



CONIFEX TIMBER INC.

2016 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 14, 2017

This 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 fiscal year ended December 31, 2016 relative to 2015. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2016 and the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this MD&A, reference is made to "EBITDA", "adjusted EBITDA", and "adjusted EBITDA margin". EBITDA represents earnings before finance costs, taxes, 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 interruption 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 MD&A, all references to "\$" are to Canadian dollars and references to "US\$" are to the United States dollar.

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to our expectations, 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 the export tax, countervailing or anti-dumping duty rate, if any, assessed on lumber shipments to the U.S.; 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 market volatility associated with the expiry of the Softwood Lumber Agreement; our expectation of strengthening 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; our expectations about the IFRS amendments; 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 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 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 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 29, 2016 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.

Market and industry data contained in this MD&A is based upon information, surveys or studies conducted by independent third parties and independent industry or general publications and the Company's knowledge of, and experience in, the markets in which it operates. The Company has no reason to believe that such information is false or misleading in any material respect, however market and industry data is subject to variation and cannot be verified with complete certainty due to limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties inherent in any statistical survey. This information has not been independently verified by the Company, any of its respective directors, officers or representatives or any other person involved in the preparation of this MD&A and no representation is given as to the accuracy of any of the data referred to in this MD&A obtained from third party sources.

BUSINESS OVERVIEW

We are an independent British Columbia forestry company with two principal business segments. Our lumber segment operates two sawmills in the interior region of British Columbia and is involved in timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. We have also established a bioenergy segment in 2015, following completion of our 36 megawatt ("MW") biomass power generation plant (the "Mackenzie Plant") to produce renewable energy for commercial sale. We may in the future pursue additional investment opportunities in bioenergy and bio-products that we believe will complement our lumber segment operations.

In our lumber segment, we own three sawmill complexes in British Columbia, one in Fort St. James and two in Mackenzie, which are supported by renewable forestry licences with an aggregate allowable annual cut as at December 31, 2016 of approximately 1.2 million cubic metres. The Mackenzie Site I sawmill is currently idled. The annual lumber capacity of our two operating sawmills on a two-shift basis is approximately 525 million board feet. We market and distribute our lumber products through our wholly-owned subsidiaries, Conifex Fibre Marketing Inc. and Navcor Transportation Services Inc. Both of these subsidiaries also operate to generate additional revenue from third party transactions. In 2014, we expanded our wholesale lumber marketing and distribution capabilities with the acquisition of Lignum Forest Products LLP.

In 2015, we acquired an idled sawmill and related facilities and equipment, including approximately 186 acres of land, located near El Dorado, Arkansas (the "El Dorado Mill"). 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. In early 2017, we intend to commence a capital upgrade project to modernize and restart the El Dorado Mill with operations expected to start in or around the fourth quarter. We believe that our expansion into the U.S. South will help further diversify our operations and establishes an entry point to what is generally regarded by several industry analysts as one of the most competitive softwood supply regions in North America.

Our lumber products are primarily sold in the United States, Chinese, Canadian and Japanese markets.

In our bioenergy segment, our wholly-owned subsidiary, Conifex Power Limited Partnership, owns and operates the Mackenzie Plant in Mackenzie BC. The Mackenzie Plant is situated adjacent to our idled Site I sawmill complex and was constructed within an existing building with supporting infrastructure. Key components of the construction project included upgrading the existing power island infrastructure and installing a new turbine. Feedstock for the Mackenzie Plant is primarily sourced from a portion of the residuals and former waste products produced by our lumber manufacturing and log harvesting operations.

The Mackenzie Plant utilizes proven technology with output capacity in excess of 230 gigawatt hours (“GWh”) of electricity per year. Previously, we had completed an electricity purchase agreement (“EPA”) and a related load displacement agreement (“LDA”) with the British Columbia Hydro and Power Authority (“BC Hydro”). Under the EPA, we agreed to supply a minimum of approximately 200 GWh of electrical energy annually to BC Hydro over a 20-year term for a fixed price. Under the LDA, we agreed to supply the energy requirements of our Mackenzie operations over the same 20-year term. In exchange for our agreement to supply such energy under the LDA, BC Hydro provided incentive funding towards the completion of the project.

SIGNIFICANT DEVELOPMENTS IN 2016

We completed a number of initiatives in 2016 to strengthen our balance sheet, lower borrowing costs and improve liquidity. We reduced net debt by \$49.4 million and improved our net debt to capitalization ratio to 38% as at December 31, 2016 compared to 60% at the end of 2015. We also continued to focus on operational improvements and targeted capital projects in our lumber and bioenergy segments.

Amendment of Senior Secured Revolving Asset Based Credit Facility

In January 2016, we completed the renewal of our revolving asset based credit facility for a further three-year term. The amendment increased our borrowing availability to \$35 million and extended the maturity date of the facility to January 2019.

Exercise of Payment-in-kind Note

In February 2016, the holder of the \$30 million payment-in-kind note (“PIK Note”) exercised its option to convert the PIK Note to acquire a Conifex subsidiary, which holds a forest licence in British Columbia with an annual allowable cut of 200,000 cubic metres. The redemption of the PIK Note resulted in a non-cash net gain on the sale of assets of approximately \$29.0 million in the first quarter of 2016.

Completion of Coordinated Harvesting Cooperation Agreement

In April 2016, we completed a timber harvesting cooperation agreement with a regional lumber manufacturer to conduct coordinated joint timber harvesting operations on certain portions of Conifex’s harvesting areas in the Mackenzie Timber Supply Area. We believe the coordinated harvesting operations will enhance fibre optimization between the two companies, improve supply chain efficiencies, and contribute to more stable harvest levels in the Mackenzie Timber Supply Area. We also believe that this arrangement can provide additional volumes of affordable feedstock to our power generation unit at Mackenzie through increased utilization of lower quality wood and harvest residuals.

Pursuant to the agreement, Conifex was paid \$20.0 million for the sale of one-half of the shares of a Conifex subsidiary which holds a forest licence having a 300,000 cubic metre annual harvest of timber. We recorded a net gain on the sale of shares of \$19.0 million in the second quarter of 2016. Conifex used the net proceeds from the transaction to repay \$5.7 million of the senior secured notes and repay advances on our operating loans.

Our remaining 50% interest in the former subsidiary is now classified as a joint venture and was therefore revalued to its fair value amount of \$20.0 million. We recorded a non-cash gain on the revaluation of \$19.2 million in the second quarter of 2016.

After giving effect to the discharge of the PIK Notes and the completion of the timber harvesting cooperation agreement, the Company held forest licences with access to annual allowable cut totaling 1,222,500 cubic metres.

Repayment of Unsecured Convertible Notes

In December 2016, we repaid in full our outstanding \$12.0 million aggregate principal amount of unsecured subordinated convertible notes issued in 2014.

Receipt of Proceeds from Settlement of Insurance Claim

In December 2016, Conifex Power Limited Partnership received additional property damage and business interruption insurance proceeds of \$5.5 million from its insurance claim related to the outage at the Mackenzie Plant in October 2014. Conifex Power Limited Partnership received interim proceeds of \$11.5 million in 2015, for total proceeds of \$17.0 million under the insurance claim, which has now been fully settled.

