US dollar denominated Lumber Credit Facility resulted in the recognition of a foreign exchange loss of $2.1 million in the first quarter of 2020 and recognition of a foreign exchange gain of $4.4 million second quarter of 2019.

Foreign exchange differences for previously owned foreign operations with a functional currency that differs from our presentation currency are recognized as other comprehensive income or loss and reflected in our statement of changes in equity. We recorded after-tax losses of $nil in the second quarter of 2020, $0.1 million in the previous quarter and $7.6 million in the second quarter of 2019 to other comprehensive income.

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 recovery of $0.8 million in the second quarter of 2020, $1.7 million in the previous quarter and $0.9 million in the second quarter of 2020. As at June 30, 2020, we have recognized deferred income tax assets of $12.0 million.

[2] Bank of Canada, www.bankofcanada.ca.

SUMMARY OF FINANCIAL POSITION

(unaudited, in millions of dollars, unless otherwise noted)	**Q2 2020**	**Q4 2019**	**Q2 2019**
Cash	11.5	0.9	2.4
Cash – restricted	6.0	6.7	12.7
Operating working capital(1)	6.5	2.8	38.5
Current portion of revolver and long-term debt	(4.4)	(194.0)	(91.5)
Assets held for sale	-	236.5	25.8
Liabilities held for sale	-	(21.5)	(4.0)
Net current assets	19.6	31.4	(16.1)
Property, plant and equipment	133.4	137.3	344.6
Other long-term assets	40.3	38.0	189.3
	193.3	206.7	517.8
Non-interesting bearing long-term liabilities	18.7	18.8	16.9
Long-term debt – Power Term Loan	58.8	60.2	62.0
Long-term debt – other(2)	2.4	3.1	135.2
Shareholders' equity	113.4	124.6	303.7
	193.3	206.7	517.8
Ratio of current assets to current liabilities	1.7	1.1	0.9
Net debt to capitalization	30%	67%	47%
Net debt (cash) to capitalization excluding Power Term Loan	(8%)	61%	42%

(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 the second quarter of 2020 and fourth quarter of 2019.

Operating working capital increased by $3.7 million over the first half of 2020 due primarily to a reduction in trade payables of $18.3 million, offset partially by reduced trade and other receivables and inventory balances resulting from the temporary curtailment of our Mackenzie sawmill. Operating working capital was substantially reduced year-over-year due primarily to our divestitures of Lignum and the Fort St. James sawmill, and the reclassification of assets and liabilities related to the US Sawmill Business to held for sale.

Overall debt was $65.7 million at June 30, 2020 compared to $257.2 million at December 31, 2019. The net reduction of $191.5 million in debt comprised repayment in full of our previous Lumber Credit Facility of $189.4 million, lease repayments of $0.8 million and Power Term Loan payments of $1.3 million. Our Power Term Loan, which is largely non-recourse to our lumber operations, represents substantially all of our long-term debt. At June 30, 2020, we had $62.0 million outstanding on our Power Term Loan, while our remaining long-term debt, consisting of leases, was $3.7 million.

The ratio of current assets to current liabilities was 1.7:1 at June 30, 2020 compared to 1.1:1 at December 31, 2019 and 0.9:1 at June 30, 2019. The year to date change was primarily attributable to the sale of the US Sawmill Business and the full repayment of our Lumber Credit Facility which was classified as a current liability as at December 31, 2019.

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 the principal value of long-term debt, including the current portion, and bank advances, less cash. Total capital is calculated as the sum of net debt and equity. Net debt at June 30, 2020 decreased by $201.4 million to $48.2 million from $249.6 million at December 31, 2019. The net debt to capitalization ratio was approximately 30% at June 30, 2020, 67% at December 31, 2019 and 47% at June 30, 2019.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars, unaudited)	Q2 2020	Q1 2020	YTD 2020	Q2 2019	YTD 2019
Cash generated from (used in)					
Operating activities	1.6	(13.0)	(11.4)	24.1	30.6
Investing activities	(0.7)	224.2	223.5	12.1	(12.6)
Financing activities	(2.0)	(199.6)	(201.6)	(38.7)	(53.0)
Increase (decrease) in cash	(1.1)	11.6	10.5	(2.5)	(9.7)

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 used $2.9 million of cash in the first half of 2020, compared to $0.1 million in the first half of 2019. Changes in non-cash working capital used $8.5 million of cash in the first half of 2020 and generated $30.6 million in the first half of 2019. Compared to the first half of 2019, the decrease in cash flow from non-cash working capital reflects an $18.3 million decrease in accounts payable, partially offset by lower trade and other receivables and inventory balances at June 30, 2020 primarily attributable to the temporary curtailment of the Mackenzie sawmill.

