



CONIFEX TIMBER INC.

2019 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of March 10, 2020

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, 2019 relative to 2018. This MD&A should be read in conjunction with our audited consolidated financial statements for the year ended December 31, 2019 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" and "adjusted EBITDA". 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 foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims, and gains on sales of assets and the Duties Sales (as defined herein). The Company discloses EBITDA and adjusted EBITDA as it is a measure used by analysts and by Conifex's management to evaluate the Company's performance. As EBITDA and adjusted EBITDA are non-GAAP measures, they may not be comparable to EBITDA and adjusted EBITDA calculated by others. In addition, EBITDA and adjusted EBITDA are not substitutes for net earnings and cash flow, therefore readers should consider earnings in evaluating the Company's performance.

In April 2019, we completed the sale of our wholly-owned subsidiary, Lignum Forest Products LLP ("Lignum"), for an aggregate purchase price of US\$11.5 million, subject to customary working capital adjustments. In October 2019, we ceased operations at 0318587 B.C. Ltd. (previously Navcor Transportations Services Inc.), ("0318587 BC") through which we previously provided third party logistics services. In December 2019, we entered into a securities purchase agreement for the sale of our US sawmill business, consisting of the El Dorado, Cross City and Glenwood mills and related assets, for an aggregate purchase price of US\$176.0 million, including working capital estimated at US\$13.0 million. As required under IFRS 5 – Non-Current Assets Held for Sale and Discontinued Operations ("IFRS 5"), the operating results previously reported for Lignum, 0318587 BC and our US sawmill business have been restated as discontinued operations for the relevant periods and separated from the Company's continuing operations. Unless otherwise indicated, our discussion and analysis reflects the results of continuing operations, and comparative periods have been restated accordingly. For further information relating to our discontinued operations, please refer to Note 8 to the consolidated financial statements for the years ended December 31, 2019 and 2018.

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

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: the realization of expected benefits of completed, current, and any contemplated capital projects and the expected timing and budgets of such projects; the growth and future prospects of our business; our results of operations and performance; the use and availability of our credit facility or proceeds therefrom;

our level of liquidity and our ability to service our debt; our perceptions of the industries and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; our ability to supply our manufacturing operations with wood fibre and the cost of wood fibre; our expectation for market volatility associated with the softwood lumber dispute with the US; that we could be negatively impacted by the imposition of duties or other protective measures on our products, such as anti-dumping duties or countervailing duties on softwood lumber; our expectations for US dollar benchmark prices; potential acquisitions or sale of any business or asset; continued positive relations with Aboriginal groups; the development of a longer-term capital plan and the expected benefits therefrom; demand and prices for our products; and our ability to develop new revenue streams .

Material factors or assumptions that were used in making forward-looking statements may include, but are not limited to, our future debt levels; that we will complete our projects in the expected timeframes and as budgeted; that we will effectively market our products; that capital expenditure levels will be consistent with those estimated by our management; that the US housing market will 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; our ability to obtain financing on acceptable terms, or at all; that interest and foreign exchange rates will not vary materially from current levels; the general health of the capital markets and the lumber industry; and the general stability of the economic environments within the countries in which we operate or do business.

Persons reading this 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, 2019 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities 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 a British Columbia forestry company with two principal business segments, lumber and bioenergy. Our lumber segment is primarily involved in the manufacture, sale and distribution of dimension lumber. We operate a sawmill and a bioenergy facility in the interior region of British Columbia.

We operate a 2-line sawmill (the "Mackenzie Mill") in Mackenzie, British Columbia. We hold a forest licence with a total allowable annual cut ("AAC") of 632,500 cubic metres in the timber supply area (the "TSA") in and around Mackenzie, and own 50% of a joint venture which holds a forest licence with a total of 300,000 cubic metres in the same TSA. Our Mackenzie Mill has approximately 240 million board feet of annual lumber capacity on a two-shift basis. We previously operated an additional sawmill (the "FSJ Mill") in Fort St. James, British Columbia, which we sold in November 2019.

In the US South, we previously operated three sawmills, being the El Dorado and Glenwood mills in Arkansas and the Cross City Mill in Florida.

