



CONIFEX TIMBER INC.

2017 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 15, 2018

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, 2017 relative to 2016. This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2017 and notes thereon, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

In this 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 net proceeds from our business interruption insurance 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 our current views and/or expectations with respect to our beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; our expectation for sales realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our expectation for market volatility associated with the softwood lumber dispute with the U.S.; that we could be negatively impacted by the imposition of duties or other protective measures on our products, such as antidumping duties or countervailing duties on softwood lumber; our expectations for U.S. dollar benchmark prices; benefits that may accrue to the Company as a result of certain capital expenditure programs, such as the lumber segment capital plan and equipment upgrades; our expectations regarding the Mackenzie Power Plant power production; our use of proceeds of financing operations; our expectations about the IFRS amendments; and the anticipated benefits, cost and timing of operations of our El Dorado Mill.

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 our 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 28, 2017 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable laws.

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, lumber and bioenergy. Our lumber segment operates two sawmills in the interior region of British Columbia and one in Arkansas and is involved in timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. We established a bioenergy segment in 2015 following completion of our 36 megawatt biomass power generation plant (the "Mackenzie Power Plant") for the commercial sale of renewable energy. 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 of which is in Fort St. James and two of which are in Mackenzie, which are supported by renewable forestry licences with an aggregate allowable annual cut ("AAC") 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. In 2017, we completed a capital upgrade project to modernize and restart the El Dorado Mill and commenced lumber shipments in December 2017. The El Dorado Mill is designed to have annual production capacity of 180 million board feet on a two-shift basis, representing approximately 25% of total lumber capacity of our mills at this level.

We believe that our expansion into the U.S. South will help further diversify our operations and provide an important new source of revenue diversification not subject to punitive trade actions on Canadian softwood lumber recently initiated by the U.S. Additionally, our expansion into the U.S. South 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 (“Conifex Power”), owns and operates the Mackenzie Power Plant in Mackenzie BC. The Mackenzie Power Plant is situated adjacent to our idled Mackenzie Site I sawmill complex and was constructed within an existing building with supporting infrastructure. Feedstock for the Mackenzie Power Plant is primarily sourced from a portion of the residuals and former waste products produced by our lumber manufacturing and log harvesting operations.

The Mackenzie Power Plant utilizes proven technology with output capacity in excess of 230 gigawatt hours (“GWh”) of electricity per year. We have executed 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 our power project.

SIGNIFICANT DEVELOPMENTS IN 2017

In 2017, we completed our capital project to modernize and restart the El Dorado Mill and commenced lumber shipments towards the end of the year. We completed a refinancing of our lumber segment credit facilities and completed other financing initiatives to strengthen our balance sheet, reduce borrowing costs and improve liquidity. With the capital spend related to the El Dorado project largely completed, we ended the year with liquidity of \$49.2 million, compared to \$22.3 million at the end of 2016. Excluding the effects of borrowings by Conifex Power, which are non-recourse to our other operations, our net debt to capitalization ratio was 29% at December 31, 2017 compared to 21% at December 31, 2016. We also continued to focus on operational improvements and targeted capital projects in our lumber and bioenergy segments.

Commencement of El Dorado Mill Operations

In October 2017, we largely completed construction of our El Dorado Mill. The capital project was designed to optimize lumber recovery and grade outturns, as well as provide operating flexibility to orient production to those dimensions with superior selling price realizations. We spent the remainder of the fourth quarter of 2017 commissioning the El Dorado Mill, training and developing new personnel, and conducting evaluations through a customary “ramp-up” period. We commenced shipment of residual products in November and modest lumber shipments in late December. We offset revenues generated from the El Dorado Mill in the fourth quarter of 2017 to capitalized commissioning and start-up costs and have not included such revenues in operating results. We currently anticipate start-up costs will continue to be capitalized in January 2018 and commercial operations will be recorded in our operating results commencing midway through the first quarter of 2018.

We spent \$70.8 million on the upgrade and modernization of the El Dorado Mill in 2017, which was generally in line with management’s estimates for construction and equipment plus ancillary items such as project management, commissioning and start-up, capitalized interest and other holding costs.

We plan to initially operate the El Dorado Mill on a one-shift basis and expect to ramp-up production to approximately 90% of capacity by December 2018.

Completion of \$130 million secured revolving credit facility

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

A portion of the Credit Facility was used to repay in full drawn amounts under our existing lumber segment credit facilities and our secured notes, which generally carried higher interest rates. We are primarily utilizing the Credit Facility to finance working capital in our lumber segment and a portion of the capital expenditures related to the El Dorado Mill.

The Credit Facility provides for calculation of availability on an expanded borrowing base, relative to our previous lumber segment revolving credit facilities, which enhances liquidity.

Completion of bought deal offering and private placement

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

Softwood Lumber Dispute

On November 25, 2016, a coalition of U.S. lumber producers petitioned the U.S. Department of Commerce ("USDOC") and the U.S. International Trade Commission ("USITC") to investigate alleged subsidies to Canadian producers by the Federal and provincial governments and to therefore levy countervailing and antidumping duties against Canadian imports of softwood lumber.

On April 24, 2017, the USDOC announced its preliminary determination on countervailing duties ("CVD") and imposed a preliminary duty rate of 19.88% on a majority of Canadian lumber producers' lumber shipments into the U.S., including Conifex. The countervailing duty was posted by cash deposits or bonds on the export of softwood lumber to the U.S. effective April 28, 2017 for a period of 120 days, in accordance with U.S. law.