Continuation of Operational Improvements

In 2016, we sustained and further built upon the notable gains measured in several key performance indicators in our lumber segment in the second half of 2015. Last year, we reported that compared to overall results from 2014, unit cash conversion costs improved by 7%, production of construction grade and better products increased by 10%, and unit logs costs were contained to an increase of 3%, over the closing six months of 2015. In 2016, productivity improvements led to an increase in operating rates of 9%, production of construction grade and better products increased by 5%, and unit log costs and cash conversion costs were reduced by 3% and 2%, respectively, compared to 2015. The positive trends were primarily due to our heightened focus on cost management, an expanded harvesting program in the Mackenzie Timber Supply Area, better quality logs, and positive returns from capital upgrades completed over the last two years.

We continued to focus on safety initiatives, operational improvements and cost reductions in our bioenergy segment. Revenues benefited from a full twelve months of operations and increased by 55% year-over-year. Unit cash operating costs were reduced by 18%. Although the Mackenzie Plant, among others, was dispatched for a 61-day period during the second quarter of 2016, the segment achieved adjusted EBITDA margin of 48%, compared to 39% in the previous year.

Completion of \$130 Million Secured Revolving Credit Facility

Subsequent to year end, on January 9, 2017, we completed a \$130 million secured revolving credit facility (the "Facility") with a term of 5 years with a syndicate of institutional lenders. A portion of the Facility was used to repay in full Conifex's existing lumber segment credit facilities and senior notes. Total liquidity increased to approximately \$84.5 million at the close of the transaction compared to \$22.3 million at December 31, 2016. The terms of the Facility are further described under Subsequent Events.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information)	2016	2015
Sales by Segment		
Lumber	384.1	337.2
Bioenergy	25.2	16.3
	409.3	353.5
Operating Earnings (Loss) by Segment		
Lumber	15.1	(8.7)
Bioenergy	9.0	2.1
Corporate and other unallocated items	(5.9)	(5.0)
	18.2	(11.6)
Adjusted EBITDA by Segment		
Lumber	28.4	3.4
Bioenergy	12.1	6.3
Corporate and other unallocated items	(6.8)	(2.0)
	33.6	7.7
Net income (loss)	70.2	(17.3)
Net income (loss) per share - basic and diluted (1)	3.32	(0.82)
Shares outstanding - weighted average (millions)	21.2	21.0
Total assets	365.3	332.1
Total long-term debt (2)	88.7	130.2
Average exchange rate - US\$/Cdn\$ (3)	0.755	0.783
Reconciliation of adjusted EBITDA to Net Income (Loss)		
Net income (loss)	70.2	(17.3)
Add: Finance costs	9.1	8.6
Amortization	18.1	16.5
EBITDA (4) (5)	97.4	7.7
Less: Gain on sale of asset	(48.0)	-
Less: Gain on revaluation	(19.2)	-
Less: Net proceeds from business interruption insurance settlement	(2.5)	-
Add: Impairment of property, plant and equipment	5.8	-
Adjusted EBITDA (5) (6)	33.6	7.7

(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) Total long-term debt excludes the current portion.

(3) Source: Bank of Canada, www.bankofcanada.ca.

(4) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(5) May not total exactly due to rounding.

(6) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance settlement.

Revenues were \$409.3 million in 2016 compared to \$353.5 million in 2015. The 14% growth in lumber segment revenues reflected increased shipment volumes of Conifex produced and wholesale lumber, stronger benchmark lumber prices and a weaker Canadian currency. Bioenergy segment revenues, which commenced in May 2015, increased by 55% and accounted for 6% of our total revenues for the year.

We recorded operating income of \$18.2 million in 2016 compared to an operating loss of \$11.6 million in 2015. An improvement in year-over-year lumber segment operating results of \$23.8 million was primarily due to higher sales realizations, operating rates and shipment volumes, and to a lesser extent, reductions in unit log costs and cash conversion costs. Bioenergy segment operating earnings were \$9.0 million in 2016 and included income from settlement of our business interruption insurance claim of \$2.5 million. The bioenergy segment contributed operating earnings of \$2.1 million last year.

Net income for the year ended December 31, 2016 was \$70.2 million or \$3.32 per diluted share compared to a net loss of \$17.3 million or \$0.82 per share for the prior year. Unusual or non-recurring items recorded in the current year totaled \$63.8 million and were comprised of a gain on sale of assets of \$48.0 million, a net gain on revaluation of certain assets of \$13.3 million, and income from settlement of our business interruption insurance claim of \$2.5 million. Net income was adversely impacted by a negative variance in foreign exchange translation loss of \$3.8 million.

There was no income tax expense recorded in 2016 due to the utilization of operating loss carry forwards from prior years.

Adjusted EBITDA, which excludes the unusual or non-recurring items, was \$33.6 million for 2016 and \$7.7 million in 2015.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	2016	2015
Sales -Lumber - Conifex produced	246.2	207.4
- Lumber - wholesale	102.0	95.5
- By-products	25.5	24.0
- Logistics services	10.4	10.3
Total Sales	384.1	337.2
Adjusted EBITDA	28.4	3.4
Amortization and other	13.3	12.1
Operating income (loss)	15.1	(8.7)
Statistics (in millions, other than exchange rate and lumber prices)		
Lumber production (MMfbm)	525.3	481.0
Lumber shipments - Conifex product (MMfbm)	522.1	475.8
Lumber shipments - Wholesale (MMfbm)	161.8	155.6
Average exchange rate - US\$/Cdn\$ (1)	0.755	0.783
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$304	\$277
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$403	\$354
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$245-\$330	\$240-\$336

(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 an estimated 1.17 million housing units were started in 2016 compared to 1.11 million starts in 2015. The sequential increase in new U.S. housing starts of 5% reflects a more moderated pace of growth in the residential housing construction market than the 10% increase reported in 2015. Single-family housing starts accounted for approximately 67% of total 2016 U.S. housing starts and represented a year-over-year increase of 9% compared to growth of 10% in 2015. Lumber

consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

The positive trend in the recovery of U.S. residential construction markets is expected to continue. Forecasts for 2017 housing starts by several industry analysts reviewed by the Company averaged 1.28 million units, and indicated growth of approximately 9% over 2016. Single-family housing starts are expected to increase by 10% over 2016. Expenditures in the residential improvement sector in 2017 are projected to increase by 6% and contribute to growth in U.S. lumber consumption of 7% over 2016.

Industry analysts reviewed by the Company estimated U.S. lumber consumption increased by approximately 10% in 2016 and contributed to a year-over-year improvement in average benchmark lumber prices of 10%. Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$304 during 2016 compared to US\$277 in 2015¹.

Currency was favorable in 2016 as the Canadian dollar averaged US\$0.755, a 4% decline from US\$0.783 in the previous year². Canadian dollar-denominated benchmark lumber prices increased by \$49 per thousand board feet or 14% and averaged \$403 in 2016.

The U.S. and China remained our principal markets and accounted for 80% and 74% of total shipments, in 2016 and 2015, respectively. Shipments to Japan and other export markets remained consistent at 8% and 5%, respectively, while shipments within Canada declined by 7%.

Revenue from Conifex produced lumber was \$246.2 million in 2016 and \$207.4 million in 2015. The growth of 19% is primarily attributable to higher shipment volumes of 10% and improved sales realizations of 8%. The higher shipments generally reflect increased production volumes. The higher sales realizations reflect higher benchmark lumber prices and the benefit of a weaker Canadian dollar.