Investing Activities

Investing activities generated cash of $223.5 million in the first half of 2020, comprised primarily of $223.6 million from the sale of our US Sawmill Business. Investing activities in the first half of 2019 generated $12.6 million, including net proceeds of $14.6 million from the sale of Lignum.

Financing Activities

Our financing activities used net cash of $201.6 million in the first half of 2020 including $191.8 million to repay in full our Lumber Credit Facility and finance expenses of $7.5 million. In the first half of 2019, financing activities used net cash of $53.0 million, comprised of Lumber Credit Facility revolver payments of $30.1 million, term loan and capital lease payments of $8.4 million and the payment of finance expenses of $14.5 million.

Liquidity

Our principal sources of funds are cash on hand and cash flow from operations. Our principal uses of funds consist of operating expenditures, capital expenditures, interest payments and repayment of principal on our Power Term Loan.

At June 30, 2020, we had total liquidity of $11.5 million, compared to $5.2 million at December 31, 2019 and $4.3 million at June 30, 2019. Liquidity at June 30, 2020 was comprised of unrestricted cash of $11.5 million.

The increase in our liquidity in the first half of 2020 was primarily from the net proceeds received from the sale of our US Sawmill Business in the first quarter of 2020, partially offset by the repayment in full of our Lumber Credit Facility. Despite the challenging operating environment in the second quarter of 2020 attributable to the COVID-19 pandemic and the temporary curtailment of our Mackenzie sawmill, our prior quarter liquidity balance was largely sustained as a result of continued cost reduction initiatives, the reduction of non-cash working capital, and contributions received under the CEWS.

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. 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 by regularly preparing rolling cash flow forecasts to consider upcoming operational requirements, debt service commitments and future business development. We did not have any material commitments for capital expenditures at June 30, 2020. 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 and flexibility in levels of investment in operating working capital will be adequate to meet our obligations over the next twelve months.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements as at June 30, 2020 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 the second quarter of 2020 or in the comparative quarters.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(unaudited, in millions of dollars, unless otherwise noted)	2020 Q2	Q1	2019 Q4	Q3	Q2	Q1	Q4	2018 Q3
Sales	10.8	30.6	27.7	22.9	40.1	66.8	76.0	98.9
Operating income (loss)	(1.4)	(6.8)	(11.5)	(8.6)	(11.7)	(8.5)	(7.8)	7.0
Net income (loss) from continuing operations	(2.7)	(8.2)	(10.2)	(11.6)	(1.1)	(7.4)	(20.2)	2.2
Net income (loss) – total operations	(3.0)	(7.7)	(162.6)	(16.6)	(9.1)	(11.9)	(23.1)	4.3
Net income (loss) per share – basic and diluted from continuing operations	(0.05)	(0.18)	(0.22)	(0.25)	(0.02)	(0.16)	(0.43)	0.05
Net income (loss) per share – basic and diluted – total operations	(0.06)	(0.17)	(3.47)	(0.35)	(0.19)	(0.25)	(0.49)	0.09
Adjusted EBITDA from continuing operations[(1)]	(1.1)	0.5	(3.9)	(7.0)	(9.1)	(4.0)	(5.0)	10.1
Shares outstanding – weighted average (in millions)	46.9	46.9	46.9	46.6	46.6	46.6	46.6	45.3
Statistics (in millions, except rate and prices)								
Production – WSPF lumber	2.4	38.2	37.8	26.0	47.6	73.5	93.5	104.0
Shipments – WSPF lumber	8.5	37.6	38.0	34.8	60.4	78.7	99.9	111.8
Shipments – wholesale lumber	1.2	-	-	0.3	5.4	16.6	12.8	15.5
Electricity production – GWh	51.2	54.8	55.1	53.1	47.2	55.6	54.6	54.7
Average exchange rate – US$/$[(2)]	0.722	0.744	0.758	0.757	0.748	0.752	0.757	0.765
Average WSPF 2x4 #2 & Btr lumber price (US$)[(3)]	357	399	380	356	333	372	327	482
Average WSPF 2x4 #2 & Btr lumber price ($)[(4)]	494	536	502	471	445	495	432	630
Reconciliation of Adjusted EBITDA to net income (loss)								
Net income (loss) from continuing operations	(2.7)	(8.2)	(10.2)	(11.6)	(1.1)	(7.4)	(20.2)	2.2
Add: Finance costs	1.2	3.5	21.7	7.0	7.4	6.0	6.5	6.3
Amortization	1.1	2.9	4.8	1.8	2.5	4.1	3.9	3.4
Deferred income tax expense (recovery)	(0.8)	(1.7)	(3.8)	(4.0)	(0.9)	(2.1)	(6.5)	0.7
EBITDA[(5)]	(1.2)	(3.5)	12.5	(6.8)	7.9	0.6	(16.3)	12.6
Add: Foreign exchange (gain) loss on long-term debt	-	2.1	(2.4)	2.4	(4.4)	(4.5)	11.3	(2.5)
Restructuring costs	0.1	1.9	2.6	-	-	-	-	-
Proceeds from insurance claim	-	-	(1.1)	-	-	-	-	-
Gain on sale of assets	-	-	(15.5)	-	-	(0.1)	-	-
Gain on sale of right to duty refunds	-	-	-	(2.6)	(12.6)	-	-	-
Adjusted EBITDA from continuing operations	(1.1)	0.5	(3.9)	(7.0)	(9.1)	(4.0)	(5.0)	10.1