On June 26, 2017, the USDOC announced its preliminary determination on antidumping duties ("ADD") and imposed an "all others" preliminary duty rate of 6.87% to be posted by cash deposits or bonds on lumber shipments into the U.S. effective June 30, 2017.

On November 2, 2017, the USDOC announced final determinations in its CVD and ADD investigations. As a result of its findings, the USDOC lowered the final CVD rate from 19.88% to 14.25% and the final ADD rate from 6.87% to 6.58% for "all other" Canadian lumber producers, including Conifex.

On December 28, 2017, the USITC published its notice of final affirmative determination of material injury, which brought into effect the final amended "all other" CVD rate of 14.19% and ADD rate of 6.04%, for a combined rate of 20.23%.

Based on the final rates published by the USITC, the combined CVD and ADD rates averaged approximately 7.5% in 2017. Our 2017 operating results include CVD and ADD deposits expense of \$9.9 million based on the final rates on softwood lumber shipments to the U.S. The difference between cash deposits paid based on the preliminary rates and the amounts expensed were recorded as long-term receivables.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, we deny the U.S. allegations and disagree with the final determinations made by the USDOC and USITC, and, collectively continue to aggressively defend the Canadian industry in this trade

dispute. The Federal Government has initiated dispute proceedings with the North American Free Trade Agreement panels and the World Trade Organization.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information)	2017	2016
Sales by Segment		
Lumber	443.9	384.1
Bioenergy	25.8	25.2
	469.7	409.3
Operating Earnings by Segment		
Lumber	31.4	15.1
Bioenergy	7.5	9.0
Corporate and other unallocated items	(7.5)	(5.9)
	31.4	18.2
Adjusted EBITDA by Segment		
Lumber	43.3	28.4
Bioenergy	12.5	12.1
Corporate and other unallocated items	(9.8)	(6.8)
	46.0	33.6
Net income	17.0	70.2
Net income per share - basic and diluted (1)	0.67	3.32
Shares outstanding - weighted average (millions)	25.4	21.2
Total assets	444.8	365.3
Total long-term debt (2)	162.3	88.7
Average exchange rate - US\$/Cdn\$ (3)	0.771	0.755
Reconciliation of adjusted EBITDA to Net Income (Loss)		
Net income	17.0	70.2
Add: Finance costs	7.6	9.1
Amortization	18.3	18.1
Deferred income tax expense	3.1	-
EBITDA (4) (5)	46.0	97.4
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)	46.0	33.6

(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 revaluations and the net proceeds from our business interruption insurance settlement.

Our revenues totaled \$469.7 million in 2017 compared to \$409.3 million in 2016. The 16% growth in lumber segment revenues reflected higher sales realizations from stronger lumber prices partially offset by a modest decline in Conifex produced lumber shipments and a 2% appreciation of the Canadian dollar. Bioenergy segment revenues were generally consistent year-over-year.

We recorded operating income of \$31.4 million in 2017 compared to \$18.2 million in 2016. Lumber segment operating earnings, which included CVD and ADD deposits on exports to the U.S. of \$9.9 million, more than doubled year-over-year to \$31.4 million. The improvement was primarily due to stronger sales realizations on higher lumber prices. Bioenergy segment operating earnings improved by \$1.0 million in 2017, excluding income from the settlement of our business interruption insurance claim of \$2.5 million recorded in 2016.

We recognized deferred income tax expense of \$3.1 million through net income in 2017. No income tax expense was recorded in 2016 due to the offset of previously unrecognized deferred income tax assets.

Net income for the year ended December 31, 2017 was \$17.0 million or \$0.67 per diluted share compared to normalized net income of \$6.3 million or \$0.30 per diluted share for the prior year. In 2016, we recorded unusual or non-recurring items which totaled \$63.9 million comprised of a gain on sale of assets of \$48.0 million, a net gain on revaluation of certain assets of \$13.4 million, and income from settlement of our business interruption insurance claim of \$2.5 million. Including these unusual items, net income was \$70.2 million, or \$3.32 per diluted share for 2016. Current year net income was adversely impacted by negative year-over-year variances in foreign exchange translation loss of \$0.9 million and loss from lumber derivative instruments of \$2.1 million.

Adjusted EBITDA was \$46.0 million for 2017, an improvement of 37% from \$33.6 million reported for 2016.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	2017	2016
Sales Lumber - Conifex produced	281.8	246.2
Lumber - wholesale	118.5	102.0
By-products	26.1	25.5
Logistics services	17.5	10.4
Total Sales	443.9	384.1
Adjusted EBITDA	43.3	28.4
Amortization and other	11.9	13.3
Operating income	31.4	15.1

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

Lumber production (MMfbm)	518.5	525.3
Lumber shipments - Conifex product (MMfbm)	512.7	522.1
Lumber shipments - Wholesale (MMfbm)	162.2	161.8
Average exchange rate - US\$/Cdn\$ (1)	0.771	0.755
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$401	\$304
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$520	\$403
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$306-\$494	\$245-\$330

(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 1.20 million privately-owned housing units were started in 2017 compared to 1.17 million starts in 2016. The increase in new U.S. housing starts of 2.4% reflects a more moderated pace of growth in the residential housing construction market than the 5% increase reported in 2016 compared to 2015. Single-family housing starts accounted for approximately 71% of total 2017 U.S. housing starts representing a year-over-year increase of 9%, which was consistent with the growth recorded in 2016. Lumber consumption per unit in single-family housing starts is generally considered to be two to three times greater than in multi-family units.