Wholesale lumber revenues increased by 7% to \$102.0 million in 2016 compared to 2015. The growth was due in large part to shipments of a higher value product mix and an increase in shipments of 4%.

Revenues from wood chips and other by-products of \$25.5 million in 2016, and revenues from the provision of third party logistics services of \$10.4 million, were generally consistent with the previous year.

Lumber production totalled 525 million board feet in 2016 and represented an annualized operating rate of 100% compared to 92% in 2015. The higher operating rate was largely due to an improvement in hourly productivity of 8% and, to a lesser extent, improvement in lumber recoveries from processing of generally better quality logs.

The two main elements of lumber manufacturing costs are log costs and conversion costs. Log costs typically account for the majority of the costs. Cash conversion costs exclude depreciation and amortization expense. Compared to 2015, an improvement in unit manufacturing costs of 5% consisted of a reduction in log costs of 3% and unit cash conversion costs of 2%.

Despite inflationary pressures from increased stumpage rates, harvesting and hauling rates, and purchased log costs, we achieved a 3% reduction in unit delivered log costs in 2016 compared to 2015. The cost containment was primarily due to the continuation of a program whereby we harvest considerable volume from the northern end of Williston Lake in the Mackenzie Timber Supply Area. The expanded logging program in the more remote region requires delivery of logs to our Mackenzie sawmill site by waterborne transportation. Benefits of this program included access to better quality logs, reduced unit delivery costs due to the economies of scale gained from the larger volumes transported, and

¹ As quoted in Random Lengths Publications Inc.

² Bank of Canada website www.bankofcanada.ca.

reduced participation in the purchased wood market where log prices tend to be bid higher due to regional competition.

The provision of better quality logs to our mills this year resulted in improved lumber recoveries and grade yields. We produced approximately 5% more construction grade and better products than last year. Our product mix is important because premium grades of lumber achieve considerably higher prices and profit margins than lesser grades.

High operating rates and production efficiencies have permitted us to lower our average cost by spreading fixed costs over more units. Unit cash conversion costs improved by 2% in 2016 and 6% in 2015. The cost reductions were mostly due to continued heightened focus on cost management and, in 2016, higher operating rates.

An increase in per unit freight and distribution costs related to shipments of Conifex produced lumber of approximately 2% over the previous year generally reflects the weaker Canadian currency as freight costs for movements outside Canada are predominantly denominated in U.S. dollars.

The Softwood Lumber Agreement with the United States expired on October 12, 2015 and the related one-year standstill agreement has expired. Canadian lumber is currently being shipped to the U.S. without a duty, tax or quota. We recorded an export tax expense of \$2.1 million in 2015, which reflected an average export tax rate of approximately 4%.

On November 25, 2016, the U.S. Lumber Coalition filed a petition with the U.S. Department of Commerce (“DOC”) and the U.S. International Trade Commission to impose duties on imports of Canadian softwood lumber to the U.S. On December 15, 2016, the U.S. DOC agreed to conduct Countervailing Duty (“CVD”) and Anti-Dumping Duty (“AD”) investigations of Canadian softwood lumber exports to the U.S. The preliminary CVD determination is expected to occur in April 2017 and the preliminary AD determination is expected in May 2017.

The lumber segment recorded operating income of \$15.1 million for the year ended December 31, 2016 compared to an operating loss of \$8.7 million for the year ended December 31, 2015. Lumber segment operating results benefited from higher benchmark prices, growth in shipment and production volumes and, to a lesser extent, a weaker Canadian currency and modest reductions in unit log costs and cash conversion costs.

Bioenergy Segment

The Mackenzie Plant commenced commercial operations in May 2015. Although the balance of 2015 and early 2016 were characterized by the expected ramp up and optimization of the plant, we achieved average hourly electricity production of 105% of our operating target over the first twelve months of commercial operations.

In April 2016, we notified BC Hydro that we would be exercising our option provided under the EPA to increase our electricity deliveries by 10% for the duration of the contract term, with increased volume commitments commencing in May 2016.

The EPA, similar to other Electricity Purchase Agreements, provides BC Hydro with the option to “turn down” electricity purchased from independent power producers during periods of low demand by issuing a “dispatch order” outlining the requested dispatch period. The Mackenzie Plant, among others, was dispatched for 61 days in the second quarter of 2016, during which period we produced electricity only to fulfill volume commitments under the LDA. We continued to earn revenues based upon a reduced base rate and on volumes generally reflective of recent average hourly megawatt production.

The Mackenzie Plant sold 201 GWh of electricity under the EPA and operated at approximately 99% of targeted operating rates in 2016, compared to 125 GWh and 98%, respectively, in 2015.

Revenues from electricity sales were \$25.2 million in 2016. Operating costs, including depreciation expense of \$5.6 million, were \$18.7 million and resulted in normalized bioenergy segment operating income of \$6.5 million (excluding income of \$2.5 million related to the settlement of the business interruption insurance claim). Interest on the power project term loan was \$5.1 million. Bioenergy segment adjusted EBITDA was \$12.1 million and the adjusted EBITDA margin was 48%.

During eight months of operations in 2015, revenues from electricity sales were \$16.3 million. Operating costs, including depreciation expense of \$4.3 million, were \$14.2 million and resulted in bioenergy segment operating income of \$2.1 million. Interest on the power project term loan was \$3.5 million. Bioenergy segment EBITDA was \$6.3 million and the EBITDA margin was 39%.

Unit cash operating costs improved by 18% over the previous year, when higher costs resulted primarily from costs related to performance testing and boiler tuning, implementation of a preventive maintenance program, and higher consumption of natural gas and usage of outside service contractors due to unplanned outages. We expect the benefits of higher electricity delivery volumes and further unit cost reductions will result in the continuation of improving cash flow generation in this segment in 2017.

In the fourth quarter of 2016, we received net proceeds of \$5.5 million from the settlement of our insurance claim related to the unexpected Mackenzie Plant outage in October 2014. Net proceeds attributable to the business interruption claim of \$2.5 million were included in operating income but are excluded from the calculation of adjusted EBITDA. Net proceeds attributable to the property damage claim of \$14.5 million, including \$11.5 million received as interim proceeds in 2015, were recorded as an offset to additional costs incurred as a result of the delayed start up.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$5.9 million in 2016 and \$4.9 million in 2015. The increase was primarily attributable to compensation costs and professional fees and other costs related to certain non-operational transactions.

Finance Costs

Finance costs are comprised of interest expense and amortization of costs related to debt issuance and accretion of convertible notes and senior secured notes. Finance costs totalled \$9.1 million in 2016 and \$8.6 million in 2015. The modest overall increase is primarily attributable to lower average borrowing levels during 2016 which was more than offset by a year-over-year increase of \$1.6 million in interest expense on the power project term loan. Interest on the power project term loan was capitalized prior to commencement of operations in May 2015.

Gain on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposures 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 gains from lumber derivative instruments of \$0.7 million in 2016 and \$0.1 million in 2015.

The term loan provided under the power project financing consists of a floating rate tranche and a fixed rate tranche. Conifex Power Limited 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 \$1.1 million on the interest rate swap instruments was recorded as interest expense in the bioenergy segment in 2016. A loss of \$0.8 million was recorded as interest expense and \$0.4 million as capital costs in 2015.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each year results from the revaluation of U.S. dollar-denominated working capital balances and a U.S. dollar-denominated mortgage, 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. The exchange rate for one Canadian dollar was US\$0.745 at December 31, 2016, US\$0.722 at the end of 2015 and US\$0.862 at the end of 2014.³ The foreign exchange translation loss was \$1.0 million in 2016 compared to a gain of \$2.8 million in 2015.