Pursuant to an asset divestment plan approved by the lenders to our previous lumber segment credit facility (the "Credit Facility"), we entered into an agreement with a third party to divest the El Dorado, Cross City and Glenwood mills in December 2019 and completed the sales transaction in February 2020.

Our lumber products are primarily sold in markets in the United States, China, Canada and Japan.

In our bioenergy segment, our wholly-owned subsidiary Conifex Power Limited Partnership ("Conifex Power"), owns and operates a 36 megawatt biomass power generation plant (the "Mackenzie Power Plant"), located at the site of our Mackenzie Mill. 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's output capacity is 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, BC Hydro agreed to purchase approximately 200 GWh of electrical energy annually over a 20-year term for a fixed price, and under the LDA we agreed to supply the energy requirements of our Mackenzie operations over the same 20-year term.

OPERATIONAL AND BUSINESS HIGHLIGHTS

Like other interior BC lumber producers, our operating environment proved challenging throughout 2019 due primarily to significantly weaker lumber prices over about the last five quarters, the continued imposition of duty deposits on lumber shipments to the US and rapidly escalating log costs at our BC mills. Our lumber segment cash flows were further hampered by higher costs and lower than expected operating rates from the addition of second shifts at our previously owned Arkansas mills. The resultant temporary production curtailments at each of our operations, with the exception of the Cross City Mill, contributed to higher operating costs and had a materially adverse impact on our operating cash flow. This, along with increased debt levels to fund our strategic expansion in the US South in mid-2018, significantly constrained our liquidity in 2019.

We completed a number of initiatives throughout the year to reduce cash outflows at our BC and Arkansas mills and to actively manage debt and working capital levels. These actions included the sale of non-core assets such as Lignum, which operated a wholesale lumber business, and our right to refunds of certain countervailing ("CV") and anti-dumping ("AD") duty deposits. We also suspended other wholesale lumber activity in the third quarter of 2019 and the provision of third party logistics services in the fourth quarter. Production at our BC and Arkansas mills were curtailed to optimize cash flows and reduce investments in working capital as market conditions warranted. Additionally, we completed the sale of the FSJ Mill in November 2019.

We worked collaboratively with our lenders under the Credit Facility and completed a number of amendments commencing in late 2018 and through 2019. The amendments, among other things, provided additional liquidity and waived certain covenants, while also setting specific milestones and imposing higher interest and other financing costs. In November 2019, we announced that our lenders approved our proposed asset divestment plan. The plan provided additional credit support to fund operations while we implemented our plan.

In December 2019, we entered into an agreement for the sale of our US sawmill business, consisting of the El Dorado, Cross City and Glenwood mills and related operations. The sale was completed subsequent to year end, on February 1, 2020 and the Credit Facility was repaid in full on closing. We plan to use the balance of the proceeds from the sale for working capital and general corporate purposes. Following completion of the sale and the full repayment of the Credit Facility, we had total liquidity of approximately \$20 million, comprised of unrestricted cash, estimated net debt of \$43 million and consolidated net debt to capitalization ratio of approximately 25%.

Completion of Sale of Fort St. James Sawmill

In June 2019, we entered into a definitive agreement with a major North American lumber producer for the sale of the FSJ Mill and associated forest licence.

The sale closed on November 1, 2019. The net proceeds, following certain customary adjustments, were approximately \$38.7 million, of which approximately \$17.0 million was used to repay the Credit Facility. The balance of the proceeds were used to provide additional liquidity to better optimize performance and value at certain of our other mills and to pay transaction related costs.

Sale of Countervailing and Anti-Dumping Duty Refunds

In the second and third quarters of 2019, we completed sales of our interest in duty refunds related to previous entries of softwood lumber shipments for total gross proceeds of US\$ 13.9 million, representing 42.5% of such CV and AD duty deposits (the "Duties Sales"). We believe the benefits of immediate liquidity and debt reduction outweighed the value of the discount, particularly given the uncertain timing, magnitude and return of any such refunds.

