CONIFEX

CONIFEX TIMBER INC.
THIRD QUARTER 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of November 8, 2017

This interim Management's Discussion and Analysis ("MD&A") provides a review of the financial condition and results of operations of Conifex Timber Inc. (the "Company", "Conifex", "us", "we", or "our"), on a consolidated basis, for the quarter ended September 30, 2017 relative to the quarters ended June 30, 2017 and September 30, 2016. This interim MD&A should be read in conjunction with our unaudited condensed consolidated interim financial statements for the quarters ended September 30, 2017 and 2016, as well as our 2016 annual MD&A and our December 31, 2016 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, "adjusted EBITDA" and "adjusted EBITDA margin." EBITDA represents earnings before finance costs, taxes, and depreciation and amortization. Adjusted EBITDA is calculated to exclude unusual items or items that are not ongoing and do not reflect ongoing operations of the Company. Adjusted EBITDA excludes gains or losses resulting from asset sales, disposals or revaluations, and the proceeds from our business insurance claim settlement. "Adjusted EBITDA margin" is defined as adjusted EBITDA as a percentage of sales. The Company discloses EBITDA, adjusted EBITDA and adjusted EBITDA margin, as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA, adjusted EBITDA and adjusted EBITDA margin are non-GAAP measures, they may not be comparable to EBITDA, adjusted EBITDA and adjusted EBITDA margin calculated by others. In addition, EBITDA, adjusted EBITDA and adjusted EBITDA margin are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

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

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: growth and future prospects of our business; our expectation for sales 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; our expectation for the final countervailing or antidumping duty rates, if any, assessed on lumber shipments to the U.S., and the existence of critical circumstances; our expectation for market volatility associated with the softwood lumber dispute with the U.S.; that we could be negatively impacted by the imposition of duties or other protective measures on our customers, such as antidumping duties or countervailing duties on softwood lumber; our expectations for U.S. dollar benchmark prices; 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; our expectations regarding *the Mackenzie Plant power production; use of proceeds of financing operations; and the anticipated benefits, cost, timing and completion dates for projects, including the El Dorado Mill upgrade.*

Assumptions underlying our expectations regarding forward-looking information contained in this interim MD&A include, among others: that we will be able to effectively market our 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 we will be able to continue to deliver power therefrom; that the critical circumstances finding by the U.S. Department of Commerce with respect to anti-dumping duties will not be upheld by the U.S. International Trade Commission; that softwood lumber will experience sustained demand in the marketplace; the general stability of the economic, political and regulatory environments within the countries where we conduct operations; our ability to obtain financing (if necessary) on acceptable terms or at all; that interest and foreign exchange rates will not vary materially from current levels; that the equipment at our mills and power plant will operate at expected levels; and that management will effectively execute the Company's strategy to grow and add value to its 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 28, 2017 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 securities law.

RECENT DEVELOPMENTS

Update on El Dorado Mill

In October 2017, we completed construction of our sawmill, two continuous dry kilns, and planer mill in El Dorado, Arkansas (the "ED Mill") on schedule and on budget. We are operating the sawmill and conducting evaluations as the sawmill goes through a customary "ramp-up" period. We expect to begin testing and commissioning of our planer mill in November and commence commercial operations in December of this year. We will initially operate the ED Mill on a one-shift basis and expect to ramp-up production to approximately 90% of capacity by December 2018.

The ED Mill is designed to have annual production capacity of 180 million board feet on a two-shift basis, representing approximately 25% of total lumber capacity of our mills at this level.