The positive trend in the recovery of U.S. residential construction markets is expected to continue. Forecasts for 2018 housing starts by several industry analysts reviewed by the Company averaged 1.28 million units, and indicated growth of approximately 6% over 2017. Single-family housing starts are expected to increase by 7% over 2017. Expenditures in the residential improvement sector, which accounts for approximately 38% of North American lumber demand, are projected to increase by 4% in 2018 and contribute to growth in U.S. lumber consumption of 6% over 2017.

Industry analysts reviewed by the Company estimated U.S. lumber consumption increased by approximately 2% in 2017 and, together with the imposition of softwood lumber duties and supply constraints, contributed to a year-over-year improvement in average benchmark lumber prices of 32%. Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$401 during 2017 compared to US\$304 in 2016.¹

The Canadian dollar appreciated by 2% and averaged US\$0.771 in 2017 compared to US\$0.755 in the previous year.² Canadian dollar-denominated benchmark lumber prices increased by \$117 per thousand board feet or 29% and averaged \$520 in 2017.

The U.S. and China remained our principal markets and accounted for approximately 78% of total shipments in 2017 and 2016. Shipments to Japan and other export markets remained consistent at 12% and Canada at approximately 10%.

Revenue from Conifex produced lumber was \$281.8 million in 2017 and \$246.2 million in 2016. The growth of 14% is primarily attributable to improved sales realizations of 16% partially offset by a modest reduction in shipment volumes. The lower shipments generally reflect a corresponding decline in production volumes. The gain in sales realizations reflects higher benchmark lumber prices partially offset by the modest strengthening of the Canadian dollar.

Wholesale lumber revenues increased by 16% to \$118.5 million in 2017 compared to 2016. The growth was mostly due to higher lumber prices and shipments of a more valuable product mix.

Revenues from wood chips and other by-products of \$26.1 million in 2017 were generally consistent with the previous year. An increase in revenues from the provision of third party logistics services of 68%, to \$17.5 million, was generally attributable to revitalized demand in certain industry sectors.

Lumber production of 519 million board feet in 2017 was generally consistent with the previous year and represented an annualized operating rate approaching 100%.

The two main elements of lumber manufacturing costs are generally 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 2016, overall unit manufacturing costs increased by 9%.

A year-over-year increase in unit log costs of 14% was mainly attributable to higher market based stumpage, which was partially a result of stronger lumber prices and purchased log costs. The provision of better quality logs to our mills this year resulted in an improvement in lumber recoveries.

An increase in unit cash conversion costs of 4% in 2017 was mostly due to general inflationary pressures in key inputs such as labor and utilities, and to a lesser extent, slightly lower production volumes.

As previously noted, duties on shipments of softwood lumber to the U.S. were imposed beginning in late April 2017. We expensed CVD and ADD deposits of \$9.9 million in 2017.

Including the CVD and ADD deposits expense, the lumber segment recorded operating income of \$31.4 million for the year ended December 31, 2017 compared to \$15.1 million for the year ended December 31, 2016. The benefits of the significantly stronger benchmark lumber prices were partially offset by the

¹ As quoted in Random Lengths Publications Inc.

² Bank of Canada website www.bankofcanada.ca.

imposition of softwood lumber duties, higher unit log and cash conversion costs, modest declines in shipment and production volumes, and a slightly stronger Canadian currency.

Lumber segment adjusted EBITDA, which includes CVD and ADD deposits expense, was \$43.3 million in 2017, an improvement of 52% over the previous year.

Bioenergy Segment

Operating Results

(millions of dollars, other than statistical information)	2017	2016
Electricity sales under EPA - GWh	207.7	200.6
Electricity revenues	25.8	25.2
Adjusted EBITDA	12.5	12.1
Amortization and other	5.0	3.1
<u>Operating income (1)</u>	<u>7.5</u>	<u>9.0</u>

(1) Operating income for 2016 includes net proceeds from the settlement of a business interruption insurance claim of \$2.5 million.

The Mackenzie Power Plant sold 207.7 GWh hours of electricity in 2017 under our EPA with BC Hydro, which represented an increase of 4% over the previous year and approximately 97% of targeted operating rates.

Electricity revenues of \$25.8 million were generally consistent with the prior year with the modest decline in unit prices attributable to the longer dispatch period in 2017 (discussed below). Cash operating costs were consistent from year to year. Amortization expense was approximately 12% lower in 2017 as idled components were not depreciated during the dispatch periods.

Bioenergy segment operating income for 2016 included income of \$2.5 million from the settlement of our business interruption insurance claim. Excluding this non-recurring item, bioenergy segment operating income improved by \$1.0 million in 2017 due primarily to higher revenues and reduced amortization expense.

Bioenergy segment adjusted EBITDA, which excludes the proceeds from our insurance claim settlement, was \$12.5 million in 2017 compared to \$12.1 million in 2016, and reflected an adjusted EBITDA margin of 48%, which was consistent with last year. Adjusted EBITDA margin is defined as adjusted EBITDA as a percentage of sales.

Electricity sales and plant operating costs in the first quarter of 2017 were impacted by some unplanned outages and challenging weather conditions, which impacted feedstock quality and deliverability. Management expects an improvement in bioenergy segment operating results in 2018 due to more consistent feedstock quality, major maintenance work undertaken, and recent operational improvements.

