CONIFEX

CONIFEX TIMBER INC.
THIRD QUARTER 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 6, 2015

*This interim Management's Discussion and Analysis ("**MD&A**") provides a review of the financial performance of Conifex Timber Inc. for the quarter ended September 30, 2015 relative to the quarters ended June 30, 2015 and September 30, 2014, the Company's financial condition and future prospects. This interim MD&A should be read in conjunction with Conifex's unaudited condensed consolidated interim financial statements and accompanying notes for the quarters ended September 30, 2015 and 2014, as well as the 2014 annual MD&A and the December 31, 2014 audited consolidated financial statements and notes thereon which are filed on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards ("IFRS").*

In this interim MD&A, reference is made to "EBITDA". EBITDA represents earnings before interest, taxes, depreciation and amortization. The Company discloses EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA is a non-IFRS measure, it may not be comparable to EBITDA calculated by others. In addition, as EBITDA is not a substitute for net earnings, readers should consider net earnings in evaluating the Company's performance.

Unless otherwise noted, all monetary references in this interim MD&A are in Canadian dollars.

*References in this interim MD&A to "**Conifex**" and the "**Company**" mean Conifex Timber Inc., together with its subsidiaries, unless the context otherwise requires.*

FORWARD-LOOKING STATEMENTS

This interim MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. 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: growth and future prospects of our business; our expectation for the export tax rate assessed on lumber shipments to the U.S.; our expectation for mill net realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; benefits that may accrue to the Company as a result of certain capital expenditure programs, such as the lumber segment capital plan *and equipment upgrades; and the anticipated benefits, cost, timing and completion dates for projects.*

Assumptions underlying the Company's expectations regarding forward-looking information contained in this interim MD&A include, among others: that the Company will be able to effectively market its products; that the U.S. housing market will continue to improve; that there will be no unforeseen disruptions affecting the operation of the power generation plant and that the Company will be able to continue to deliver power therefrom; that softwood lumber will experience sustained demand in the marketplace; that the export tax rate on U.S. lumber shipments will be less than the maximum rate; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; the ability of the Company to obtain financing (if necessary) on acceptable terms or at all; that interest and foreign exchange rates will not vary materially from current levels; and that the equipment at our mills and power plant will operate at expected levels.

Persons reading this interim MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's 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 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 18, 2015 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. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable law.

SIGNIFICANT DEVELOPMENTS

Term Conversion of Project Financing

On July 30, 2015, Conifex Power Limited Partnership, ("CP Partnership"), a wholly-owned subsidiary of the Company, completed the term conversion (the "Term Loan") of the secured project financing facility (the "Project Financing") used to develop its recently completed 36 MW biomass power plant in Mackenzie, British Columbia. The Term Loan and Project Financing are further discussed under Liquidity and Capital Resources.

Completion of Investment Agreement

On August 4, 2015, our wholly-owned subsidiary, Conifex Inc., completed an investment agreement, pursuant to which Conifex Inc. issued a $30 million payment-in-kind note (the "PIK Note"). The proceeds of the PIK Note are planned to be used for general corporate purposes. See "Liquidity and Capital Resources" below for additional details.

Acquisition of Sawmill Assets in El Dorado, Arkansas

On August 6, 2015, concurrent with the purchase of a private Delaware company (the "US Subsidiary"), the Company acquired a sawmill and related facilities and equipment, including approximately 186 acres of land, located near El Dorado, Arkansas (the “El Dorado Mill”). Total consideration for the acquisition of the US Subsidiary and the El Dorado Mill consisted of 100,000 common shares of the Company at a deemed price of $6.75, the reimbursement of certain costs incurred by the vendor, and US$ 21 million, comprised of US$12.36 million in cash and a US$8.64 million vendor mortgage (the “Mortgage”).

The El Dorado Mill is situated in an area well regarded for its availability of high quality sawlogs within cost effective proximity and a skilled labour pool. The El Dorado Mill is currently idled while the Company completes its evaluation of the optimal capital upgrade plan for the site.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Selected Financial Information

(millions of dollars, except share and per share amounts, unaudited)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Sales	85.9	81.8	253.0	90.9	257.6
Operating Income (Loss) by Segment					
Lumber	(3.2)	(8.1)	(9.3)	2.9	12.7
Bioenergy	0.2	(0.5)	(0.3)	-	-
Corporate and other	(1.5)	(1.2)	(3.6)	(1.4)	(4.0)
	(4.5)	(9.8)	(13.2)	1.5	8.7
EBITDA by Segment					
Lumber	(0.4)	(5.0)	(0.7)	5.8	20.8
Bioenergy	1.8	0.5	2.2	-	-
Corporate and other	0.1	(2.3)	(1.1)	(0.5)	(3.6)
	1.5	(6.8)	0.4	5.3	17.2
Net income (loss)	(5.6)	(13.0)	(17.0)	1.1	4.7
Net income (loss) per share - basic and diluted (1)	(0.26)	(0.62)	(0.81)	0.05	0.22
Shares outstanding - weighted average (millions)	21.1	21.0	21.0	20.9	20.9
Average exchange rate - US$/Cdn$ (2)	0.764	0.813	0.794	0.918	0.914
Reconciliation of EBITDA to Net Income (Loss)					
Net income (loss)	(5.6)	(13.0)	(17.0)	1.1	4.7
Add: Finance costs	2.6	2.1	5.9	1.4	4.4
Amortization	4.5	4.1	11.5	2.8	8.1
EBITDA	1.5	(6.8)	0.4	5.3	17.2