We believe our planned expansion into the U.S. South will provide an important new source of revenue diversification not subject to punitive trade actions on Canadian softwood lumber recently initiated by the U.S.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information, unaudited)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales by Segment					
Lumber	114.2	111.7	319.4	99.2	289.7
Bioenergy	6.1	4.7	17.7	4.9	17.6
	120.3	116.4	337.1	104.1	307.3
Operating Earnings by Segment					
Lumber	8.5	7.1	17.4	5.6	12.2
Bioenergy	2.5	0.9	4.7	(0.5)	3.8
Corporate and other unallocated items	(2.2)	(1.6)	(5.4)	(1.8)	(4.5)
	8.8	6.4	16.7	3.3	11.5
Adjusted EBITDA by Segment					
Lumber	12.0	10.8	27.9	9.0	22.2
Bioenergy	3.3	1.8	8.0	1.1	7.7
Corporate and other unallocated items	(3.2)	(2.4)	(7.4)	(1.6)	(5.6)
	12.1	10.2	28.5	8.5	24.3
Net income	6.2	4.2	9.0	1.4	65.1
Net income per share - basic	0.23	0.16	0.36	0.07	3.08
Net income per share - diluted (1)	0.23	0.16	0.36	0.07	2.85
Shares outstanding - weighted average (millions)	26.4	26.3	24.4	21.2	21.1
Average exchange rate - US$/Cdn$ (2)	0.798	0.744	0.766	0.766	0.756
Reconciliation of adjusted EBITDA to Net Income					
Net income	6.2	4.2	9.0	1.4	65.1
Add: Finance costs	1.6	1.7	6.0	2.3	7.1
Amortization	4.3	4.3	13.5	4.8	13.5
EBITDA (3)	12.1	10.2	28.5	8.5	85.7
Less: Gain on sale of asset	-	-	-	-	(48.0)
Less: Gain on revaluation	-	-	-	-	(19.2)
Add: Impairment of property, plant and equipment	-	-	-	-	5.8
Adjusted EBITDA (4)	12.1	10.2	28.5	8.5	24.3

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants and options is anti-dilutive, it is excluded from the calculation of diluted net income per share.
(2) Source: Bank of Canada, www.bankofcanada.ca.
(3) Conifex's EBITDA calculation represents earnings before finance costs, taxes, and depreciation and amortization.
(4) Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, and gains or losses from asset sales, disposals or revaluations. Adjusted EBITDA for the second quarter of 2017 previously included $4.6 million representing CVD deposit expense based upon the preliminary determination of the rate by the U.S. Department of Commerce. Due to the recent final determination of the CVD and ADD rates by the U.S. Department of Commerce (see "Subsequent Event" below), we are no longer including an adjustment for softwood lumber duty deposits in adjusted EBITDA.

Our revenues totaled $120.3 million in the third quarter of 2017, an improvement of 3% over the prior quarter and 16% over the same quarter last year. Our revenue growth over the previous quarter was mainly attributable to a slight increase in our lumber segment revenues, and a 30% increase in revenues from electricity sales. Compared to the third quarter of 2016, our lumber segment revenues increased by 15% and our bioenergy segment revenues by 24%.

Our lumber segment operating results include countervailing duty ("CVD") and anti-dumping duty ("ADD") deposits on exports to the U.S. of $3.4 million in the third quarter of 2017 and $4.6 million in the second quarter of 2017. On November 2, 2017, the U.S. Department of Commerce ("USDOC") announced that the final CVD and ADD rates would be reduced from preliminary rates by a total of 5.92% (see "Subsequent Events" below). In the third quarter of 2017, we recorded an adjustment to reflect the reduction in CVD rates on shipments made during the second quarter of 2017. Approximately $1.3 million of the $4.6 million in CVD deposits expensed in the second quarter of 2017 was reversed, which resulted in reduced CVD and ADD deposit expenses of $3.4 million in the third quarter of 2017. The requirement that Canadian lumber producers, including Conifex, pay CVD was suspended on August 24, 2017 until final determination is published by the U.S. International Trade Commission ("USITC"), which is expected by late December 2017.

Our operating income for the third quarter of 2017, which includes the CVD and ADD deposits, was $8.8 million compared to $6.4 million in the previous quarter and $3.3 million in the same quarter last year. Compared to the prior quarter, an increase in lumber segment operating earnings of $1.4 million and bioenergy segment operating earnings of $1.6 million was partially offset by an increase in corporate costs of $0.6 million. Lumber segment operating earnings increased by $2.9 million and bioenergy segment operating earnings by $3.0 million compared to the third quarter of 2016.

Net income for the third quarter of 2017 was $6.2 million, or $0.23 per diluted share, compared to $4.2 million or $0.16 per diluted share in the previous quarter and $1.4 million or $0.07 per diluted share in the third quarter of 2016. Year to date net income was $9.0 million, or $0.36 per diluted share, compared to a normalized net income of $3.7 million or $0.18 per diluted share for the same period last year. Unusual items totaling $61.4 million were included in net income in the first six months of 2016. Including these unusual items, net income was $65.1 million, or $3.08 per basic and $2.85 per diluted share for the first nine months of 2016.