Income Tax

At December 31, 2016, the Company had unused non-capital tax losses carried forward totalling \$20.0 million (December 31, 2015: \$32.1 million) and unrecognized deferred tax assets totalling \$2.3 million (December 31, 2015: \$13.6 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 summarizes the Company's financial position as at December 31, 2016 and 2015:

(millions of dollars, excluding ratio and percentages)	2016	2015
Cash	12.7	9.9
Cash - restricted	10.3	8.5
Operating working capital	62.8	51.9
Operating loans	(28.2)	(18.3)
Current portion of convertible notes	-	(11.8)
Current portion of mortgage	(10.5)	(12.0)
Current portion of long-term debt	(4.4)	(4.3)
Net current assets	42.7	23.9
Long-term assets related to power project	118.7	124.2
Long-term assets - lumber segment and corporate	124.8	109.2
	286.2	257.3
Non-interest bearing long-term liabilities	20.0	20.7
Long-term debt - power project term loan	68.4	75.8
Payment-in-kind notes (1)	-	30.0
Long-term debt - other	20.3	24.4
Shareholders' equity	177.5	106.4
	286.2	257.3
Total assets	365.3	332.1
Total liabilities	187.8	225.7
Ratio of current assets to current liabilities	1.5	1.3
Net debt to capitalization	38%	60%
Net debt to capitalization (2)	16%	26%

(1) The PIK Note was redeemed in February 2016.

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

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

The ratio of current assets to current liabilities at December 31, 2016 improved to 1.5:1 from 1.3:1 at December 31, 2015. The ratio was positively impacted by an increase in cash and working capital balances of \$16.0 million and a reduction in borrowings classified as current of \$3.3 million.

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, the mortgage, and PIK Note, less cash. Total capital is calculated as “equity” as shown in the consolidated balance sheet plus net debt.

Net debt at December 31, 2016 was \$108.8 million. The decrease of \$49.4 million from December 31, 2015 was mainly due to improved cash flow generated from operations and proceeds received from asset disposals and the settlement of our insurance claim. The net debt to capitalization ratio improved to 38% as at December 31, 2016 compared to 60% at the end of 2015.

Excluding the effects of borrowings by Conifex Power Limited Partnership, the net debt to capitalization ratio was 16% at December 31, 2016 compared to 26% at December 31, 2015

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars)	2016	2015
Cash generated from (used in)		
Operating activities	23.7	(0.8)
Financing activities	(24.6)	37.0
Investing activities	5.4	(29.6)
Increase in cash	4.5	6.6

Operating Activities

We operate in a cyclical industry and our operating cash flows vary accordingly.

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 the 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 \$39.3 million and consumed cash of \$15.6 million in incremental working capital in 2016. The change in non-cash working capital includes an increase in log inventories of \$10.3 million that largely reflects an accelerated pace of log inventory build relative to 2015. We generated cash from operations before working capital changes of \$9.2 million and used cash of \$10.0 million in incremental working capital in 2015.

Financing Activities

Financing activities used net cash of \$24.6 million in 2016 and included net proceeds from operating loans of \$9.9 million, repayment of convertible notes of \$12.0 million, repayment of other debt of \$14.2 million and the payment of finance expenses of \$8.9 million.

Financing activities provided net cash of \$37.0 million in 2015 and were comprised of net proceeds from operating loans of \$6.5 million, from the construction loan of \$9.6 million, from incentive funding of \$6.6

million and from the issuance of the PIK Note of \$30.0 million, partially offset by debt repayments totalling \$8.3 million and the payment of finance expenses of \$7.4 million.

Investing Activities

Investing activities provided cash of \$5.4 million in 2016 and consisted primarily of net proceeds of \$20.1 million from asset disposals and \$2.9 million from the settlement of the insurance claim partially offset by \$16.6 million spent on lumber segment capital improvements and \$1.0 million on bioenergy segment capital upgrades. Lumber segment capital expenditures included improvement in finishing processes at the Fort St. James planer mill, a portion of the costs related to the upgrade of a log line at the Mackenzie Site II sawmill in December 2016, and \$8.3 million of holding and development costs related to the El Dorado Mill.

Primarily in the fourth quarter of 2016, we completed a number of significant project development and pre-construction activities at the El Dorado Mill. Activities included completion of detailed engineering to facilitate development of management's projected budget for the El Dorado Project; scheduling, testing and refurbishing of certain existing equipment; removal of obsolete dry kilns; commencement of site preparation work and establishment of underground utilities for new continuous dry kilns; civil site work in preparation for the extension of a rail line; and obtaining necessary environmental and development permits.

Investing activities consumed cash of \$29.6 million in 2015 and consisted primarily of \$2.0 million related to the power project (net of insurance proceeds), \$11.0 million on capital improvements in the lumber segment and \$16.6 million on the acquisition of the El Dorado Mill. Lumber segment capital expenditures 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.

Liquidity

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

Total liquidity comprised unrestricted cash and available credit under our revolving credit facilities. At December 31, 2016, we had total liquidity of \$22.3 million, compared to \$22.6 million at the end of 2015. Liquidity is comprised of unrestricted cash of \$12.7 million and unused availability under our revolving working capital loan facilities of \$9.6 million. Subsequent to the year end, in January 2017, we entered into a \$130 million secured revolving credit facility with a term of 5 years (see "*Subsequent Events*"). After giving effect to the financing, our total liquidity was approximately \$84.5 million.

We monitor 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. 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 through 2017.

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

Contractual Obligations

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

(millions of dollars)	Payments due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
Long term debt	107.2	37.1	70.1	-	-
Finance and operating leases	6.2	1.4	1.9	1.4	1.5
Reforestation obligations	13.0	5.3	3.4	1.3	3.0
Trade payables and accrued liabilities	28.7	28.7	-	-	-
Provisions and other liabilities	43.9	10.4	31.8	0.2	1.5
	199.0	82.9	107.2	2.9	6.0

Other contractual obligations not included in the table are:

- Interest payments associated with floating rate debt that depend on the lenders' Canadian prime rate or bankers' acceptance rate during the year of payment.
- Purchase obligations related to ongoing normal commercial commitments to purchase timber, fibre, energy and other operating inputs. Many of the obligations are subject to "force majeure" clauses and may vary significantly from contracted amounts depending on our requirements.
- Conifex Power Limited Partnership has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Mackenzie Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met. As at December 31, 2016, Conifex Power Limited Partnership had posted \$13.2 million of standby letters of credit as part of these commitments but had no repayment obligations under the terms of these agreements.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at December 31, 2016 were comprised of standby letters of credit totalling \$18.75 million posted by Conifex Power Limited Partnership 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 prices)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales - lumber segment	94.4	99.2	98.7	91.8	92.7	80.0	79.2	85.3
Sales - electricity	7.6	4.9	5.0	7.70	7.8	5.9	2.6	-
Operating income (loss)	6.7	3.3	5.1	3.0	1.6	(4.5)	(9.8)	1.1
Net income (loss)	5.1	1.4	35.2	28.5	(0.3)	(5.6)	(13.0)	1.6
Net income (loss) per share - basic	0.24	0.07	1.67	1.35	(0.01)	(0.26)	(0.62)	0.08
Net income (loss) per share - diluted (1)	0.24	0.07	1.54	1.24	(0.01)	(0.26)	(0.62)	0.08
Adjusted EBITDA (2)	9.3	8.5	9.0	6.8	7.3	1.5	(6.8)	5.7
Shares outstanding - weighted average (millions)	21.2	21.2	21.1	21.1	21.1	21.1	21.0	21.0
Statistics (in millions, other than exchange rate and lumber prices)								
Lumber production (MMfbm)	118.7	136.2	134.7	135.8	131.1	112.3	118.1	119.4
Lumber shipments - Conifex produced (MMfbm)	124.4	132.3	138.4	127.0	139.4	107.6	116.0	112.8
Lumber shipments - wholesale (MMfbm)	40.5	39.6	41.0	40.7	38.6	42.6	39.7	34.8
Electricity production - GWh	53.0	37.6	55.1	54.90	54.5	46.2	24.3	-
Average exchange rate - US\$/Cdn\$ (3)	0.750	0.766	0.776	0.727	0.749	0.764	0.813	0.806
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$316	\$321	\$310	\$272	\$264	\$267	\$271	\$304
Average WSPF 2x4 #2&Btr lumber price (Cdn\$)(5)	\$421	\$418	\$399	\$373	\$353	\$349	\$333	\$378

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss)	5.1	1.4	35.2	28.5	(0.3)	(5.6)	(13.0)	1.6
Add: Finance costs	2.1	2.3	2.3	2.5	2.6	2.6	2.1	1.3
Amortization	4.6	4.8	3.9	4.8	5.0	4.5	4.1	2.8
EBITDA (6)	11.8	8.5	41.4	35.8	7.3	1.5	(6.8)	5.7
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	9.3	8.5	9.0	6.8	7.3	1.5	(6.8)	5.7

(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) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation and net proceeds from business interruption insurance settlement.

(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.

(6) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

Our quarterly financial results are impacted by a variety of market related factors, including fluctuations in lumber prices and prices of certain commodities related to by-product revenue and manufacturing inputs, changes in the 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. 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 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 higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The application of a “time of delivery factor” (“TDF”) to the fixed price provided under the EPA produces a seasonal effect on 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.

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars except share and per share amounts,

statistical and exchange rate information and lumber prices)	2016	2015	2014
Sales	409.3	353.5	352.9
Net income (loss)	70.2	(17.3)	4.6
Adjusted EBITDA	33.6	7.7	21.3
Net income (loss) per share, basic and diluted	3.32	(0.82)	0.22
Shares outstanding - weighted average (millions)	21.2	21.0	20.9
Total assets	365.3	332.1	296.6
Total long-term financial liabilities	88.7	130.2	107.3
Statistics (in millions, other than exchange rate and lumber prices)			
Lumber production (MMfbm)	525.3	481.0	505.8
Lumber shipments - Conifex product (Mmfbm)	522.1	475.8	506.7
Lumber shipments - Wholesale (Mmfbm)	161.8	155.6	150.9
Average exchange rate - US\$/Cdn\$ (1)	0.755	0.783	0.905
Average WSPF 2x4 #2 & Btr lumber price (US\$) (2)	\$304	\$277	\$350
Average WSPF 2x4 #2 & Btr lumber price (Cdn\$) (3)	\$403	\$354	\$386
Price range: WSPF 2x4 #2 & Btr lumber price (US\$) (2)	\$245-\$330	\$240-\$336	\$310-\$376

Reconciliation of adjusted EBITDA to Net Income (Loss)

Net income (loss)	70.2	(17.3)	4.6
Add: Finance costs	9.1	8.6	5.9
Amortization	18.1	16.5	10.8
EBITDA (4) (5)	97.4	7.7	21.3
Less: Gain on sale of asset	(48.0)	-	-
Less: Gain on revaluation	(19.2)	-	-
Less: Net proceeds from business interruption insurance	(2.5)	-	-
Add: Impairment of property, plant and equipment	5.8	-	-
Adjusted EBITDA (5) (6)	33.6	7.7	21.3

(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.

(4) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(5) May not total exactly due to rounding.

(6) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance settlement.

Discussion of 2015 Results Compared to 2014

Revenues were \$353.5 million in 2015 and \$352.9 million in 2014. A decline in lumber segment revenues of 4% was more than offset by revenues from electricity sales, which commenced in May 2015 and accounted for 5% of total revenues for the year.

Lumber segment operating loss was \$8.7 million in 2015 compared to operating income of \$14.5 million in 2014. Lumber segment operating results were most adversely impacted by lower sales realizations and higher unit log costs, but benefited from improvements in unit cash conversion costs. The bioenergy segment contributed operating earnings of \$2.1 million in 2015.

Net loss for the year ended December 31, 2015 was \$17.3 million or \$0.82 per share compared to net income of \$4.6 million or \$0.22 per share for the prior year. Net loss was adversely impacted by an increase in finance costs of \$2.7 million, but benefited from a positive variance in foreign exchange translations gains of \$1.7 million.

Depreciation and amortization costs increased by \$5.7 million year-over-year and included \$4.3 million of depreciation expense attributable to the Mackenzie Plant assets.

EBITDA was \$7.7 million for 2015 and \$21.3 million in 2014.

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FOURTH QUARTER RESULTS

Summarized operating results and statistics for each of the comparison periods are provided below.

(millions of dollars except share and per share amounts and exchange rate information)	Q4 2016	Q3 2016	Q4 2015
Sales by Segment			
Lumber	94.4	99.2	92.7
Bioenergy	7.6	4.9	7.8
	102.0	104.1	100.5
Operating Earnings by Segment			
Lumber	3.0	5.6	0.5
Bioenergy	5.2	(0.5)	2.4
Corporate and other unallocated items	(1.5)	(1.8)	(1.3)
	6.7	3.3	1.6
Adjusted EBITDA by Segment			
Lumber	6.1	9.0	4.1
Bioenergy	4.4	1.1	4.1
Corporate and other unallocated items	(1.2)	(1.6)	(0.9)
	9.3	8.5	7.3
Net income (loss)	5.1	1.4	(0.3)
Net income (loss) per share - basic and diluted	0.24	0.07	(0.01)
Shares outstanding - weighted average (millions)	21.2	21.2	21.1
Average exchange rate - US\$/Cdn\$ (1)	0.750	0.766	0.749
Reconciliation of adjusted EBITDA to Net Income (Loss)			
Net income (loss)	5.1	1.4	(0.3)
Add: Finance costs	2.1	2.3	2.6
Amortization	4.6	4.8	5.0
EBITDA (2)	11.8	8.5	7.3
Less: Net proceeds from insurance settlement	(2.5)	-	-
Adjusted EBITDA (3)	9.3	8.5	7.3

(1) Source: Bank of Canada website www.bankofcanada.ca.

(2) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(3) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, gains or losses from asset sales, disposals or revaluation and the net proceeds from our business interruption insurance settlement.

Revenues were \$102.0 million in the fourth quarter of 2016, \$104.1 million in the previous quarter and \$100.5 million in the fourth quarter of 2015. Compared to the previous quarter, a decline in lumber segment revenues of 5% was partially offset by increased revenues from electricity sales, which accounted for 7% of total revenues for the quarter.