Dispatch Notice

Our EPA with BC Hydro, similar to electricity purchase agreements with other independent power producers, provides BC Hydro with the option to “turn down” electricity purchased from us during periods of low demand by issuing a “dispatch order”. In April 2017, BC Hydro issued a dispatch order with respect to, among others, the Mackenzie Power Plant, advising of a dispatch period of 122 days, encompassing the months of April, June, July and August. In 2016, the Mackenzie Power Plant, among others, was dispatched for 61 days in the second quarter. During the dispatch period, we only produce electricity to fulfill volume commitments under our LDA with BC Hydro. We continue to be paid revenues under the EPA based upon a reduced rate and on volumes that are generally reflective of contracted amounts.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$7.5 million in 2017 and \$5.9 million in 2016. The year-over-year increase was primarily attributable to professional fees related to the softwood lumber trade dispute, compensation costs, including equity-based compensation, and costs related to the establishment of a new U.S. business unit.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of each respective credit facility. Borrowing costs attributable to the development of the El Dorado Mill were recorded as capital costs in 2017 and 2016.

Interest and finance costs totalled \$7.6 million in 2017 and \$9.1 million in 2016. The year over year reduction of \$1.5 million was primarily due to lower interest rates under the Credit Facility and a reduction in average borrowings related to operations.

Gains or Losses on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposure in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. We recorded a loss from lumber derivative instruments of \$1.4 million in 2017 and a gain of \$0.7 million in 2016.

The term loan provided under our power project financing consists of a floating rate tranche and a fixed rate tranche. Conifex Power entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the term loan to fixed interest rates. Losses of \$0.9 million and \$1.1 million on the interest rate swap instruments were recorded as interest expense in the bioenergy segment in 2017 and 2016, respectively.

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 the U.S. dollar-denominated debt to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the period end rate. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period. The exchange rate for one Canadian dollar was US\$0.797 at December 31, 2017, US\$0.745 at the end of 2016 and US\$0.722 at the end of 2015.³ The foreign exchange translation loss was \$1.9 million in 2017 and \$1.0 million in 2016.

Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. As at December 31, 2017, the Company recognized net deferred income tax liabilities of \$3.1 million and recorded deferred income tax expense of \$3.1 million through net income in 2017. The Company has not recognized deferred tax assets in the prior year due to uncertainty over realization. At December 31, 2017, the Company had unused non-capital tax losses carried forward totalling \$7.7 million (December 31, 2016: \$20.0 million). At December 31, 2016, the Company had unrecognized deferred tax assets totalling \$2.3 million.

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

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at December 31, 2017 and 2016:

(millions of dollars, excluding ratio and percentages)	2017	2016
Cash	16.9	12.7
Cash - restricted	9.3	10.3
Operating working capital	69.7	62.8
Operating loans	(1.6)	(28.2)
Current portion of mortgage	-	(10.5)
Current portion of long-term debt	(5.9)	(4.4)
Net current assets	88.4	42.7
Long-term assets related to Mackenzie Power Plant	113.9	118.7
Long-term assets - lumber segment and corporate	193.0	124.8
	395.3	286.2
Non-interest bearing long-term liabilities	23.4	20.0
Long-term debt - power project term loan	62.5	68.4
Revolving credit facility	94.2	-
Long-term debt - other	5.6	20.3
Shareholders' equity	209.6	177.5
	395.3	286.2
Total assets	444.8	365.3
Total liabilities	235.2	187.8
Ratio of current assets to current liabilities	2.8	1.5
Net debt to capitalization	41%	38%
Net debt to capitalization (1)	29%	21%

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

The ratio of current assets to current liabilities improved to 2.8:1 at December 31, 2017 from 1.5:1 at December 31, 2016. The ratio was most significantly impacted by the relatively longer tenor of the Credit Facility, from which advances were drawn to repay and extinguish lumber segment operating loans and the mortgage related to the El Dorado Mill, which had been classified as current liabilities.

We manage capital with the objective of maintaining a strong balance sheet that helps ensure adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, bank advances, and the mortgage, less cash. Total capital is calculated as the sum of net debt and equity.

Net debt at December 31, 2017 was \$143.7 million. The increase of \$34.9 million from December 31, 2016 was mainly due to investments in capital projects partially offset by improved cash flow generated from operations and proceeds from the Offering and private placement. The net debt to capitalization ratio was 41% as at December 31, 2017 compared to 38% at the end of 2016.

Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 29% at December 31, 2017 compared to 21% at December 31, 2016.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars)	2017	2016
Cash generated from (used in)		
Operating activities	31.8	23.7
Financing activities	44.3	(24.6)
Investing activities	(72.9)	5.4
Increase in cash	3.2	4.5

Operating Activities

We operate in a cyclical industry.

Working capital levels fluctuate through the year and are impacted by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, seasonality and timing of receivables and 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 in our industry.

We generated cash from operations before working capital changes of \$48.4 million and consumed cash of \$16.6 million in incremental working capital in 2017. The change in non-cash working capital includes increases in accounts receivable of \$10.2 million, due primarily to higher prices and shipment volumes in the fourth quarter, and inventories of \$5.6 million which generally reflects the addition of inventories at the El Dorado Mill and higher wholesale lumber inventories. We generated cash from operations before working capital changes of \$39.3 million and used cash of \$15.6 million in incremental working capital in 2016.

Financing Activities

Financing activities provided net cash of \$44.3 million in 2017 and were comprised of net proceeds from operating loans of \$69.3 million, from the Offering and private placement of \$14.2 million and other long-term debt of \$6.3 million, partially offset by debt repayments totalling \$36.6 million and the payment of finance expenses of \$8.9 million.

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.

Investing Activities

Investing activities consumed cash of \$72.9 million in 2017 and consisted primarily of \$65.3 million on our capital project at the El Dorado Mill and \$7.6 million on capital improvements at our Canadian mills. Capital items for our Canadian mills included the completion of an upgrade to a log line at the Mackenzie Site II sawmill, a project which was initiated in December 2016, upgrade of various infrastructure related to our water transport operations and logging camps, and additions of mobile equipment.