Adjusted EBITDA, including CVD and ADD deposits, was $12.1 million in the third quarter of 2017 compared to $10.2 million in the second quarter of 2017 and $8.5 million in the third quarter of 2016. Compared to the previous quarter, the improvement was comprised of an increase in lumber segment adjusted EBITDA of $1.2 million and bioenergy segment adjusted EBITDA of $1.5 million, partially offset by an increase in corporate costs of $0.6 million and a variance in foreign exchange translation loss of $0.2 million. Compared to the third quarter of 2016, lumber segment adjusted EBITDA improved by $3.0 million and bioenergy segment adjusted EBITDA improved by $2.2 million. Adjusted EBITDA was $28.5 million for the nine month period ended September 30, 2017 compared to $24.3 million for the nine month period ended September 30, 2016.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices, unaudited)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Sales -Lumber - Conifex produced	73.3	70.8	200.8	63.7	184.6
- Lumber - wholesale	28.5	28.6	85.4	26.3	77.4
- By-products	6.9	7.2	19.6	7.1	19.8
- Logistics services	5.5	5.1	13.6	2.1	7.9
Total Sales	114.2	111.7	319.4	99.2	289.7
Adjusted EBITDA	12.0	10.8	27.9	9.0	22.2
Amortization and other	3.5	3.7	10.5	3.4	10.0
Operating income	8.5	7.1	17.4	5.6	12.2
Statistics (in millions, other than exchange rate and lumber prices)					
Lumber production (MMfbm)	133.4	131.6	388.6	136.2	406.7
Lumber shipments - Conifex produced (MMfbm)	135.3	128.5	374.5	132.3	397.6
Lumber shipments - Wholesale (MMfbm)	37.6	38.4	116.9	39.6	121.3
Average exchange rate - US$/Cdn$ (1)	0.798	0.744	0.766	0.766	0.756
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$406	$388	$380	$321	$301
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$509	$522	$497	$418	$397

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

The U.S. Census Bureau reported privately-owned housing starts averaged a seasonally adjusted annualized rate of approximately 1.16 million units over the third quarter of 2017, a level which was consistent with the previous quarter and approximately 2% higher than the third quarter of 2016. Single-family housing starts accounted for 73% of total third quarter 2017 U.S. housing starts, a level generally comparable to the previous quarter and an increase in units of 12% over the third quarter of 2016. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

Prices for the bell-weather WSPF #2 & Btr product averaged US$406 during the third quarter of 2017, an improvement of 5% over the previous quarter and 26% over the third quarter of 2016.[1] Several industry analysts have attributed the improvement in the U.S. dollar benchmark price to steady demand growth in the U.S. market, solid shipments to offshore markets, and supply constraints resulting from the severe forest fire season in the interior region of British Columbia during the summer.

The U.S. dollar, which averaged US$0.798 for each Canadian dollar during the third quarter of 2017, appreciated by 7% over the previous quarter and 4% over the same quarter last year.[2] Canadian dollar-denominated benchmark lumber prices averaged $509 in the third quarter of 2017, representing a decline of 2% compared to the previous quarter and an improvement of 22% or $91 compared to the third quarter of 2016.

[1] As quoted in Random Lengths Publications Inc.

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

The U.S. and China remained our principal international markets, accounting for approximately 80% of total revenues from Conifex produced lumber in each of the comparative quarters, while revenues from shipments to Japan remained steady at approximately 7%. Approximately 4% of our non-wholesale lumber revenues were derived from shipments to other offshore markets and the remaining 9% from the Canadian market.

Revenue from Conifex produced lumber was $73.3 million in the third quarter of 2017. The 4% increase over the previous quarter was generally attributable to 5% higher shipment volumes offset by a modest decline in unit sales realizations. The slightly lower sales realizations reflected stronger lumber prices which were more than offset by the appreciation in Canadian currency. The growth in revenue of 15% over the third quarter of 2016 was mainly due to improved sales realizations from higher lumber prices.

Our wholesale lumber revenues were largely consistent in the second and third quarters of 2017 and increased by 8% over the third quarter of 2016. The growth in revenue from the third quarter of 2016 was primarily attributable to improved sales realizations due to higher lumber prices.

Revenues from provision of third party logistics services were generally consistent in the second and third quarters of 2017 and more than doubled compared to the third quarter last year. The increase was generally attributable to revitalized demand in certain industry sectors.

Our lumber production totalled approximately 133 million board feet during the third quarter of 2017 representing an annualized operating rate of 102% (excluding production capacity attributed to the idled Mackenzie Site I sawmill). Year to date production was 4% lower compared to the same period last year, largely as a result of the implementation of a capital project at the Mackenzie sawmill and, to a lesser extent, inclement weather conditions in Western Canada which led to lower productivity in the first quarter of this year.