We recorded operating earnings of \$6.7 million in the fourth quarter of 2016 compared to \$3.3 million in the previous quarter and \$1.6 million in the same quarter last year. Compared to the previous quarter, lumber segment operating results were adversely impacted by lower shipment and production volumes and higher unit log costs and cash conversion costs. Bioenergy segment operating earnings increased by \$5.7 million and included income from the settlement of our business interruption insurance claim of \$2.5 million.

Net income for the current quarter was \$5.1 million or \$0.24 per diluted share. We recorded net income of \$1.4 million or \$0.07 per diluted share in the previous quarter and a net loss of \$0.3 million or \$0.01 per share in the fourth quarter of 2015.

Adjusted EBITDA was \$9.3 million for the fourth quarter of 2016, \$8.5 million in the previous quarter and \$7.3 million for the fourth quarter of 2015.

Operating Results by Business Segment

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	Q4 2016	Q3 2016	Q4 2015
Sales -Lumber - Conifex produced	61.6	63.7	58.9
- Lumber - wholesale	24.6	26.3	23.9
- By-products	5.7	7.1	6.8
- Logistic services	2.5	2.1	3.1
Total Sales	94.4	99.2	92.7
EBITDA (1)	6.1	9.0	4.1
Amortization and other	3.2	3.4	3.6
Operating income	2.9	5.6	0.5

Statistics (in millions, other than exchange rate and lumber prices)

Lumber production (MMfbm)	118.7	136.2	131.1
Lumber shipments - Conifex product (MMfbm)	124.4	132.3	139.4
Lumber shipments - wholesale (MMfbm)	40.5	39.6	38.6
Average exchange rate - US\$/Cdn\$ (1)	0.750	0.766	0.749
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$316	\$321	\$264
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$421	\$418	\$353
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$302 - \$325	\$310 - \$330	\$250 - \$274

(1) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.

(2) Source: Bank of Canada website www.bankofcanada.ca.

(3) Source: Random Length Publications Inc.

(4) Average WSPF 2x4 #2&Btr lumber price (US\$) divided by average exchange rate.

Compared to the previous quarter, a modest decline in U.S. dollar-denominated WSPF #2 and Btr prices was more than offset by a weaker Canadian currency and resulted in a 1% or \$3 per thousand board feet increase in average Canadian dollar-denominated benchmark lumber prices.

Quarter-over-quarter revenues from Conifex produced lumber were 3% lower and largely reflected a reduction in shipment volumes of 6% offset by a 3% increase in unit sales realizations. Although wholesale lumber shipments increased by 4%, wholesale lumber revenues declined by 6% due to shipments of a lower value product mix.

Production volumes of approximately 119 million board feet during the fourth quarter of 2016 were 13% lower than the previous quarter. The lower operating rates were mainly attributable to a reduction in operating hours during the holiday season and additional planned downtime taken at the Mackenzie sawmill for capital upgrades.

An increase in unit log costs of 7% during the current quarter was primarily attributable to higher market based stumpage and purchased log costs.

An increase in unit cash conversion costs of 12% in the current quarter largely reflected lower operating rates.

Compared to the fourth quarter of 2015, U.S. dollar-denominated WSPF #2 and Btr prices increased by 20%, while the Canadian currency was relatively flat. Average Canadian dollar-denominated benchmark lumber prices increased by 19% or \$68 per thousand board feet.

Quarter-over-quarter revenues from Conifex produced lumber were 5% higher and mostly reflected a 17% increase in unit sales realizations partially offset by an 11% reduction in shipment volumes. An increase in wholesale lumber revenues of 3% was generally attributable to higher shipment volumes.

Due to our fiscal accounting periods, there were five less operating days in the fourth quarter of 2016 than in the fourth quarter of 2015. Operating rates in the current quarter were lower by 9% as production was further hampered by downtime taken at the Mackenzie sawmill for capital upgrades and, to a lesser extent, weather related production inefficiencies.

Unit log costs increased by 11% and cash conversion costs increased by 9% quarter over quarter.

Lumber segment operating income was \$2.9 million in the fourth quarter of 2016 compared to \$5.6 million in the previous quarter and \$0.5 million in the same quarter last year.

Bioenergy Segment

The Mackenzie Plant sold 53.0 GWh of electricity under the EPA in the fourth quarter of 2016, which represented an increase of 41% over the previous quarter and a modest decline from the fourth quarter of 2015. The plant achieved 97% of targeted operating rates in the current quarter compared to 70% and 98%, respectively, in the previous quarter and the fourth quarter of 2015. Production in the third quarter of 2016 was hampered by maintenance downtime taken to effect certain operating improvements. The fourth quarter of 2016 had five fewer operating days than the same quarter last year.

The effective power rate is the highest during the first and fourth quarters of each year. Revenues from electricity sales were \$7.6 million in the fourth quarter of 2016, \$4.9 million in the previous quarter and \$7.8 million in the fourth quarter of 2015. Operating costs in the fourth quarter of 2016 were \$4.9 million, including depreciation expense of \$1.6 million. Unit cash operating costs improved by approximately 8% compared to the same quarter last year.

Normalized bioenergy segment operating income was \$2.7 million in the fourth quarter of 2016 and \$2.4 million in the fourth quarter of 2015. Interest on the power project term loan was \$1.2 million. Adjusted EBITDA was \$4.4 million and the adjusted EBITDA margin was 57%, compared to \$4.1 million and 52%, respectively, in the fourth quarter of 2015.

OUTLOOK AND STRATEGIC CAPITAL EXPENDITURES

Operations and Lumber Market Outlook

Looking ahead in 2017, we expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We agree with forecasts calling for an approximate 7% increase in North American lumber consumption, and expect benchmark prices to increase to reflect strengthening softwood lumber demand and to somewhat correlate with the imposition of any countervailing and / or anti-dumping duties or other trade sanctions. The extent to which the anticipated increase in U.S. housing demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. The uncertainty related to the timing and magnitude of anticipated trade sanctions may increase market volatility.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets.

In the lumber segment, we continue to remain focused on a number of initiatives to enhance operations and cash flow, including cost management and productivity improvements from affordable, high-return capital projects. We expect operating rates to remain somewhat muted in the first quarter of 2017 due to the expected ramp up period associated with the installation of a significant capital upgrade at Mackenzie in December 2016. Accordingly, we also expect shipment volumes to be somewhat hampered by lower production volumes and potential constraints on the external supply chain. Overall in 2017, we expect higher log costs and modest improvements in unit cash conversion costs and grade outturns.

We will continue to work towards optimizing performance of the Mackenzie Plant and expect improved operating results from higher electricity deliveries and further unit cost reductions.

Strategic Capital Expenditures

We expect modest capital expenditure outlays on maintenance of business types of projects for our two Canadian lumber mills and the Mackenzie Plant in 2017.

Modernization and Re-Start of the El Dorado Mill

We intend to utilize a portion of the Facility to modernize and re-start our currently idled El Dorado Mill (the "Project"). The Project involves significant capital upgrades, and is designed to maximize both log recovery and lumber grade yield and quality. Upon completion, the El Dorado Mill is expected to have approximately 180 million board feet of annual lumber capacity on a two-shift basis. We expect to commence the Project early in the first quarter of 2017 and expect completion by or about the end of the third quarter or early in the fourth quarter of this year.