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, and \$8.3 million of holding and development costs related to the El Dorado Mill.

Liquidity

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

Total liquidity is comprised of unrestricted cash and available credit under our revolving credit facilities. At December 31, 2017, we had total liquidity of \$49.2 million, compared to \$22.3 million at the end of 2016. Liquidity is comprised of unrestricted cash of \$16.9 million and unused availability under our revolving credit facilities of \$32.3 million. Availability under the Credit Facility is determined by periodic borrowing base calculations that fluctuate with eligible accounts receivable and inventory balances, plus the appraised values of certain forest licences, net of specific reserves. The Credit Facility provides for calculation of availability on an expanded borrowing base, relative to our previous lumber segment revolving credit facilities. The expanded borrowing base, cash flow generated from operations, and net proceeds from the Offering and private placement contributed to our enhanced liquidity this year.

We were required to begin depositing cash on account of softwood lumber export duties imposed by the U.S. in April 2017. We expect future cash flow will be adversely impacted by the CVD and ADD deposits, to the extent the additional costs on U.S. destined shipments are not mitigated by higher lumber prices.

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to help ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our current expectations for future periods in light of the current economic environment, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facilities, will be adequate to meet our obligations through 2018. We expect the El Dorado Mill to provide an additional reliable source of cash flow as the ramp-up of production progresses.

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, additional capital resources will be required. We expect such additional capital resources will be generated from debt financing and/or the sale of equity securities, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

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	1-3 Years	4-5 Years	After 5 Years
Long term debt	68.5	5.5	63.0	-	-
Revolving credit facility	95.9	-	-	95.9	-
Finance and operating leases	14.6	3.2	5.6	4.9	0.9
Reforestation obligations	14.4	5.3	4.3	1.4	3.4
Trade payables and accrued liabilities	34.8	34.8	-	-	-
Provisions and other liabilities	16.3	3.6	11.4	0.3	1.0
	244.5	52.4	84.3	102.5	5.3

Contractual obligations not included in the above 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. For these commitments, our obligations can vary significantly from contracted amounts depending on our requirements.
- Conifex Power has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Mackenzie Power Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met. As at December 31, 2017, Conifex Power had posted \$7.2 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, 2017 were comprised of standby letters of credit totalling \$12.7 million posted by Conifex Power and operating leases for vehicles, equipment and machinery.

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SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber prices)	2017				2016			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales - lumber segment	124.5	114.2	111.7	93.5	94.4	99.2	98.7	91.8
Sales - electricity	8.2	6.1	4.7	6.8	7.6	4.9	5.0	7.7
Operating income	14.7	8.8	6.4	1.5	6.7	3.3	5.1	3.0
Net income (loss)	8.0	6.2	4.2	(1.4)	5.1	1.4	35.2	28.5
Net income (loss) per share - basic	0.30	0.23	0.16	(0.06)	0.24	0.07	1.67	1.35
Net income (loss) per share - diluted (1)	0.30	0.23	0.16	(0.06)	0.24	0.07	1.54	1.24
Adjusted EBITDA (2)	17.5	12.1	10.2	6.1	9.3	8.5	9.0	6.8
Shares outstanding - weighted average (millions)	26.4	26.4	26.3	22.5	21.2	21.2	21.1	21.1
Statistics (in millions, other than exchange rate and lumber prices)								
Lumber production (MMfbm)	129.9	133.4	131.6	123.7	118.7	136.2	134.7	135.8
Lumber shipments - Conifex produced (MMfbm)	138.2	135.3	128.5	110.7	124.4	132.3	138.4	127.0
Lumber shipments - wholesale (MMfbm)	45.4	37.6	38.4	41.0	40.5	39.6	41.0	40.7
Electricity production - GWh	55.2	55.2	51.0	46.3	53.0	37.6	55.1	54.9
Average exchange rate - US\$/Cdn\$ (3)	0.787	0.798	0.744	0.756	0.750	0.766	0.776	0.727
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$464	\$406	\$388	\$348	\$316	\$321	\$311	\$272
Average WSPF 2x4 #2&Btr lumber price (Cdn\$)(5)	\$590	\$509	\$522	\$460	\$421	\$418	\$401	\$373

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss)	8.0	6.2	4.2	(1.4)	5.1	1.4	35.2	28.5
Add: Finance costs	1.6	1.6	1.7	2.6	2.1	2.3	2.3	2.5
Amortization	4.8	4.3	4.3	4.9	4.6	4.8	3.9	4.8
Deferred income tax expense	3.1	-	-	-	-	-	-	-
EBITDA (6)	17.5	12.1	10.2	6.1	11.8	8.5	41.4	35.8
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	17.5	12.1	10.2	6.1	9.3	8.5	9.0	6.8

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

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months at our Canadian mills 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” to the fixed price provided under the EPA produces a seasonal effect and considerable variability on quarterly revenues from electricity deliveries with the lowest revenues generally generated in the second quarter and the highest in the first and fourth quarters of each year. Quarterly electricity revenues can vary up to 30% between the strongest and weakest quarters. As a major portion of the costs of electricity production, as well as depreciation and interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars except share and per share amounts,

statistical and exchange rate information and lumber prices)