The two main elements of our lumber manufacturing costs are log costs and conversion costs. Log costs typically account for the majority of our manufacturing costs. Cash conversion costs exclude depreciation and amortization expense. We improved our unit manufacturing costs by 3% compared to the previous quarter and held unit cost increases to 5% compared to the third quarter of 2016.

Unit log costs declined by 3% compared to the previous quarter and increased by 9% over the same quarter last year. Compared to the third quarter of 2016, the higher log costs were mainly attributable to higher market based stumpage and purchased log costs.

Higher operating rates contributed to an improvement in unit cash conversion costs of 3% over the previous quarter. Unit cash conversion costs were in line with the same quarter last year, although production volumes modestly declined.

A decline in per unit freight and distribution costs related to shipments of Conifex produced lumber of 7% compared to the previous quarter and 4% compared to the third quarter of 2016 largely reflected the strengthening of the Canadian currency. Freight costs for movements outside of Canada are predominantly denominated in U.S. dollars.

We expensed CVD and ADD deposits of $3.4 million in the third quarter of 2017, and $4.6 million in the second quarter of 2017, on lumber shipments to the U.S. As previously noted, approximately $1.3 million of the adjustment made in the third quarter of 2017 to reflect lower final CVD and ADD rates was attributable to shipments made during the second quarter of 2017.

Including the CVD and ADD deposits expense, the lumber segment recorded operating income of $8.5 million in the third quarter of 2017 compared to $7.1 million in the previous quarter and $5.6 million in the third quarter of 2016. Compared to the previous quarter, the benefits of stronger lumber prices, increased shipments of Conifex produced lumber, improved productivity, lower unit log and cash conversion costs, and lower softwood lumber duties, partially due to an adjustment related to previous quarter shipments, outweighed the impact of appreciation of the Canadian currency.

Compared to the third quarter of 2016, the benefits of higher lumber prices and shipments of Conifex produced lumber in the current quarter was partially offset by the expensing of CVD and ADD deposits, stronger Canadian currency, lower production volumes, and higher unit log costs. Year-to-date lumber segment operating earnings were $17.4 million, an improvement of $5.2 million over the same period last year.

Lumber segment adjusted EBITDA, which includes CVD and ADD deposits, was $12.0 million in the third quarter of 2017, compared to $10.8 million in the second quarter of 2017 and $9.0 million in the third quarter of 2016. Lumber segment adjusted EBITDA was $27.9 million for the nine months ended September 30, 2017 and $22.2 million for the nine months ended September 30, 2016.

Bioenergy Segment

Our Mackenzie power generation plant (the “Mackenzie Plant”) commenced commercial operations in May 2015.

Operating Results

(millions of dollars, other than statistical information, unaudited)	**Q3 2017**	**Q2 2017**	**YTD 2017**	**Q3 2016**	**YTD 2016**
Electricity sales under EPA - GWh	55.2	51.0	152.5	37.6	147.6
Electricity revenues	6.1	4.7	17.7	4.9	17.6
Adjusted EBITDA	3.3	1.8	8.0	1.1	7.7
Amortization	0.8	0.9	3.3	1.6	3.9
Operating income (loss)	2.5	0.9	4.7	(0.5)	3.8

The Mackenzie Plant sold 55.2 gigawatt hours of electricity under our Electricity Purchase Agreement (“EPA”) with BC Hydro in the third quarter of 2017, which represents approximately 100% of targeted operating rates, compared to 95% in the prior quarter and 70% in the third quarter of 2016. The reduced production in the third quarter of 2016 was mostly attributable to maintenance downtime taken to effect certain operating improvements. On a year to date basis, electricity sales were 3% higher than over the same period last year. Electricity sales and plant operating costs in the first quarter of 2017 were impacted by some unplanned outages and challenging weather conditions, which impacted feedstock quality and deliverability.

Electricity revenues in the current quarter were $6.1 million, an increase of 30% over the previous quarter, which was mostly attributable to higher seasonal rates and, to a lesser extent, an 8% increase in production. The improvement in electricity revenues of 24% compared to the third quarter of 2016 was largely due to higher production volume, somewhat offset by lower seasonal rates and discounted prices earned during the dispatch period. Cash operating costs were consistent in the third and second quarters of 2017 and improved by 21% over the third quarter of last year. Amortization expense was lower compared to the third quarter of 2016 as idled components were not depreciated during dispatch periods.