We currently estimate that the Project will require capital expenditures of approximately US\$50 million, consisting of approximately US\$27 million for equipment and materials, US\$16 million in subcontract costs and US\$7 million for indirect costs, including engineering, construction management, freight and project contingency.

SUBSEQUENT EVENTS

Completion of \$130 Million Secured Revolving Credit Facility

On January 9, 2017, we completed our \$130 million secured revolving credit facility (the "Facility") with a syndicate of institutional lenders. The Facility is available for a term of 5 years and is secured by substantially all of Conifex's assets (excluding the bioenergy segment assets). The Facility will bear interest at CDOR or LIBOR plus a margin of between 2.5% and 3.0%, depending upon Conifex's leverage ratio.

The Company utilized borrowings under the Facility to repay in full Conifex's existing lumber segment revolving credit facilities and senior notes. After giving effect to the financing, total liquidity at January 9, 2017 was approximately \$84.5 million, compared to \$22.3 million at December 31, 2016.

CRITICAL ACCOUNTING ESTIMATES

Management has made certain estimates and judgements that affect the reported amounts and other disclosures in our financial statements. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are described below.

Valuation of Inventory

We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and lumber products are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and applicable variable selling expenses. Our estimated selling price is based on

our order file that exists at balance sheet reporting dates and management's estimate for forecasted sales prices based on supply, demand and industry trends. Prices fluctuate over time and it is probable that market values at the time of eventual sale will differ from our estimates.

Write-downs of inventory cost to net realizable value, if any, are included in cost of goods sold when incurred and reported in the lumber segment operating results. There was no write down of inventory at December 31, 2016 compared to a write down of \$0.7 million at December 31, 2015.

Valuation of Long-Lived Assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assessing the valuation of the affected assets requires us to make judgments, assumptions and estimates. An impairment loss is generally recognized when the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the greater of an asset's fair value less costs to sell and value in use.

We review the amortization periods for our manufacturing equipment and machinery to ensure that the periods appropriately reflect anticipated obsolescence and technological change. Current amortization periods for manufacturing equipment range from 3 to 20 years. Timber licences are amortized over 60 years.

Management currently believes that Conifex has adequate support for the carrying value of its long-lived assets based on analysis including anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for Conifex's products deteriorate to levels significantly below current forecasts or should capital not be available to fund operations or expenditures, it is possible that we will be required to record further impairment charges.

Net impairment losses and recoveries are reported as a separate line item on the financial statements as non-operating items. During 2016, the Company revalued its interest in the joint venture pursuant to the timber harvesting cooperation agreement to its fair value of \$20.0 million as discussed above and disclosed in note 7 of our consolidated financial statements. Additionally, the Company recorded an impairment charge of \$5.8 million related to certain currently idled assets in the lumber segment as described above and disclosed in note 20 of our consolidated financial statements. The Company did not record any impairment losses or recoveries during 2015.

Amortization costs related to lumber segment assets are included in costs of goods sold and reported in the lumber segment operating results. The Company recorded amortization expense in the lumber segment of \$12.5 million in 2016 (2015 - \$12.2 million). Amortization costs related to bioenergy assets are included in cost of goods sold and reported in the bioenergy segment. The Company recorded amortization expense of \$5.6 million in 2016 (2015 - \$4.3 million) in the bioenergy segment. Amortization costs related to corporate assets are included in selling, general and administration expenses and reported in the corporate segment. The Company recorded amortization expense of \$0.2 million in the corporate segment in 2016 (2015 - \$0.1 million).

Reforestation Obligation

Timber is harvested under various licenses issued by the Province of British Columbia, which include future requirements for reforestation. The future estimated reforestation obligation is accrued based upon the volume of timber cut each period and charged to costs of goods sold in the lumber segment. The estimates of reforestation obligations are based upon various judgments and assumptions. Both the precision and reliability of such estimates are subject to uncertainties and, as additional information becomes known, these estimates are subject to change. The Company accrued \$6.6 million in 2016 (2015 - \$5.7 million) for future estimated reforestation obligations.

Environmental Remediation Costs

Costs associated with environmental remediation obligations are accrued and expensed when there exists a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Such accruals are adjusted as further information develops or circumstances change. Estimated costs of future expenditures for environmental remediation obligations are discounted to their present value when the amount and timing of expected cash payments are reliably determinable. Accruals for estimated environmental remediation obligations are charged to cost of goods sold in the lumber segment. There were no accruals made in 2016 or 2015.

Deferred Income Taxes

Deferred income tax is provided for using the asset and liability method and recognizes temporary differences between the tax values and the financial statement carrying amounts of balance sheet items as well as certain carry forward items. The Company only recognizes a deferred income tax asset to the extent that the future realization of the tax asset is probable. This is based on estimates and assumptions as to the future financial performance of the various taxable legal entities. At December 31, 2016, the Company had unrecognized deferred tax assets of \$2.3 million compared to \$13.6 million in the prior year.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2016 and not early adopted

IFRS 2, Share-based Payment

In June 2016, the IASB issued an amendment to IFRS 2, Share-based Payment, clarifying the accounting for certain types of share-based payment transactions. The amendments provide requirements on accounting for the effects of vesting and non-vesting conditions of cash-settled share-based payments, withholding tax obligations for share-based payments with a net settlement feature, and when a modification to the terms of a share-based payment changes the classification of the transaction from cash-settled to equity-settled. The amendments are effective for the year beginning on or after January 1, 2018. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of IFRS 9, Financial Instruments, superseding International Accounting Standard ("IAS") 39, Financial Instruments. IFRS 9 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses. IFRS 9 is effective for the year beginning on or after January 1, 2018 with early adoption permitted. The Company does not anticipate the new standard to have a significant impact on its consolidated financial statements.

IFRS 15, Revenues from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenues from Contracts with Customers, which replaces the existing revenue recognition guidance with a new framework to determine the timing of revenue recognition and the measurement of revenue. In September 2015, the IASB formalized a one-year deferral of the effective date to the year beginning on or after January 1, 2018. In April 2016, the IASB issued an amendment clarifying the guidance on identifying performance obligations, licenses of intellectual property and principal versus agent, and to provide additional practical expedients upon transition. The Company has performed a preliminary assessment of the impact of this standard and currently anticipates no significant impact on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year beginning on or after January 1, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company has not yet determined the impact of this standard on its consolidated financial statements.

IAS 7, Statement of Cash Flows

In January 2016, the IASB issued an amendment to IAS 7, Statement of Cash Flows, introducing additional disclosure requirements for liabilities arising from financing activities. The amendments are effective for the year beginning January 1, 2017. The Company does not expect this amendment to have a significant impact on its consolidated financial statements.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company's annual information form dated March 29, 2016, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

Fluctuations in Prices and Demand

Our financial performance principally depends on the demand for and selling price of lumber, which is subject to significant fluctuations. The markets for lumber are highly volatile and are affected by factors such as North American economic conditions, including the strength of the U.S. housing market, the growing importance of the Asian market, changes in industry production capacity, changes in inventory levels and other factors beyond our control. In addition, interest rates have a significant effect on residential construction and renovation activity, which in turn influence the demand for and price of lumber.

Currency Risk

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

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

Fibre Availability and Cost

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

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

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

Competition

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

Capital Projects

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

Expiry of Softwood Lumber Agreement

The Softwood Lumber Agreement implemented by the federal governments of Canada and the United States in 2006, expired on October 12, 2015. The Softwood Lumber Agreement contained a "standstill" period, during which time U.S. industry representatives could not file petitions under U.S. trade laws against Canadian softwood lumber imports to the U.S. The standstill period expired on October 12, 2016.