The transaction resulted in gains of \$12.6 million in the second quarter and \$2.6 million in the third quarter of 2019 which we recorded as other income. The gains are not included in calculating adjusted EBITDA for the relevant periods. The proceeds of the Duties Sales were received in the third quarter of 2019 and primarily used to repay a portion of the Credit Facility.

Discontinued Operations

As required under IFRS 5 – *Non-Current Assets Held for Sale and Discontinued Operations*, the following businesses have been classified as discontinued operations in 2019 and comparative periods.

Sale of Lignum Forest Products

In April 2019, we completed the sale of Lignum. The net proceeds of approximately US\$11.3 million were utilized to repay a portion of our revolving Credit Facility

Discontinuation of Third Party Logistics Business.

In October 2019, we discontinued our third party logistics business which was operated by our wholly-owned subsidiary 0318587 BC Ltd. (previously Navcor Transportation Services Inc.).

Sale of US Sawmill Business

In December 2019, we entered into a securities purchase agreement for the sale of our US sawmill business, consisting of the El Dorado, Cross City and Glenwood sawmills and related operations. The sales transaction closed subsequent to year end, on February 1, 2020. The purchase price, paid in cash, was US\$163.0 million plus working capital, which is estimated at US\$13.0 million, for total consideration of US\$176.0 million.

The Credit Facility was repaid in full on closing. The balance of the proceeds from the sale are planned to be used for working capital and general corporate purposes.

Discontinued Operations and Assets and Liabilities Held for Sale

The operating results previously reported for Lignum, 0318587 BC and our US sawmill business have been restated as discontinued operations for the current and comparative periods and separated from the Company's continuing operations. When operations are classified as discontinued, the consolidated statements of cash flows and consolidated statements of income and comprehensive income are presented as if the operations had been discontinued from the start of the comparative year. The comparative consolidated balance sheets are not restated. The discontinued operations do not have any material financial impact on our continuing operations and their impact on continuing operations has not been discussed in this MD&A. Unless otherwise indicated, we have presented our financial information based on results from our continuing operations.

Assets and liabilities related to the sale of the US sawmill business have been classified as held for sale at December 31, 2019 on our consolidated balance sheets. Upon initial classification as held for sale, the

carrying values of non-current assets were assessed for impairment in accordance with IFRS 5. As the fair value less costs to sell exceeded the carrying value of non-current assets held for sale, an impairment loss, allocated to goodwill, of \$143.1 million was included in the net loss from discontinued operations for the year ended December 31, 2019.

For further information relating to Assets Held for Sale and Discontinued Operations, please refer to Notes 7 and 8 to the consolidated financial statements for the years ended December 31, 2019 and 2018.

Continuing Operations

Operating Rates at our BC Mills

Continuing operations for the comparative periods discussed in this MD&A primarily comprise operating results from our Mackenzie Mill and Mackenzie Power Plant, the FSJ Mill which was largely curtailed in May 2019, and corporate costs and other unallocated items.

Our lumber segment operating results were hampered by lower operating rates which resulted in higher unit cash conversion costs at our FSJ and Mackenzie mills in 2019.

In response to market conditions characterized by lower lumber prices, continued imposition of softwood lumber duties, and elevated log costs in the northern interior of BC, we implemented a temporary change in operating format at our FSJ Mill in January 2019 which reduced investment in working capital and overall operating costs. Additionally, similar to a number of other BC interior lumber producers, we undertook temporary production curtailments at our BC mills periodically throughout the year. Production at the FSJ Mill was curtailed for a three-week period in February 2019 and was largely curtailed since May 2019. Production at the Mackenzie Mill was curtailed for four weeks in May 2019, resumed in early June on a modified four-day, two-shift configuration and was further curtailed for a five-week period in the third quarter and for approximately two weeks in the fourth quarter of 2019.

In the second half of 2018, the FSJ Mill was either fully curtailed or partially reduced due to market conditions and local wildfires and resulted in over 40 million board feet of reduced production.

Production at our BC mills totaled 185 million board feet in 2019, compared to 454 million board feet in 2018, and represented operating rates of 34% and 84%, respectively, based on the production capacities of both mills for the full year.