Bioenergy segment adjusted EBITDA was $8.0 million for the first nine months of 2017 compared to $7.7 million for the first nine months of 2016 and reflected an adjusted EBITDA margin of 45%, which was consistent with the comparative period last year. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of sales.

The Mackenzie Plant achieved hourly production of 105% of our operating target over the first 12 months of commercial operations. The Mackenzie Plant resumed operations in September 2017 (after the dispatch period, discussed below) and operating rates approached historic levels during the first month of operations.

Dispatch Notice
Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to “turn down” electricity purchased from us during periods of low demand by issuing a “dispatch order” outlining the requested dispatch period. In April 2017, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Plant, advising of a dispatch period of 122 days, encompassing the months of April, June, July and August. Last year, the Mackenzie Plant, among others, was dispatched for 61 days in the second quarter. During the dispatch period, we only produce electricity to fulfill volume commitments under our Load Displacement Agreement with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were $2.2 million in the third quarter of 2017 compared to $1.6 million in the previous quarter and $1.7 million in the third quarter of 2016. Corporate costs were $5.4 million for the nine months ended September 30, 2017 compared to $4.5 million for the nine months ended September 30, 2016. The year over year increase in corporate costs was primarily due to variable compensation costs, including equity-based compensation, and professional fees related to the softwood lumber trade dispute.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of each respective credit facility. Interest and finance costs totalled $1.6 million in the third quarter of 2017, $1.7 million in the prior quarter and $2.3 million in the third quarter of 2016. Interest and finance costs, which totaled $6.0 million on a year to date basis for 2017, reflected a reduction of $1.1 million compared to the same period last year due primarily to lower borrowing costs. Borrowing costs directly attributable to the development of the ED Mill are recorded as capital costs until commercial operations begin.

Gain or Loss on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. We recorded a nominal gain from lumber derivative instruments in the third quarter of 2017 compared to gains of $0.4 million in the second quarter of 2017 and $0.2 million in the third quarter of 2016.

The term loan provided under our power project financing consists of a floating rate tranche and a fixed rate tranche. Our wholly-owned subsidiary Conifex Power Limited Partnership (“Conifex Power”) 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. Losses of $0.3 million on the interest rate swap instruments were recorded as interest expense in each of the comparative quarters.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period results from the revaluation of U.S. dollar-denominated working capital balances and the U.S. dollar-denominated debt 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 period end rate. 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.

The exchange rate for one Canadian dollar was US$0.801 at September 30, 2017, US$0.771 at June 30, 2017, and US$0.762 at September 30, 2016.[3] We recorded foreign exchange translation losses of $1.0 million in the third quarter of 2017 and $0.8 million in the second quarter of 2017 and a gain of $0.1 million in the third quarter of 2016. We recorded foreign exchange translation losses of $2.0 million for the nine months ended September 30, 2017 and $1.2 million for the same period last year.

Income tax

At December 31, 2016, the Company had unused non-capital tax losses carried forward totalling $21.1 million and unrecognized deferred tax assets totalling $2.3 million. Although the Company expects to realize the full benefit of the loss carry forwards and unrecognized deferred tax assets in the future, 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 future 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 2017**	**Q4 2016**	**Q3 2016**
Cash	18.3	12.7	14.3
Cash - restricted	8.8	10.3	8.0
Operating working capital	63.7	62.8	62.5
Operating loans	(1.6)	(28.2)	(9.4)
Current portion of convertible notes	-	-	(12.0)
Current portion of mortgage	-	(10.5)	(11.3)
Current portion of long-term debt	(5.6)	(4.4)	(4.4)
Net current assets	83.6	42.7	47.7
Long-term assets related to power project	115.5	118.7	121.0
Long-term assets - lumber segment and corporate	178.7	124.8	118.2
	377.8	286.2	286.9
Non-interest bearing long-term liabilities	19.7	20.0	22.7
Long-term debt - power project construction loan	65.1	68.4	72.0
Revolving credit facility	87.1	-	-
Long-term debt - other	4.5	20.3	20.0
Shareholders' equity	201.4	177.5	172.2
	377.8	286.2	286.9
Ratio of current assets to current liabilities	2.6	1.5	1.7
Net debt to capitalization	42%	38%	38%
Net debt to capitalization (1)	27%	16%	14%

(1) Excluding borrowings by Conifex Power, which are non-recourse to our other operations.