	2017	2016	2015
Sales	469.7	409.3	353.5
Net income (loss)	17.0	70.2	(17.3)
Adjusted EBITDA	46.0	33.6	7.7
Net income (loss) per share, basic and diluted	0.67	3.32	(0.82)
Shares outstanding - weighted average (millions)	25.4	21.2	21.0
Total assets	444.8	365.3	332.1
Total long-term debt	162.3	88.7	130.2

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

Lumber production (MMfbm)	518.5	525.3	481.0
Lumber shipments - Conifex product (Mmfbm)	512.7	522.1	475.8
Lumber shipments - Wholesale (Mmfbm)	162.2	161.8	155.6
Average exchange rate - US\$/Cdn\$ (1)	0.771	0.755	0.783
Average WSPF 2x4 #2 & Btr lumber price (US\$) (2)	\$401	\$304	\$277
Average WSPF 2x4 #2 & Btr lumber price (Cdn\$) (3)	\$520	\$403	\$354
Price range: WPSF 2x4 #2 & Btr lumber price (US\$) (2)	\$306-\$494	\$245-\$330	\$240-\$336

Reconciliation of adjusted EBITDA to Net Income (Loss)

Net income (loss)	17.0	70.2	(17.3)
Add: Finance costs	7.6	9.1	8.6
Amortization	18.3	18.1	16.5
Deferred income tax expense	3.1	-	-
EBITDA (4) (5)	46.0	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	-	(2.5)	-
Add: Impairment of property, plant and equipment	-	5.8	-
Adjusted EBITDA (5) (6)	46.0	33.6	7.7

(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 2016 Results Compared to 2015

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 in 2015.

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 2016 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.

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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 2017	Q3 2017	Q4 2016
Sales by Segment			
Lumber	124.5	114.2	94.4
Bioenergy	8.2	6.1	7.6
	<u>132.7</u>	<u>120.3</u>	<u>102.0</u>
Operating Earnings by Segment			
Lumber	13.9	8.5	3.0
Bioenergy	2.9	2.5	5.2
Corporate and other unallocated items	(2.1)	(2.2)	(1.5)
	<u>14.7</u>	<u>8.8</u>	<u>6.7</u>
Adjusted EBITDA by Segment			
Lumber	15.5	12.0	6.1
Bioenergy	4.5	3.3	4.4
Corporate and other unallocated items	(2.5)	(3.2)	(1.2)
	<u>17.5</u>	<u>12.1</u>	<u>9.3</u>
Net income	8.0	6.2	5.1
Net income per share - basic and diluted	0.30	0.23	0.24
Shares outstanding - weighted average (millions)	26.4	26.4	21.2
Average exchange rate - US\$/Cdn\$ (1)	0.787	0.798	0.750
Reconciliation of adjusted EBITDA to Net Income			
Net income	8.0	6.2	5.1
Add: Finance costs	1.6	1.6	2.1
Amortization	4.8	4.3	4.6
Deferred income tax expense	3.1	-	-
EBITDA (2)	<u>17.5</u>	<u>12.1</u>	<u>11.8</u>
Less: Net proceeds from insurance settlement	-	-	(2.5)
Adjusted EBITDA (3)	<u>17.5</u>	<u>12.1</u>	<u>9.3</u>

(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, and the net proceeds from our business interruption insurance settlement.

Revenues were \$132.7 million in the fourth quarter of 2017, \$120.3 million in the previous quarter and \$102.0 million in the fourth quarter of 2016. Compared to the prior quarter, lumber segment revenues increased by 9% and revenues from electricity sales increased by 34%.

We recorded operating earnings of \$14.7 million in the fourth quarter of 2017 compared to \$8.8 million in the previous quarter and \$6.7 million in the same quarter last year. Compared to the previous quarter, lumber segment operating results improved by 64% due mainly to higher sales realizations and shipments partially offset by a modest decline in operating rates. Bioenergy segment operating earnings increased by 16% largely due to higher revenues. Bioenergy segment operating income for the fourth quarter of 2016 included income from the settlement of our business interruption insurance claim of \$2.5 million.

We recognized deferred income tax expense of \$3.1 million through net income in the fourth quarter of 2017. There were no income tax expenses recorded in the third quarter of 2017 or the fourth quarter of 2016.

Net income for the current quarter was \$8.0 million or \$0.30 per diluted share. We recorded net income of \$6.2 million or \$0.23 per diluted share in the previous quarter and \$5.1 million or \$0.24 per diluted share in the fourth quarter of 2016.

Adjusted EBITDA was \$17.5 million for the fourth quarter of 2017, \$12.1 million in the previous quarter and \$9.3 million for the fourth quarter of 2016.

Operating Results by Business Segment

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	Q4 2017	Q3 2017	Q4 2016
Sales -Lumber - Conifex produced	81.0	73.3	61.6
- Lumber - wholesale	33.0	28.5	24.6
- By-products	6.5	6.9	5.7
- Logistic services	4.0	5.5	2.5
Total Sales	124.5	114.2	94.4
EBITDA (1)	15.5	12.0	6.1
Amortization and other (2)	1.6	3.5	3.2
Operating income	13.9	8.5	2.9

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

Lumber production (MMfbm)	129.9	133.4	118.7
Lumber shipments - Conifex product (MMfbm)	138.2	135.3	124.4
Lumber shipments - wholesale (MMfbm)	45.4	37.6	40.5
Average exchange rate - US\$/Cdn\$ (3)	0.787	0.798	0.750
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$464	\$406	\$316
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (5)	\$590	\$509	\$421
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$436 - \$494	\$379 - \$429	\$302 - \$325

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

(2) "Other" includes a loss from lumber derivatives instruments of \$1.6 million in the fourth quarter of 2017 compared to a negligible loss in the third quarter of 2017 and a gain of \$0.1 million in the fourth quarter of 2016.