(1) The calculation of diluted net income per share excludes the assumed conversion of convertible notes and/or the assumed exercise of outstanding warrants if the resulting effect on net income per share is anti-dilutive.
(2) Source: Bank of Canada website www.bankofcanada.ca

For the quarter ended September 30, 2015, the Company recorded a net loss of $5.6 million or $0.26 per share on sales of $85.9 million compared to a net loss of $13.0 million or $0.62 per share on sales of $81.8 million during the second quarter of 2015, and net income of $1.1 million or $0.05 per diluted share on sales of $90.9 million during the third quarter of 2014. Net loss for the first nine months of 2015 was $17.0 million or $0.81 per share compared to net income of $4.7 million or $0.22 per diluted share over the same period last year.

The bioenergy segment includes the operating results at the Mackenzie power generation plant from May 2015. The power plant contributed revenues from external sources of $5.9 million in the third quarter of 2015 and $2.6 million in the two months the plant was operated during the previous quarter.

Compared to the second quarter of 2015, the positive variance in net income of $7.4 million was largely attributable to a sequential improvement in lumber segment operating income of $4.9 million and a favorable quarter over quarter variance of $2.7 million from currency rate fluctuations. Improvements in unit mill net realizations, log costs and cash conversion costs contributed to the enhanced lumber segment operating results. Third quarter 2015 operating income of $0.2 million reported in the bioenergy segment includes depreciation expense of $1.6 million.

Compared to the third quarter of 2014, the primary factors contributing to the reduction in lumber segment operating results of $6.1 million included significantly lower shipment and production volumes, and declines in mill net realizations due to weaker Canadian dollar denominated benchmark prices and higher export tax rates, which outweighed the benefits of improvements in unit cash conversion costs.

On a year-to-date basis, current year lumber segment operating results were adversely impacted by lower shipment volumes, operating rates and mill net realizations and significantly higher log costs.

EBITDA of $1.5 million in the third quarter of 2015 represented an increase of $8.3 million over the previous quarter and a reduction of $3.8 million from the third quarter of 2014.

The Company had unrestricted cash balances of $6.2 million at September 30, 2015, $10.1 million at December 31, 2014, and $10.5 million at September 30, 2014. At September 30, 2015, the Company had operating working capital of $52.7 million invested primarily in its lumber segment operations. Lumber segment operating working capital levels increased by $19.0 million over the previous quarter due primarily to the accelerated build of log inventories which are expected to be partially reduced by the end of the year. Net debt increased by $48.8 million during the first nine months of 2015 due primarily to additional drawings of $5.0 million on the Company's asset backed revolving credit facility and demand revolving loan and $9.6 million on the Project Financing, issuance of the PIK Note of $30 million by Conifex Inc. and completion of the Mortgage of $11.5 million, offset by principal repayments of long-term debt of $6.1 million. Excluding the effects of borrowings under the Project Financing, which is largely structured on a non-recourse basis to the lumber segment assets and to the parent company, Conifex Timber Inc., the Company ended the third quarter of 2015 with a net debt to capitalization ratio of 55% compared to 34% at December 31, 2014. After giving full effect to the exercise of the PIK Note, as discussed under Liquidity and Capital Resources, the net debt to capitalization ratio would have been 37% at September 30, 2015.

The exercise of the payment-in-kind option would result in a net gain after tax of approximately $29.0 million, or $1.26 per diluted share.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, unaudited)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Sales -Lumber - Conifex produced	47.2	47.5	148.4	57.9	166.6
- Lumber - wholesale	25.8	23.6	71.6	22.9	60.4
- By-products	4.8	6.0	17.2	6.8	20.5
- Logistics services	2.2	2.1	7.3	3.3	10.1
Total Sales	80.0	79.2	244.5	90.9	257.6
EBITDA	(0.4)	(5.0)	(0.7)	5.8	20.8
Amortization	2.8	3.1	8.6	2.9	8.1
Operating income (loss)	(3.2)	(8.1)	(9.3)	2.9	12.7
Statistics					
Lumber shipments - Conifex produced (MMfbm)	107.6	116.0	336.4	130.4	372.7
Lumber shipments - Wholesale (MMfbm)	42.6	39.7	117.0	41.9	110.4
Lumber production (MMfbm)	112.3	118.1	349.8	125.6	388.9
Average exchange rate - US$/Cdn$ (1)	0.764	0.813	0.794	0.918	0.914
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 267	$ 271	$ 281	$ 356	$ 353
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$ 349	$ 333	$ 353	$ 388	$ 386