In January 2017, we completed a $130 million secured revolving credit facility (the "Credit Facility") with a syndicate of institutional lenders. The Credit Facility is available for a term of 5 years. A portion of the Credit Facility was used to repay in full drawn amounts under our then existing lumber segment credit

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

facilities and our secured notes, which generally carried higher interest rates. We are primarily utilizing the Credit Facility to finance working capital in our lumber segment and a portion of the capital expenditures related to the ED Mill.

In March 2017, we completed a bought deal offering (the "Offering") of 3.45 million common shares at a price of $3.05 per share for aggregate gross proceeds of approximately $10.5 million. We subsequently completed a non-brokered private placement of 1.6 million common shares at the same price for aggregate gross proceeds of approximately $4.9 million. The net aggregate proceeds of $14.2 million from the Offering and the private placement were initially used to partially repay outstanding indebtedness under the Credit Facility.

The ratio of current assets to current liabilities at September 30, 2017 improved to 2.6:1 compared to 1.5:1 at December 31, 2016 and 1.7:1 at September 30, 2016. During the first nine months of 2017, the ratio was most significantly impacted by the relatively longer tenor of the Credit Facility, from which advances were drawn to repay and extinguish lumber segment operating loans and the mortgage related to the ED Mill, which had been classified as current liabilities.

We manage 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. 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, bank advances, the present value of convertible notes, and any mortgages, less cash on hand. Total capital is calculated as “equity” as shown in the consolidated balance sheet plus net debt.

Net debt at September 30, 2017 was $145.6 million compared to $108.8 million at December 31, 2016. The increase of $36.8 million during the first nine months of 2017 was due primarily to capital expenditures related to the ED Mill, somewhat offset by net proceeds from the Offering and private placement. The net debt to capitalization ratio was 42% at September 30, 2017 compared to 38% at December 31, 2016.

Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 27% at September 30, 2017 compared to 16% at December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars, unaudited)	Q3 2017	Q2 2017	YTD 2017	Q3 2016	YTD 2016
Cash generated from (used in)					
Operating activities	7.4	25.9	28.8	(2.5)	16.2
Financing activities	6.5	(1.6)	38.4	(1.0)	(24.5)
Investing activities	(22.0)	(13.5)	(63.1)	(5.3)	12.2
Increase (decrease) in cash	(8.1)	10.8	4.1	(8.8)	3.9

<u>Operating Activities</u>
We operate in a cyclical industry.

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

We generated cash from operations before working capital changes of $29.3 million in the first nine months of 2017 compared to $26.4 million in the first nine months of 2016. Changes in non-cash working capital used cash of $0.5 million in the first nine months of 2017 and $10.2 million in the same period last year with the variance primarily attributable to fluctuations in inventory levels.

Financing Activities
Financing activities provided net cash of $38.4 million in the first nine months of 2017 and included net proceeds from operating loans of $60.5 million, the Offering and private placement of $14.2 million, and capital leases of $5.1 million. Cash outflows included repayment in full of our senior secured notes of $20.3 million and the El Dorado mortgage of $10.4 million, partial repayment of our term loan of $3.4 million, and the payment of finance expenses of $7.3 million.

Financing activities consumed net cash of $24.5 million in the first nine months of 2016 and were comprised of repayment of operating loans of $8.9 million, debt repayments of $8.8 million and payment of financing costs of $6.8 million.

Investing Activities
Investing activities consumed cash of $63.1 million in the first nine months of 2017, consisting of $6.3 million on capital improvements in the lumber segment and $56.8 million on the ED Mill. Lumber segment capital expenditures for our Canadian mills included the completion of an upgrade to a log line at the Mackenzie Site II sawmill, a project which was initiated in December 2016, upgrade of various infrastructure related to our water transport operations and logging camps, and additions of mobile equipment. The ED Mill is discussed further under “Recent Developments” above.

Investing activities provided cash of $12.2 million in the first nine months of 2016 and were comprised of proceeds from the sale of assets of $20.1 million, offset by $4.7 million lumber segment capital expenditures, $0.9 million bioenergy segment capital expenditures and $2.3 million in pre-development and carrying costs related to the ED Mill.

Liquidity

Our principal sources of funds are cash on hand, cash flow from operations, and our revolving credit facilities. Our principal uses of funds consist of operating expenditures, interest payments, repayment of debt, and capital expenditures.