On November 25, 2016, the U.S. Lumber Coalition filed a petition with the U.S. DOC and the U.S. International Trade Commission to impose duties on imports of Canadian softwood lumber to the U.S. On December 15, 2016, the U.S. DOC agreed to conduct CVD and AD investigations of Canadian softwood lumber exports to the U.S. The preliminary CVD determination is expected to occur in April 2017, and the preliminary AD determination is expected in May 2017.

There is a material risk of U.S. trade action being initiated against Canadian lumber producers which could result in the imposition of duties on lumber shipments to the U.S. The earliest date preliminary duties could take effect is likely May 2017, with potential retroactive charges to February 2017. The amount and impact of duties on Conifex cannot be determined at this time. Canada is expected to defend itself vigorously in any trade action taken by the U.S.

The emergence of significant demand from China and other export markets in recent years has somewhat reduced our dependence on the U.S. market and the impact of potential cross-border trade disputes. Revenues generated from electricity sales, as well as the planned commencement of operations at our El Dorado Mill, expected in or around the fourth quarter of 2017, provides potential further sources of cash flow diversification to mitigate the adverse effects of potential trade sanctions by the U.S.

Combustible Dust

In two separate incidents in January and April 2012, explosions and the resulting fires destroyed two northern interior British Columbia sawmills. In response, the Government of British Columbia, the Office of the Fire Commissioner and WorkSafeBC investigated industry practices for managing combustible dust levels. The Government of British Columbia or WorkSafeBC may propose new regulations in the wake of these incidents, and they have stepped up enforcement of various regulations. Failure to comply with applicable laws and regulations may result in fines, penalties or enforcement actions, including orders suspending or curtailing our operations or requiring corrective measures or remedial actions, and we may incur costs or be required to temporarily suspend operations to address new regulations, if any.

Transportation Limitations

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

Operational Curtailments

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

Regulatory Risks

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

enforcement actions, including orders suspending or curtailing our operations or requiring corrective measures or remedial actions.

Reliance on Directors, Management and Other Key Personnel

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

Liquidity Risk

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

Although we believe our actions will result in sufficient liquidity, there can be no assurance that we will be successful or that market forces or competition will not work to offset our actions. In addition, the availability of funding, or other sources of capital, is dependent on capital markets at the relevant time and may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, or at all, in the future, we may need to explore other strategic alternatives.

Information Systems Security Threats

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

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

Natural Disasters

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

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

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

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

Forest Health

The mountain pine beetle ("MPB") infestation has largely run its course. However, the MPB infestation's impact on our operations remains uncertain. The potential effects include a reduction in future AAC levels to below current and pre-MPB AAC levels, a diminished grade and volume of lumber recoverable from MPB-killed logs, decreased quality of wood chips produced from such logs and increased production costs. The Chief Forester of British Columbia has begun reducing the AAC's of the MPB impacted timber supply areas ("TSA") and we expect this trend to continue in over the next five years. The containment or further spread of the MPB infestation will depend on a number of factors including the harvesting of timber in MPB infested areas and weather conditions.

The Mackenzie and northeastern portion of the Prince George TSA has seen a recent outbreak of spruce beetle and we expect to shift harvesting into timber stands that are under imminent threat or have a high susceptibility to beetle infestation. Together with the Ministry of Forests, Lands and Natural Resource Operations and other forest companies in the region, we are working to develop strategies to limit any damage caused by the spruce beetle.

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

Environment

Our operations are subject to regulation by federal and provincial environmental authorities, including industry specific environmental regulations, permits, guidelines and policies relating to air emissions and pollutants, wastewater discharges, solid waste, landfill operations, clean-up of unlawful discharges, dangerous goods and hazardous materials, forestry practices, land use planning, municipal zoning, employee health and safety, site remediation and the protection of endangered species and critical habitat. In addition, as a result of our operations, we may be subject to remediation, clean-up or other administrative orders or amendments to our operating permits, and we may be involved from time to time in administrative and judicial proceedings or inquiries. Future orders, proceedings or inquiries could have a material adverse effect on our business, financial condition and results of operations. Environmental

laws and land use laws and regulations are constantly changing. New regulations or the increased enforcement of existing laws could have a material adverse effect on our business and financial condition. In addition, compliance with regulatory requirements is expensive, at times requiring the replacement, enhancement or modification of equipment, facilities or operations. There can be no assurance that we will be able to maintain our profitability by offsetting any increased costs of complying with future regulatory requirements.

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

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

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

Stumpage Fees

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

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

Aboriginal Claims

Canadian court decisions have recognized the existence of Aboriginal title and rights, which may include title or rights of use to lands historically used or occupied by Aboriginals. Aboriginal groups have claimed Aboriginal rights and/or title over a significant portion of British Columbia, and few treaties are in place between the Crown and Aboriginal groups in British Columbia. While certain Aboriginal groups in British

Columbia have entered into treaty negotiations with the Crown, such negotiations involve complex issues that may take many years to resolve, if at all, and the results of such negotiations cannot be predicted. Courts have held that the Crown has an obligation to consult with Aboriginal groups when the Crown has knowledge of either existing rights or the potential existence of Aboriginal title or rights and is contemplating actions that may potentially impact such title or rights. Failure of the Government of British Columbia to adequately discharge its obligations to Aboriginal groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights.

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

Labour Relations

We employ a unionized work force in our sawmilling and power generation operations. In 2014, we completed new, five-year collective labour agreements with the USW at our Fort St. James Mill and Mackenzie operations, respectively. The agreements have retroactive effect to July 1, 2013 and expire on June 30, 2018. Any failure to negotiate acceptable agreements with the USW for either the Fort St. James Mill or our Mackenzie operations upon the expiry of the current agreements may result in a strike or work stoppage by the affected employees that could result in lost production and sales, higher costs or supply constraints that could have a material adverse effect on our business. The registration or renewal of the collective agreements or the outcome of wage negotiations could result in higher wages or benefits paid to union members. Accordingly, we could experience a significant disruption to our operations or higher ongoing labour costs, which could have a material adverse effect on our business, financial condition, results of operations or cash flow.

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

Periodic Litigation

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

Tax Exposures

In the normal course of business, we take various tax filing positions without the assurance that tax authorities will accept and not challenge such positions. In addition, we are subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. We maintain reserves for known estimated tax exposures in all jurisdictions. These exposures are settled primarily through the closure of audits with the jurisdictional taxing authorities.

OUTSTANDING SECURITIES

As at February 14, 2017, the Company had 21,269,065 issued and outstanding common shares, 100,000 options granted, 1,056,390 long-term incentive plan awards, and 1,060,000 warrants.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's Chief Executive Officer and Chief Financial Officer, have designed, or have caused to be designed under their supervision, internal control over financial reporting as defined under National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our Chief Executive Officer and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of our internal control over financial reporting and have determined, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and on this evaluation, that such internal controls over financial reporting are effective at the financial year-end.

Changes in Internal Controls

During the period covered by this report, there have been no changes that have materially affected, or are reasonably likely to materially affect Conifex's internal control over financial reporting.

ADDITIONAL INFORMATION

Additional information about the Company is available on SEDAR at www.sedar.com.