(1) Source: Bank of Canada website www.bankofcanada.ca
(2) Source: Random Lengths Publications Inc.
(3) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate

Overview

According to data published by the U.S. Census Bureau, U.S. privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.16 million over the third and second quarters of 2015 and represented an improvement of approximately 13% over the third quarter of 2014. Seasonally adjusted single-family housing starts increased by 6% over the previous quarter and 14% over the third quarter of 2014. Despite the positive trend in U.S. housing starts and various other recent economic indicators which collectively point towards an underlying strength in the U.S. housing market recovery, average benchmark lumber prices remained at the lowest quarterly price levels since early 2012[1]. Although the lumber price for the bellwether WSPF 2x4 #2 & Btr ("**WSPF**") remained relatively flat and averaged approximately US$270 during the third and second quarters of 2015, the devaluation of the Canadian currency by 6% in the current quarter improved Canadian dollar denominated benchmark prices by $20 per thousand board feet[2]. Compared to the third quarter of 2014, a decline in WSPF prices of 24% was somewhat offset by a 17% weaker Canadian currency and resulted in a 9% lower average Canadian dollar denominated benchmark price.

Weaker WSPF prices during the third and second quarters of 2015 were generally attributed by industry analysts to increased supply in North America due to fewer offshore shipments and

[1] WSPF prices as quoted in Random Lengths Publications Inc.

[2] Currency rates as quoted on the Bank of Canada website www.bankofcanada.ca

mild weather conditions in North America which alleviated supply chain constraints, and to the weaker Canadian currency which tends to erode U.S. dollar denominated lumber prices. Compared to the previous quarter and the third quarter of 2014, reduced shipments to China, which contributed to steeper discounts on low grade products compared to WSPF, and higher average export tax rates hampered mill net realizations.

Shipments of Conifex produced lumber totaled 108 million board feet during the quarter and represented a decline of 7% from the previous quarter and 17% from the third quarter of 2014. Shipments of Conifex produced lumber totaled 336 million board feet for the first nine months of 2015, a decline of 10% from the same period last year. The lower shipment volumes in each comparative period largely reflected lower operating rates. Operating rates during the third quarter of 2015 contracted by approximately 11% due to a two-week scheduled downtime in July 2015 and one-week partial production curtailment in September 2015 to complete a capital upgrade at the Fort St. James mill. Production volumes of 112 million board feet were 5% lower than the previous quarter and 11% lower than the third quarter of 2014.

The export tax rate on shipments to the U.S. reflected lower average Random Lengths Framing Lumber Composite Prices and averaged 8.3 % during the third quarter of 2015 compared to 6.7% during the previous quarter and zero percent during the third quarter of 2014. Although the export tax is only applicable on softwood lumber shipments to the U.S., prices in other geographical markets are typically adjusted to reflect the lower returns available from the U.S. market.

The lumber segment recorded an operating loss of $3.2 million for the third quarter of 2015 compared to an operating loss of $8.1 million for the second quarter of 2015 and operating income of $2.9 million in the third quarter of 2014. Lumber segment EBITDA for the third quarter of 2015 was negative $0.4 million compared to negative $5.0 million for the previous quarter and positive $5.8 million for the third quarter of 2014.

Compared to the previous quarter, the improvement in lumber segment operating results of $4.9 million was due primarily to higher unit mill net realizations which reflected a 7% increase in Canadian dollar denominated benchmark prices and offset a 7% decline in shipment volumes, and improvements of 6% in unit log costs and 5% in unit cash conversion costs.

Compared to the third quarter of 2014, the primary factors contributing to the decrease in lumber segment operating results of $6.1 million included lower shipment and production volumes of 18% and 11%, respectively, declining mill net realizations due to 9% lower Canadian dollar denominated benchmark prices and higher export tax rates, partially offset by a 5% improvement in unit cash conversion costs.

On a year-to-date comparative basis, current year lumber segment operating income was adversely impacted by a 10% reduction in shipment and production volumes, 15% increase in unit log costs, and 5% decline in unit mill net realizations, which more than offset a 4% improvement in unit cash conversion costs.

Management expects continued steady demand from the Japanese market and a slight improvement in demand and pricing from the Chinese market over the next two quarters. Shipments to the U.S. attracted an export tax of 15% for the first twelve days of October, prior to the expiry of the Softwood Lumber Agreement on October 12, 2015. Although we expect average Canadian dollar denominated benchmark prices to remain relatively unchanged for the balance of the year, we anticipate lumber segment operating results will improve sequentially due to forecast benefits from recent capital upgrades and improved quality of fibre resulting from the robust harvesting activities undertaken in recent months. We expect log costs will remain stable or slightly decline and the improvements in lower unit cash conversion costs will be sustained over the remaining quarter of the year.