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

(4) Source: Random Length Publications Inc.

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

Compared to the previous quarter, a 14% increase in U.S. dollar-denominated WSPF #2 and Btr prices coupled with a slightly weaker Canadian currency resulted in a 16% or \$81 per thousand board feet improvement in average Canadian dollar-denominated benchmark lumber prices in the fourth quarter of 2017.

Quarter-over-quarter revenues from Conifex produced lumber were 11% higher and largely reflected an improvement in unit sales realizations of 8% due to higher lumber prices and an increase in shipment volumes of 2%. Wholesale lumber revenues increased by 16% and wholesale lumber shipments increased by 21%.

Production volumes of approximately 130 million board feet during the fourth quarter of 2017 were 3% lower than the previous quarter. The lower operating rates were mainly attributable to a reduction in operating hours during the holiday season.

Unit log costs and cash conversion costs were generally consistent in the third and fourth quarters of 2017.

Based on the final rates published by the USITC, the combined CVD and ADD rates averaged approximately 6.7% in the fourth quarter of 2017 and 12.8% in the previous quarter. We expensed CVD

and ADD deposits of \$1.9 million in the fourth quarter of 2017 compared to \$3.4 million in the previous quarter.

Compared to the fourth quarter of 2016, U.S. dollar-denominated WSPF #2 and Btr prices increased by 47% and the Canadian currency appreciated by 5% in the fourth quarter of 2017. Average Canadian dollar-denominated benchmark lumber prices increased by 40% or \$169 per thousand board feet.

Quarter-over-quarter revenues from Conifex produced lumber were 31% higher and mostly reflected an 18% improvement in unit sales realizations and 11% increase in shipment volumes. An increase in wholesale lumber revenues of 34% was generally attributable to a 22% improvement in unit sales realizations and 12% increase in shipment volumes.

Production volumes were 9% higher in the fourth quarter of 2017 than the same quarter last year. Operating rates in fourth quarter of 2016 were hampered by downtime taken at the Mackenzie sawmill for capital upgrades and, to a lesser extent, adverse weather conditions.

Compared to the fourth quarter of 2016, unit log costs increased by 2% and unit cash conversion costs improved by 10% due primarily to improved productivity.

Lumber segment operating income was \$13.9 million in the fourth quarter of 2017 compared to \$8.5 million in the previous quarter and \$2.9 million in the same quarter last year.

Bioenergy Segment

Operating Results

	Q4	Q3	Q4
(millions of dollars, other than statistical information)	2017	2017	2016
Electricity sales under EPA - GWh	55.2	55.2	53.0
Electricity revenues	8.2	6.1	7.6
Adjusted EBITDA	4.5	3.3	4.4
Amortization and other	1.6	0.8	(0.8)
Operating income (1)	2.9	2.5	5.2

(1) Operating income for 2016 includes net proceeds from the settlement of a business interruption insurance claim of \$2.5 million.

The Mackenzie Power Plant sold 55.2 GWh hours of electricity under our EPA with BC Hydro in the third and fourth quarters of 2017, which represents approximately 100% of targeted operating rates, compared to 97% in the fourth quarter of 2016.

The effective power rate is highest during the first and fourth quarters of each year. Electricity revenues in the current quarter were \$8.2 million, an increase of 34% over the previous quarter, which was mostly attributable to higher seasonal rates. The improvement in electricity revenues of 8% compared to the fourth quarter of 2016 was largely due to higher production volumes. Compared to the current quarter, cash operating costs and amortization expense were lower in the previous quarter as the Mackenzie Power Plant was dispatched for 62 days. Normalized bioenergy segment operating income, excluding income from the settlement of our insurance claim, was \$2.7 million in the fourth quarter of 2016.

Bioenergy segment adjusted EBITDA was \$4.5 million in the fourth quarter of 2017, compared to \$3.3 million in the previous quarter and \$4.4 million in the fourth quarter of 2016, and reflected an adjusted EBITDA margin of 55%, which was generally consistent with each of the comparative periods.

OUTLOOK

Looking ahead in 2018, 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 6% increase in

U.S. lumber consumption, and expect benchmark prices for WSPF and Southern Yellow Pine to remain at elevated levels to reflect solid softwood lumber demand and the continued imposition of trade sanctions on Canadian softwood lumber exports to the U.S. The extent to which the anticipated increase in U.S. softwood lumber demand translates into higher selling prices will also be influenced by supply side responses from Canadian and other suppliers into the U.S. market. We expect the uncertainty created by the softwood lumber trade dispute and possible supply chain disruptions from potential equipment and labor shortages will contribute to price volatility in the North American market.

We expect our sales volume to China and Japan will remain steady and intend to continue to develop sales into other export markets. We expect to sustain the year-over-year gains in sales realizations achieved in 2017 in our key export markets.

Our key priorities in 2018 will be the continued ramp-up of production at the El Dorado Mill and to further strengthen operational consistency at our Canadian mills and the Mackenzie Power Plant.

At the El Dorado Mill, we expect to commence recording commercial operations in our operating results midway through the first quarter of 2018 and ramp-up production to approximately 90% of capacity by the end of year. We do not expect any significant increases in our unit delivered log costs over the next several years, which have met our forecasted expectations to date. We expect unit cash conversion costs to normalize as operating rates approach capacity levels.