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facilities. At September 30, 2017, we had total liquidity of $55.7 million, compared to $22.3 million at December 31, 2016 and $43.6 million at September 30, 2016. Liquidity at September 30, 2017 was comprised of unrestricted cash of $18.3 million and unused availability under our revolving credit facilities of $37.4 million. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, plus the appraised values of certain forest licences, net of specific reserves. The Credit Facility provides for calculation of availability on an expanded borrowing base, relative to our previous lumber segment revolving credit facilities. The expanded borrowing base, cash flow generated from operations, and net proceeds from the Offering and private placement contributed to our enhanced liquidity during the first nine months of 2017.

We were required to begin depositing cash on account of softwood lumber export duties imposed by the U.S. in April 2017. We expect future cash flow will be adversely impacted by the CVD and ADD deposits, to the extent the additional costs on U.S. destined shipments are not mitigated by higher lumber prices. The timing of deposits required for retroactive ADD is currently not settled, and therefore creates some uncertainty for our cash flows (see “Subsequent Event” below).

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our current expectations for future periods in light of the current economic environment, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facilities, will be adequate to meet our obligations in 2017. We expect liquidity for the balance of the year to remain generally consistent with 2016 levels, after taking into account budgeted capital expenditures for our Canadian mills and the ED Mill which is expected to commence commercial operations in December of this year.

In the future, we may make acquisitions of businesses or assets or commitments to additional capital projects. To achieve our long-term goals of expanding our assets and earnings, including through acquisitions, additional capital resources will be required. We expect 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.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at September 30, 2017 were comprised of standby letters of credit totalling $18.75 million posted by Conifex Power, and operating leases for vehicles, equipment and machinery.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber price	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
Sales - lumber segment	114.2	111.7	93.5	94.4	99.2	98.7	91.8	92.7
Sales - electricity	6.1	4.7	6.8	7.6	4.9	5.0	7.70	7.8
Operating income	8.8	6.4	1.5	6.7	3.3	5.1	3.0	1.6
Net income (loss)	6.2	4.2	(1.4)	5.1	1.4	35.2	28.5	(0.3)
Net income (loss) per share - basic	0.23	0.16	(0.06)	0.24	0.07	1.67	1.35	(0.01)
Net income (loss) per share - diluted (1)	0.23	0.16	(0.06)	0.24	0.07	1.54	1.24	(0.01)
Adjusted EBITDA (2)	12.1	10.2	6.1	9.3	8.5	9.0	6.8	7.3
Shares outstanding - weighted average (millions)	26.4	26.3	22.5	21.2	21.2	21.1	21.1	21.1
Statistics (in millions, other than exchange rate and lumber prices)								
Lumber production (MMfbm)	133.4	131.6	123.7	118.7	136.2	134.7	135.8	131.1
Lumber shipments - Conifex produced (MMfbm)	135.3	128.5	110.7	124.4	132.3	138.4	127.0	139.4
Lumber shipments - wholesale (MMfbm)	37.6	38.4	41.0	40.5	39.6	41.0	40.7	38.6
Electricity production - GWh	55.2	51.0	46.3	53.0	37.6	55.1	54.90	54.5
Average exchange rate - US$/Cdn$ (3)	0.798	0.744	0.756	0.750	0.766	0.776	0.727	0.749
Average WSPF 2x4 #2&Btr lumber price (US$) (4)	$406	$388	$348	$316	$321	$311	$272	$264
Average WSPF 2x4 #2&Btr lumber price (Cdn$)(5)	$509	$522	$460	$421	$418	$401	$373	$353
Reconciliation of Adjusted EBITDA to Net Income (Loss)								
Net income (loss)	6.2	4.2	(1.4)	5.1	1.4	35.2	28.5	(0.3)
Add: Finance costs	1.6	1.7	2.6	2.1	2.3	2.3	2.5	2.6
Amortization	4.3	4.3	4.9	4.6	4.8	3.9	4.8	5.0
EBITDA (6)	12.1	10.2	6.1	11.8	8.5	41.4	35.8	7.3
Less: Gain on sale of assets	-	-	-	-	-	(19.0)	(29.0)	-
Less: Gain on revaluation of joint venture	-	-	-	-	-	(19.2)	-	-
Less: Net proceeds from insurance settlement	-	-	-	(2.5)	-	-	-	-
Add: Impairment of property, plant and equipment	-	-	-	-	-	5.8	-	-
Adjusted EBITDA	12.1	10.2	6.1	9.3	8.5	9.0	6.8	7.3