Sales

Lumber revenues from shipments of Conifex product were flat compared to the previous quarter as a 7% decline in shipment volumes, due primarily to lower operating rates, was countered by a corresponding increase in unit gross sales realizations. An improvement in unit mill net realizations of 8% compared favourably when measured against a 6% increase in the Canadian dollar denominated benchmark price and 2% increase in average export tax rates. Processing of higher quality logs and benefits from recent capital upgrades contributed to improved grade yields during the current quarter which reduced our exposure to the adverse impact of substantially steeper discounts on lower grade products.

Compared to the third quarter of 2014, unit gross sales realizations were largely unchanged as the 18% decline in revenues from shipments of Conifex product generally reflects 17% lower shipment volumes. The benefits of improved grade yields were more pronounced as unit mill net realizations only fell 7% compared to a 9% drop in Canadian dollar denominated benchmark prices and an 8% increase in average export tax rates.

A reduction in year to date revenues from Conifex produced lumber of 11% largely reflects a 10% reduction in shipment and production volumes compared to the same period last year. A reduction in unit mill net realizations of 5% compares favourably against an 8% decline in Canadian dollar denominated benchmark price and 5% higher average export tax rate.

Shipments of wholesale lumber products were generally consistent in each of the comparative quarters and increased by 6% on a year to date basis.

The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market (based on Conifex produced lumber, unaudited).

	Q3 2015	**Q2 2015**	**YTD 2015**	**Q3 2014**	**YTD 2014**
By Revenue (net of freight)					
Canada	15%	17%	17%	11%	12%
USA	51%	44%	50%	51%	50%
China	16%	27%	20%	28%	28%
Japan	13%	9%	10%	9%	9%
Other export	5%	3%	3%	1%	1%
	100%	100%	100%	100%	100%
By Shipment Volume					
Canada	15%	16%	16%	10%	12%
USA	49%	43%	49%	46%	46%
China	21%	31%	24%	36%	34%
Japan	9%	6%	7%	7%	7%
Other export	6%	4%	4%	1%	1%
	100%	100%	100%	100%	100%

The decline in revenue from chips and other residuals of 20% from the previous quarter and 29% from the third quarter of 2014 is primarily attributable to lower shipment volumes as unit pricing remained generally consistent.

Production and Operations

Lumber production totalled 112 million board feet in the third quarter of 2015 and represented an annualized operating rate of 86% (excluding lumber capacity attributed to the idled Mackenzie Site I sawmill) compared to 90% in the previous quarter and 96% in the third quarter of 2014. The annual lumber capacity of the Company's two operating sawmills on a two-shift basis is approximately 525 million board feet. Operating rates during the third quarter of 2015 were hampered by approximately 11% due to a two-week scheduled downtime in July 2015 and one-week production curtailment on a log line in September 2015 to complete a capital upgrade at the Fort St. James mill. On a year to date basis, the lower operating rate is also attributable to a reduced operating hour format intended to contain operating costs and, in the second quarter of 2015, some downtime related to a capital upgrade at Mackenzie.

Costs of goods sold includes costs related to the raw materials and manufacturing of Conifex produced lumber, purchases of wholesale lumber (which may include a freight component), freight procurement costs related to the provision of third party logistics services and costs related to power production (see Bioenergy Segment below for additional details). Overall lumber segment cost of goods sold decreased by 6% compared to the previous quarter and the third quarter of 2014 due primarily to lower shipment volumes and overall manufacturing costs.

A 6% reduction in unit log costs from the previous quarter was generally attributable to improved recoveries obtained from higher quality logs and the delivery of a higher proportion of logs by waterborne transportation which resulted in lower unit delivery costs. An increase in year to date unit log costs of 15% over the same period last year was mainly due to costs associated with increased stumpage rates, logging and hauling rates, and purchased log costs.

Even with the planned curtailment taken during the current quarter, unit cash conversion costs improved by approximately 5% compared to the previous quarter and the third quarter of 2014. On a year-to-date basis, the heightened focus on cost management and the benefits from recent capital upgrades have resulted in a 4% improvement in unit cash conversion costs despite a 10% lower operating rate. A lower operating rate results in the allocation of fixed costs across lower production volumes. Cost of goods sold included an inventory valuation charge of $0.3 million for the third quarter of 2015 and $0.8 million for the previous quarter.

Unit freight cost increases on shipments of Conifex produced lumber of 3% over the previous quarter and 7% over the third quarter of 2014 were largely attributable to the weaker Canadian currency, as freight costs outside of Canada are typically denominated in U.S. dollars.