At our Fort St. James and Mackenzie mills, we 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 seasonally muted in the first quarter of 2018 due primarily to weather related challenges, and to improve year-over-year in the remaining three quarters from planned capital upgrades. We expect shipment volumes may be somewhat hampered by lower production volumes and potential constraints on the external supply chain in the first quarter of 2018 and normalize thereafter. We expect continued log cost inflation in our operating areas in the interior region of B.C. due to forecast heightened lumber prices which will contribute to higher market based stumpage and purchased log costs. We expect unit cash conversion costs to remain relatively consistent.

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 a write down of inventory of \$0.8 million at December 31, 2017 and no write down of inventory at December 31, 2016.

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 5 to 50 years. Timber licences are amortized over 60 years.

Management currently believes that Conifex has adequate support for the carrying value of its long-lived assets based on analysis including anticipated cash flows that result from our estimates of future demand, pricing and production costs, and assuming certain levels of planned capital expenditures. However, should the markets for 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. The Company did not record any impairment losses or recoveries in 2017. During 2016, the Company revalued its interest in its joint venture pursuant to its previously announced timber harvesting cooperation agreement to its fair value of \$20.0 million. Additionally, the Company recorded an impairment charge of \$5.8 million related to certain idled assets in the lumber segment.

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 \$13.3 million in 2017 (2016 - \$12.5 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 \$4.9 million in 2017 (2016 - \$5.6 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 \$0.1 million in the corporate segment in 2017 (2016 - \$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 \$6.7 million in 2017 (2016 - \$6.6 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 2017 or 2016.

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 our estimates and assumptions as to the future financial performance of the various taxable legal entities.

As at December 31, 2017, the Company recognized net deferred income tax liabilities of \$3.1 million and recorded deferred income tax expense of \$3.1 million through net income in 2017. The Company has not recognized deferred tax assets in the prior year due to the uncertainty as to realization. At December 31, 2017, the Company had unused non-capital tax losses carried forward totalling \$7.7 million (December 31, 2016: \$20.0 million). At December 31, 2016, the Company had unrecognized deferred tax assets totalling \$2.3 million.

Lumber Export Duty Deposits

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

ACCOUNTING STANDARDS ISSUED AND NOT YET ADOPTED

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2018 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 does not expect this standard will have a 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 does not expect this standard will have a significant impact on its consolidated financial statements.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in, and readers are referred to, the Company's annual information form dated March 28, 2017, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

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 many 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 currently 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 expect our exposure to currency risk will be significantly mitigated at the El Dorado Mill as operating costs and expenses will be incurred in U.S. dollars. 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 Canadian 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 generally occurs 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.

Our log requirements at the El Dorado Mill are planned to be met purchasing logs which are harvested by timberland owners or their representatives and contractors and delivered to the mill. We, along with other industry analysts, believe the El Dorado Mill is situated in a region well regarded for its availability of high quality sawlogs within cost effective proximity and currently do not anticipate any significant fluctuations in the price, quality or availability of log supply to meet our forecast requirements.

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 a 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 and commit other resources as required, and, to date, have employed demonstrated technology. 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 a completed project to deliver expected benefits. The realization of any of these risks could have a material adverse effect on our business, financial condition and operating results.

Softwood Lumber Dispute

Canadian softwood lumber exports to the U.S. have been the subject of trade disputes and managed trade arrangements for the last several decades. After the expiry of the last trade agreement between Canada and the U.S. in 2015, a group of U.S. lumber producers and timberland owners petitioned the USDOC and the USITC to impose trade sanctions against Canadian softwood lumber exports to the U.S. The USDOC announced its preliminary determination on CVD and ADD rates in April and June 2017, respectively. On December 28, 2017, the USITC published its notice of final affirmative determination of material injury, which brought into effect the final amended "all other" CVD rate of 14.19% and ADD rate of 6.04%, for a combined rate of 20.23%. Unless the additional costs imposed by duties can be passed to lumber consumers, the duties will increase costs for Canadian producers and, in certain cases, could result in some Canadian production being unprofitable. Whether and to what extent duties can be passed along to consumers will largely depend on the strength of demand for softwood lumber, which is significantly influenced by the levels of new residential construction in the U.S. which has been gradually improving over the past several years.

Like other Canadian forest product companies, the Federal Government and Canadian provincial governments, we deny the U.S. allegations and disagree with the final determinations made by the USDOC and USITC, and, collectively continue to aggressively defend the Canadian industry in this trade dispute. The Federal Government has initiated dispute proceedings with the North American Free Trade Agreement panels and the World Trade Organization.

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 commencement of operations at our El Dorado Mill, are expected to provide further sources of cash flow diversification to mitigate the adverse effects of trade sanctions on softwood lumber by the U.S.

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 or curtail operations at our sawmills or the Mackenzie Power Plant, or one or more of our logging operations 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 or curtailments could have a material adverse effect on our financial condition and results of operations. 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.

Wood Dust Management

The wood products industry and government regulators continue to make the management of combustible wood dust within sawmill manufacturing facilities a high priority. Conifex continues to take extensive steps to mitigate the risks of combustible dust incident in our facilities, including significant capital investment, a formalized wood dust control program, and extensive employee training. Regulatory agencies across the Province of British Columbia, including WorkSafeBC, BC Safety Authority, and the Office of the Fire Commissioner have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives up to and including stop work conditions within the industry have occurred, and continue to be a possibility.

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 which we believe is standard in our industry, 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 is believed to have 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 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 timber supply area 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 at our Canadian mills 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 Canada. 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.

Our work force at the El Dorado Mill is not currently unionized.

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 15, 2018, the Company had 26,453,602 issued and outstanding common shares, 100,000 options granted, and 1,141,851 long-term incentive plan awards.

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.