(1) Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims and gains or losses on sale of assets.
(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 EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.

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

Following the recommencement of our lumber operations on July 6, 2020, we expect that our Mackenzie sawmill will achieve annualized operating rates approaching 90% at improved conversion costs in the second half of the year. We anticipate that we will also benefit from lower log costs from the reset of stumpage calculations in July, resulting in lower unit lumber costs. We expect our Mackenzie power plant to continue to provide a steady diversified source of cash flow in the second half of the year. We expect to see the continued benefit of sustained efforts to reduce SG&A costs as we align our resources with our smaller and more geographically focused operations.

CRITICAL ACCOUNTING ESTIMATES

We did not make any significant changes to our critical accounting estimates during the quarter ended June 30, 2020. Our critical accounting estimates are described in our MD&A for the year ended December 31, 2019, filed on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors impacting our business, assets and operations is included in our annual information form dated March 23, 2020, and other filings with the Canadian regulatory authorities available on SEDAR at www.sedar.com.

COVID-19 Pandemic

The impact of COVID-19, and the world-wide response to fight the pandemic, has significantly disrupted global economic activity and caused significant volatility in financial markets. While various countries, including Canada, the United States and Japan, have introduced monetary and other fiscal stimulus to lessen the impact of the pandemic, the impact on global economic activity and markets remains highly unknown.

As demand for lumber products has, historically, been principally driven by global macro-economic conditions, demand and prices for lumber have typically decreased substantially during economic slowdowns. A significant economic downturn may adversely affect our sales and profitability and may also adversely affect our customers and suppliers. Additionally, significant disruptions and volatility in financial markets could have a negative impact on our ability to access capital in the future.

In early April, in response to COVID-19, we temporarily curtailed operations at our Mackenzie sawmill. The curtailment, which was initially scheduled for two weeks, was extended to July 6, 2020 as the impacts of COVID-19 on global macroeconomic conditions remained uncertain. We may experience additional business interruption, including suspended or reduced operations at our Mackenzie sawmill and power plant, expenses and delays relating to COVID-19 which could have a material adverse impact on our business, operating results, financial condition and the market for our securities.

The magnitude and duration of business disruption internationally and the related financial impact of COVID-19 remains uncertain. We will continue to closely monitor the COVID-19 situation and its impact on our business and operations.

OUTSTANDING SECURITIES

As at August 11, 2020, we had 47,027,507 common shares, 100,000 options, 2,088,089 long-term incentive plan awards and 3,500,000 warrants outstanding.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended June 30, 2020, there were no changes that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

ADDITIONAL INFORMATION

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