Bioenergy Segment

The Mackenzie 36 MW biomass power generation plant commenced commercial operations and began selling electricity under a 20-year Electricity Purchase Agreement ("EPA") with BC Hydro in May 2015. The power generation plant also supplies electricity to the Mackenzie sawmill operations under a 20-year Load Displacement Agreement.

Electricity sales generated revenues from external sources of $5.9 million in the third quarter of 2015 and $2.6 million in the previous quarter. Operating income was $0.2 million in the third quarter of 2015 compared to an operating loss of $0.5 million in the previous quarter and included depreciation expense of $1.6 million and $1.0 million, respectively. The bioenergy segment recorded interest expense of $1.3 million in the current quarter and $0.8 million in the previous quarter. Bioenergy segment EBITDA was $1.8 million for the third quarter of 2015 and $0.5 million in the previous quarter.

Although electricity revenues from BC Hydro under the EPA are based upon a fixed base price per MWh, the application of a “time of delivery factor” (“TDF”) to the base unit price adds a seasonal effect to quarterly revenues. The TDF is expected to produce considerable variability in quarterly revenues with the lowest revenues generated in the second quarter and the highest in the first and fourth quarters of each year. The seasonal effect is expected to produce variances in revenues of up to 30% between the strongest and weakest quarters. As a major portion of the costs of electricity production, as well as depreciation and interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

In July 2015, the power plant achieved approximately 103% of targeted operating rates. Overall production in August 2015 was hampered by a planned outage of seven days taken to perform scheduled warranty and other major maintenance work. The work performed in August is expected to reduce the number of planned outage days required to prepare the plant for the winter season in November 2015, when higher effective electricity rates are available. Accordingly, only a one week outage is planned for November 2015.

Operating results in the current and previous quarter have been challenged by higher than budgeted costs related primarily to the ramp up phase, including use of outside services contractors and implementation of preventive maintenance protocols. The primary focus of the operations team to date has been on reliability and optimization of plant performance. With plant performance stabilized, heightened focus will be placed on operating costs which are expected to normalize over the next several quarters.

Capital expenditures related to the power generation project totalled $14.0 million during the first nine months of 2015 and were partially offset by receipt of interim insurance proceeds of $6.0 million. Capital expenditures included costs related to repair and reassembly of equipment and testing and commissioning, as well as carrying costs such as interest, insurance premiums and property tax.

Corporate costs and other items

(millions of dollars, unaudited)	**Q3 2015**	**Q2 2015**	**YTD 2015**	**Q3 2014**	**YTD 2014**
Corporate costs	1.5	1.2	3.6	1.4	4.0
Finance costs	2.6	2.1	5.9	1.4	4.5
Other (income) expense	0.1	0.1	0.2	-	(0.1)
Foreign exchange (gain) loss	(1.6)	1.1	(2.4)	(0.9)	(0.3)
	2.6	4.5	7.3	1.9	8.1

Corporate costs were generally consistent in each of the comparative quarters. The increase in year to date finance costs of $1.4 million is largely attributable to interest expense of $2.1 million related to the Project Financing partially offset by lower accretion costs. Interest costs related to the Project Financing had been recorded as a capital cost prior to May 2015.

The Company utilizes derivative financial instruments to manage its commodity lumber price exposures in the ordinary course of business and to manage its interest rate variability. Realized and unrealized gains or losses from the revaluation of lumber derivative instruments to fair values at period end are recognized as other income or expense each period and allocated to lumber segment operating results.

The Term Loan provided under the Project Financing facility consists of a floating rate tranche and a fixed rate tranche. CP Partnership has entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the Term Loan to fixed interest rates. A loss of $0.5 million on the interest rate swap instruments was recorded as interest expense in the bioenergy segment and $0.4 million as capital costs during the first nine months of 2015.

The foreign exchange translation gain or loss recorded for each period results from the revaluation of U.S. dollar-denominated working capital balances to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period.

Income tax

At December 31, 2014, the Company had unused non-capital tax losses carried forward totalling approximately $30.4 million. Although the Company expects to realize the full benefit of the loss carry forwards and unrecognized deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets available to reduce taxable income.

SUMMARY OF FINANCIAL POSITION

The following table is a summary of selected financial information as at the end of each of the comparative quarters:

(millions of dollars, unaudited)	Q3 2015	Q4 2014	Q3 2014
Cash	6.2	10.1	10.5
Cash - restricted	7.7	1.8	4.5
Operating working capital	52.7	36.5	41.3
Operating loans	(16.8)	(11.8)	(4.8)
Convertible notes	-	-	(9.5)
Current portion of long-term debt	(4.7)	(6.7)	(2.1)
Net current assets	45.1	29.9	39.9
Long-term assets - power generation plant	126.8	126.5	116.5
Long-term assets - lumber segment and corporate	109.3	85.5	81.4
Net assets	281.2	241.9	237.8
Non-interest bearing long-term liabilities	19.5	12.3	15.5
Payment-in-kind note	30.0	-	-
Long-term debt - power project construction loan	77.7	68.0	72.4
Long-term debt - other	47.4	39.3	28.1
Shareholders' equity	106.6	122.3	121.8
	281.2	241.9	237.8
Ratio of current assets to current liabilities	1.8	1.5	1.8
Net debt to capitalization (1)	37%	N/A	N/A
Net debt to capitalization, non-recourse borrowings excluded	55%	34%	29%
Net debt to capitalization, non-recourse borrowings included	60%	48%	45%

(1) Net debt to capitalization ratio calculated excluding non-recourse borrowings and after giving full effect to the exercise of the PIK Note.