SUMMARY OF OPERATING RESULTS

Consolidated Net Loss

We incurred a net loss of \$200.2 million or \$4.28 per share in 2019, comprised of net loss from continuing operations of \$30.4 million, or \$0.65 per share and net loss from discontinued operations of \$169.8 million or \$3.63 per share. Net loss was \$7.1 million or \$0.19 per share in 2018, comprised of net loss from continuing operations of \$7.3 million or \$0.20 per share and net income from discontinued operations of \$0.2 million or \$0.01 per share. The following table summarizes our net operating results on a per segment basis.

Selected Financial Information (1)

(millions of dollars except share and per share amounts and exchange rate information)	2019	2018
Sales by Segment		
Lumber	131.6	352.3
Bioenergy	25.8	26.8
	<u>157.4</u>	<u>379.1</u>
Operating (Loss) Earnings by Segment		
Lumber	(41.4)	19.1
Bioenergy	8.6	9.2
Corporate and other unallocated items	(7.4)	(8.5)
	<u>(40.2)</u>	<u>19.8</u>
Adjusted EBITDA by Segment		
Lumber	(31.7)	29.0
Bioenergy	13.9	14.1
Corporate and other unallocated items	(6.2)	(10.7)
	<u>(24.0)</u>	<u>32.4</u>
Net loss - continuing operations	(30.4)	(7.3)
Net loss - total operations	(200.2)	(7.1)
Net loss per share - basic and diluted - continuing operations	(0.65)	(0.20)
Net loss per share - basic and diluted - total operations	(4.28)	(0.19)
Shares outstanding - weighted average (millions)	46.6	36.3
Total assets	461.5	739.2
Total long-term debt (2)	63.3	285.6
Average exchange rate - US\$/Cdn\$ (3)	0.754	0.772
Reconciliation of adjusted EBITDA to Net Loss		
Net loss from continuing operations	(30.4)	(7.3)
Add: Finance costs	42.1	16.6
Amortization	13.2	15.6
Income tax expense	0.6	-
Deferred income tax recovery	(11.4)	(1.3)
EBITDA (4)	14.1	23.6
Add: Foreign exchange translation (gain) / loss on long-term debt	(8.9)	8.8
Restructuring costs	2.6	-
Proceeds from insurance claim	(1.1)	-
Gain on sale of assets	(15.5)	-
Gain on sale of right to duty refunds	(15.2)	-
Adjusted EBITDA from continuing operations (5)	<u>(24.0)</u>	<u>32.4</u>

(1) Unless otherwise noted, financial information reflects results of continuing operations.

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

Continuing Operations

Our revenues totaled \$157.4 million in 2019 and \$379.1 million in 2018. The lower revenues were largely attributable to the lumber segment which recorded reduced shipments reflecting lower operating rates at our BC mills, a decline in sales realizations, and a decrease in wholesale lumber shipments. Bioenergy

segment revenues were 4% lower due primarily to modifications in spring freshet pricing and plant dispatch periods in the comparative periods.

We recorded an operating loss of \$41.4 million in the lumber segment in 2019 and operating earnings of \$19.1 million in 2018. Lumber segment operating results included CV and AD duties expense of \$8.9 million in 2019 and \$24.4 million in 2018. Bioenergy segment operating earnings declined by 7% year-over-year and contributed operating earnings of \$8.6 million in 2019 and \$9.2 million in the previous year. Corporate costs of \$7.1 million in 2019 reflected a reduction of 9% from the prior year. In addition, the operating loss for 2019 included restructuring costs related to the closure of the FSJ Mill of \$2.2 million in the lumber segment and \$0.4 million in corporate and unallocated items.

The net loss from continuing operations included a foreign exchange translation gain on long-term debt of \$8.9 million, gains from the sale of assets of \$15.5 million and from the Duties Sales of \$15.2 million and net proceeds from an insurance claim of \$1.1 million in 2019. Finance costs were \$42.1 million in 2019 and reflected an increase of \$25.5 million over the prior year. The net loss in 2018 included a foreign exchange translation loss of \$8.8 million on long-term debt and acquisition related costs of \$2.2 million.

We recognized current income tax expense of \$0.6 million and deferred income tax recoveries of \$11.4 million in 2019 and \$1.3 million in 2018.