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants is anti-dilutive, it is excluded from the calculation of diluted net income per share.
(2) Conifex's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation, and proceeds from business interruption insurance claim settlement. Adjusted EBITDA for the second quarter of 2017 previously included $4.6 million representing CVD deposit expense based upon the preliminary determination of these rates by the U.S. Department of Commerce. Due to the recent final determination of the CVD and ADD rates by the U.S. Department of Commerce (see "Subsequent Event" below), we are no longer including an adjustment for softwood lumber duty deposits in adjusted EBITDA.
(3) Source: Bank of Canada, www.bankofcanada.ca.
(4) Source: Random Lengths Publications Inc.
(5) Average WSPF 2x4 #2&Btr lumber price (US$) divided by average exchange rate.
(6) Conifex's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

Our quarterly financial results are impacted by a variety of market related or regulatory factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the lumber export duty deposit rates, stumpage rates, and foreign exchange rates. Other micro-level factors that influence quarterly financial trends include operating rates, shipment volumes, raw materials 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 ensure adequate supply of fibre to our 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 are typically 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 produces a seasonal effect and considerable variability on quarterly revenues from electricity deliveries with the lowest revenues generally generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary 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.

OUTLOOK

Lumber Market and Operations Outlook

Through the closing months of 2017, we expect sustained steady demand in the U.S. and Canadian lumber markets will result in average benchmark Western SPF prices that are somewhat higher than average levels achieved in the first nine months of this year. We expect that continued uncertainty around the softwood lumber dispute will contribute to further volatility in U.S. market conditions and pricing. We expect demand and pricing to continue to remain solid in the Chinese and Japanese markets through the balance of the year.

We expect the further strengthening of WSPF prices early in the fourth quarter of 2017, the continued suspension of CVD, a solid order file, and relatively flat unit log costs will contribute to a sequential improvement in cash flow generation in our lumber segment. We expect the ED Mill to begin production in the fourth quarter of 2017 and lumber shipments to commence in December.

In our bioenergy segment, we expect higher seasonal electricity rates and operating rates at the Mackenzie Plant near targeted levels will lead to a quarter over quarter improvement in operating results.

SUBSEQUENT EVENT

Update on Softwood Lumber Dispute

On November 2, 2017, the USDOC announced final determinations in its CVD and ADD investigations. As a result of its findings, the USDOC lowered the final CVD rate from 19.88% to 14.25% and the final ADD rate from 6.87% to 6.58% for “all other” Canadian lumber producers, including Conifex. The final CVD will not be collected until final injury determination by the USITC, which is expected to occur in December 2017.

On November 2, 2017, the USDOC also made a final determination that critical circumstances did not exist for CVD, but did exist for ADD. We have not accrued any retroactive ADD, which could total approximately US$1.5 million, in the current or previous quarters. Management believes that the critical circumstances finding for ADD by the USDOC will not be upheld by the USITC in its final determination, consistent with the result of past softwood lumber disputes.

CRITICAL ACCOUNTING ESTIMATES

There were no significant changes to the Company's critical accounting estimates during the quarter ended September 30, 2017. Conifex's critical accounting estimates are described in its MD&A for the year ended December 31, 2016, filed under the Company's profile on SEDAR at www.sedar.com.

Lumber Export Duty Deposits

The current softwood lumber dispute is the fifth such dispute since 1982. In the case of previous disputes, the final duties levied were subject to significant reductions in the periods following the initial application. At this time, we have accrued CVD and ADD at the weighted average "all others" rate designated by the USDOC. These rates are subject to change based on administrative reviews and available appeals. Changes to the rates may be material and our results may be adjusted as new information becomes available. This may include adjustments to amounts already recorded, as well as adjustments to the rates (if any) applicable to future periods. Any adjustments resulting from a change in the final CVD and ADD rates will be made prospectively.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's annual information form dated March 28, 2017, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com. There have been no significant changes to the Company's risks and uncertainties, other than the imposition of softwood lumber duties, during the nine month period ended September 30, 2017.

OUTSTANDING SECURITIES

As at November 8, 2017, the Company had 26,437,853 issued and outstanding common shares, 100,000 options granted, and 1,157,601 long-term incentive plan awards.

INTERNAL CONTROLS OVER FINANCIAL REPORTING

During the quarter ended September 30, 2017, 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 is available on SEDAR at www.sedar.com.