The Company manages capital with the objective of maintaining a strong balance sheet that helps ensure adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. The Company uses the net debt to total capitalization ratio to measure the Company's relative debt position and as an indicator of the relative strength and flexibility of its balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion and bank advances and the present value of convertible notes, less cash. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt. The increase in net debt of $48.8 million during the first nine months of 2015 was largely comprised of additional drawings of $5.0 million on the Company's asset backed revolving credit facility and demand revolving loan and $9.6 million on the Project Financing, issuance of the PIK Note of $30 million by Conifex Inc. and completion of the Mortgage of $11.5 million (US$ 8.64 million) offset by principal repayments totalling $6.1 million.

The Project Financing is primarily secured by a first lien security interest on the power generation project assets and recourse to affiliates is limited to bridge financing of $7.0 million to be repaid by CP Partnership upon settlement of its insurance claim and receipt of proceeds therefrom. Excluding the effects of the borrowings under the Project Financing, the Company ended the third quarter of 2015 with a net debt to capitalization ratio of 55% compared to 34% at

December 31, 2014. After giving full effect to the exercise of the PIK Note, the net debt to capitalization ratio would have been 37% at September 30, 2015.

CHANGES IN FINANCIAL POSITION

Selected Cash Flow Items

(millions of dollars, unaudited)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Operating Activities					
Cash provided (used) before working capital changes	2.2	(7.5)	1.8	5.1	18.0
Cash provided from (used in) non-cash working capital	(12.5)	15.5	(6.6)	0.2	(3.7)
Cash provided from (used in) operating activities	(10.3)	8.0	(4.8)	5.3	14.3
Investing Activities					
Additions to:					
Property, plant, equipment - power plant (1)	2.6	(8.7)	(11.6)	(15.1)	(47.2)
Property, plant, equipment - lumber and corporate	(0.6)	(1.0)	(4.0)	(3.7)	(8.4)
Other long-term investments	-	-	-	-	(0.6)
Acquistion of El Dorado Mill	(16.6)	-	(16.6)	-	-
Acquistion of subsidiary	-	-	-	-	(4.8)
Cash used in investing activities	(14.6)	(9.7)	(32.2)	(18.8)	(61.0)
Financing Activities					
Proceed from the payment-in-kind note	30.0	-	30.0	-	-
Proceeds from incentive funding	6.6	-	6.6	-	-
Proceeds from construction loan - power project	-	3.8	9.6	16.2	49.7
Proceeds from (repayment of) operating loans	(0.3)	(1.5)	5.0	(1.3)	(2.0)
Repayment of previously issued secured notes	(4.0)	-	(4.0)	-	-
Repayment of long-term debt	(1.0)	(0.6)	(2.2)	(0.4)	(1.4)
Financing costs paid	(3.5)	(1.1)	(6.0)	(1.4)	(3.2)
Cash provided from (used in) financing activities	27.8	0.6	39.0	13.1	43.1
Change in cash	2.9	(1.1)	2.0	(0.4)	(3.6)

(1) Net of insurance proceeds received during the period.

Cash provided from (used in) non-cash working capital items

(millions of dollars, unaudited)	Q3 2015	Q2 2015	YTD 2015	Q3 2014	YTD 2014
Trade and other receivables	(3.3)	5.0	3.3	1.5	0.9
Inventories	(13.8)	14.6	(12.6)	(4.2)	0.4
Accounts payable, accrued liabilities and other payables	2.6	(0.1)	2.1	(0.8)	(3.8)
Other	2.0	(4.0)	0.6	3.7	(1.2)
Cash provided from (used in) non-cash working capital	(12.5)	15.5	(6.6)	0.2	(3.7)

Operating activities before working capital changes provided cash of $2.2 million in the third quarter of 2015 and $5.1 million in the third quarter of 2014 and consumed cash of $7.5 million in the second quarter of 2015. Non-cash working capital changes used cash of $12.5 million in the third quarter of 2015 and provided cash of $15.5 million in the previous quarter and $0.2

million in the third quarter of 2014. The pattern of non-cash working capital fluctuations reflects expected seasonal trends as log inventories are typically drawn down during the second quarter of each year following builds in the other three quarters. Log inventories increased by $13.9 million during the third quarter of 2015 and largely reflects an accelerated pace of inventory build relative to the prior year. During the current quarter, Mackenzie harvesting operations were concentrated in the northern region of the Mackenzie Timber Supply Area, which is typically subject to a shorter logging season as deliveries are effected by waterborne transportation which generally need to be completed before winter conditions prevail. Benefits of the concentrated harvesting in this area included improved log quality and lower unit log costs as transportation of larger volumes reduced unit delivery costs.

Investing activities on a cash basis during the third quarter of 2015 totalled $14.6 million and included the acquisition of the El Dorado Mill for $16.6 million and expenditures related to the power generation project of $1.9 million offset by receipt of insurance proceeds of $4.5 million. During the previous quarter, the Company invested $1.0 million on lumber segment capital projects and $8.7 million on expenditures related to the power generation project. Lumber segment capital expenditures during the first nine months of 2015 included payments related to the installation of extensive dust mitigation equipment at the Fort St. James and Mackenzie Site II sawmills in late 2014 and upgrades to the sawlines at both mills. Investing activities during the third quarter of 2014 totalled $18.8 million, and were comprised of expenditures of $15.1 million on the construction of the power generation project and $3.7 million on lumber segment capital projects.

Financing activities during the third quarter of 2015 provided net cash of $27.8 million and included proceeds from issuance of the PIK Note of $30 million and from incentive funding of $6.6 million, $4.0 million redemption of a previously issued senior secured note, repayments of other long-term debt totalling $1.0 million, and payment of financing costs of $3.5 million. In the previous quarter, financing activities provided net cash of $0.6 million and included drawings of $3.8 million from the Project Financing, repayment of $1.5 million of revolving operating loans and payment of financing costs of $1.1 million. Cash provided from financing activities during the third quarter of 2014 totalled $13.1 million and included draws totalling $16.2 million from the Project Financing.

LIQUIDITY AND CAPITAL RESOURCES

The Company’s current principal sources of funds are cash on hand, cash flow from operations, and borrowing availability under its revolving operating loans and the Project Financing.

The Company had unrestricted cash balances of $6.2 million at September 30, 2015, $10.1 million at December 31, 2014, and $10.5 million at September 30, 2014. At September 30, 2015, the Company had operating working capital of $52.7 million invested primarily in its lumber segment operations. Operating working capital requirements of the bioenergy segment are expected to be relatively modest and primarily financed by the $1.75 million revolving loan facility provided under the Project Financing. Lumber segment operating working capital levels increased by $19.0 million over the previous quarter due primarily to the accelerated build of log inventories which are expected to be partially reduced by the end of the year. At September 30, 2015, the Company had approximately $8.0 million of availability under its revolving credit facilities and the Term Loan was fully drawn.

As previously highlighted, on July 30, 2015, CP Partnership completed the term conversion of the Project Financing. As a result of the term conversion, the construction loan portion of the

Project Financing matured and converted into a term loan that matures on December 1, 2019 (the “Term Loan”) and has an 18 year amortization schedule. The Project Financing continues to include a letter of credit facility of $18.75 million, which was fully drawn at September 30, 2015, and a $1.75 million revolving operating facility, which was undrawn at September 30, 2015, until the maturity date of the Term Loan.

On August 4, 2015, our wholly-owned subsidiary, Conifex Inc., completed an investment agreement, pursuant to which Conifex Inc. issued a $30 million payment-in-kind note. The PIK Note has a term of five years, bears no interest for the first two years with interest of 5% per annum thereafter until maturity and is secured by, among other things, a first lien on a forest licence with 200,000 m^3 of annual cut held indirectly by a subsidiary of Conifex Inc. (the "Subsidiary"). The holder of the PIK Note has the option, exercisable after one year, to convert the PIK Note into an ownership interest in the forest licence. Additionally, Conifex Inc. can elect after 17 months to pay the principal amount of the PIK Note by the transfer of all of the issued common shares of the Subsidiary. The proceeds of the PIK Note are planned to be used for general corporate purposes. The exercise of the payment-in-kind option would result in a net gain after tax of approximately $29.0 million, or $1.26 per diluted share.

On August 6, 2015, the Company acquired the El Dorado Mill. Consideration paid for the acquired assets included the Mortgage of US$ 8.64 million. The Mortgage bears interest at a rate of 6% per annum and matures on the earlier of December 1, 2016 or the day before any material alteration of the El Dorado Mill is undertaken. The Mortgage is secured against the El Dorado Mill.

The Company monitors expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Scheduled long-term debt payments, including interest, are estimated to total $3.0 million for the remaining three months of the year. Subsequent to quarter end, the Company received $5.5 million of interim insurance proceeds. Based on its current forecasts, the Company expects sufficient liquidity will be available to meet its obligations in 2015 and 2016.

As part of its overall strategy, the Company may acquire businesses or additional assets or expand its facilities from time to time as such opportunities arise. As a result, the Company may require substantial additional capital resources. The Company expects such additional capital resources will be generated from debt financing and/or the sale of equity securities, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, unaudited)	2015 Q3	2015 Q2	2015 Q1	2014 Q4	2014 Q3	2014 Q2	2014 Q1	2013 Q4
Sales	85.9	81.8	85.3	95.2	90.9	99.6	67.2	63.7
Operating income (loss)	(4.5)	(9.8)	1.1	0.6	1.5	4.4	2.8	2.2
Net income (loss)	(5.6)	(13.0)	1.6	-	1.1	2.0	1.6	1.1
Net income (loss) per share - basic and diluted (1)	(0.26)	(0.62)	0.08	-	0.05	0.10	0.08	0.05
EBITDA (2)	1.5	(6.8)	5.7	4.1	5.3	6.2	5.7	4.7
Shares outstanding - weighted average (millions)	21.1	21.0	21.0	20.9	20.9	20.9	20.8	20.8
Statistics								
Lumber shipments - Conifex produced (MMfbm)	107.6	116.0	112.8	134.0	130.4	146.4	95.9	118.6
Lumber production (MMfbm)	112.3	118.1	119.4	116.9	125.6	134.9	128.3	116.3
Average exchange rate - US$/Cdn$ (3)	0.764	0.813	0.806	0.881	0.918	0.917	0.906	0.953
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$ 267	$ 271	$ 304	$ 340	$ 356	$ 335	$ 367	$ 370
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(5)	$ 349	$ 333	$ 378	$ 386	$ 388	$ 365	$ 405	$ 388
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	(5.6)	(13.0)	1.6	-	1.1	2.0	1.6	1.1
Add: Finance costs	2.6	2.1	1.3	1.4	1.4	1.5	1.5	1.4
Amortization	4.5	4.1	2.8	2.7	2.8	2.7	2.6	2.2
EBITDA	1.5	(6.8)	5.7	4.1	5.3	6.2	5.7	4.7

(1) The calculation of diluted net income per share excludes the assumed conversion of convertible notes and/or the assumed exercise of outstanding warrants if the resulting effect on net income per share is anti-dilutive.
(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization. EBITDA for quarterly periods presented has been restated to: (i) exclude deductions for non-cash charges related to employee compensation for 2013; and (ii) include accretion expense as a component of financing costs.
(3) Source: Bank of Canada website www.bankofcanada.ca.
(4) Source: Random Lengths Publications Inc.
(5) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate.

The Company's financial results are impacted by a variety of market related factors, including fluctuation in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, and changes in the export tax rate, stumpage rates, and foreign exchange rates. Other more company specific factors that influence quarterly financial trends include operating rates, shipment volumes, raw material and manufacturing costs, and transactions of a non-recurring nature. The Company relies primarily on third parties for transportation of its products, as well as delivery of raw materials, and any significant or prolonged disruption of services provided by third party carriers may adversely impact 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. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the fall and winter months to ensure adequate supply of fibre to its mills 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 considerable increase in revenues in the second quarter of 2014 and subsequent quarters was largely attributable to the acquisition of Lignum, a lumber marketing and distribution business, in February 2014.

OUTLOOK AND STRATEGY

Through the closing quarter of 2015, management expects lumber segment productivity will show further improvements and power generation financial results to demonstrate the benefits of seasonally stronger pricing.

Work on the detailed capital expenditure and financing plans on the El Dorado Arkansas sawmill site is underway, and is expected to be complete early in 2016. The analysis to date indicates that prioritization of El Dorado over other potential major capital expenditure initiatives, besides providing superior financial returns, helps mitigate foreign exchange risk and market access related risks.

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OUTSTANDING SECURITIES

As at November 6, 2015, the Company had 21,108,480 issued and outstanding common shares, 100,000 options granted, 1,351,575 long-term incentive plan awards, 1,220,417 warrants, and subordinated convertible promissory notes in the aggregate principal amount of $12 million, which notes are convertible into a maximum of 1,929,260 common shares of the Company.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2015. Conifex's critical accounting estimates are described in its MD&A for the year ended December 31, 2014, filed under the Company's profile on SEDAR at www.sedar.com.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's 2014 annual information form dated March 18, 2015, and other filings with the Canadian Securities Administrators available on SEDAR at www.sedar.com.

Softwood Lumber Agreement

The Softwood Lumber Agreement ("SLA") expired on October 12, 2015. No trade actions may be imposed for the importation of softwood lumber from Canada to the U.S. for a period of twelve months following the SLA expiry date. As of the date hereof, no replacement agreement between the Governments of Canada and the U.S. has been negotiated.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2015, there were no changes in the Company's internal controls over financial reporting that materially affected, or would be reasonably likely to materially affect, such controls.

ADDITIONAL INFORMATION

Additional information about the Company, including its 2014 Annual Information Form for the year ended December 31, 2014, is available on SEDAR at www.sedar.com.