Adjusted EBITDA was negative \$24.0 million in 2019 and positive \$32.4 million in 2018 with the year-over-year variance largely attributable to the lumber segment.

Discontinued Operations

Operating loss from discontinued operations was \$21.6 million for 2019 and \$1.9 million for 2018.

We recorded a net loss from discontinued operations of \$169.8 million in 2019 and net income of \$0.2 million in 2018. The net loss in 2019 included an impairment loss allocated to goodwill of \$143.1 million and income tax expense of \$3.8 million. The net loss in 2018 included other expenditures of \$1.6 million and income tax recovery of \$3.7 million.

For further information relating to Discontinued Operations, please refer to Note 8 to our consolidated financial statements for the years ended December 31, 2019 and 2018.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment (1)

(millions of dollars, other than statistical and exchange rate information and lumber prices)	2019	2018
Sales Lumber - Conifex produced	106.2	284.0
Lumber - wholesale	15.6	38.2
By-products	9.8	30.1
Total Sales	131.6	352.3
Adjusted EBITDA	(31.7)	29.0
Restructuring costs	2.2	-
EBITDA	(33.9)	29.0
Amortization and other	7.5	10.4
Loss on derivative financial instruments	-	(0.5)
Operating (loss) income	(41.4)	19.1

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

Production - WSPF lumber (MMfbm)	185.0	453.5
Shipments - WSPF lumber (MMfbm)	211.9	458.2
Shipments - wholesale lumber (MMfbm)	22.3	50.8
Average exchange rate - US\$/Cdn\$ (2)	0.754	0.772
Average WSPF 2x4 #2&Btr lumber price (US\$) (3)	\$360	\$480
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (4)	\$478	\$621
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (3)	\$286-\$417	\$298-\$655

(1) Financial information reflects results of continuing operations.

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

(3) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

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

Continuing Operations

The residential home construction and residential improvement sectors account for approximately 33% and 37%, respectively, of US softwood lumber consumption and represent the largest end user markets.¹ The US Census Bureau reported an estimated 1.29 million privately-owned housing units were started in 2019 compared to 1.25 million starts in 2018. The increase in new US housing starts of 3.3% is consistent with the increase reported in 2018 compared to 2017 and reflects a steady improvement in the growth in the residential housing construction market. Single-family housing starts accounted for approximately 70% of total US housing starts in 2019 and 2018. 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 steady recovery of US residential construction markets is expected to continue. Forecasts for 2020 housing starts by several industry analysts and associations reviewed by the Company averaged 1.32 million units, and indicated modest growth of approximately 2% over 2019. Single-family housing starts are expected to increase by 4% over 2019. Consumption by the residential improvement sector is projected to increase by 6% in 2020 and contribute to overall growth in US softwood lumber consumption of 5% over 2019.²

Average benchmark lumber prices for WSPF remained relatively weak throughout 2019, although US housing starts improved modestly and temporary and permanent production curtailments were announced by a number of BC mills. Benchmark lumber prices exhibited less volatility compared to 2018, when strong demand growth and weather related transportation issues constrained supply and contributed to historically high lumber prices early in the year followed by a steep decline during the latter

¹ Source: Forest Economic Advisors.

² Source: Forest Economic Advisors.

half of the year. Prices for the bell-weather WSPF 2x4 #2 & Btr product, which averaged US\$360 during 2019, declined by 25% compared to the previous year.³

The US dollar averaged US\$0.754 for each Canadian dollar during 2019, a level which represented a 2% weakening of the Canadian dollar from the previous year.⁴ Canadian dollar-denominated benchmark WSPF prices, which averaged \$478 in 2019, declined by 23% or \$143 compared to the previous year.

The US and China remained our principal markets for our BC mills and accounted for approximately 75% of total shipments in both comparative years while shipments to Japan remained steady at approximately 8%. Shipments to other offshore markets averaged 3% of our total volumes in 2019 and 2018. The balance of our lumber shipments were directed to the domestic Canadian market.

In addition to the continuation of the weaker lumber price environment, our lumber segment operating results in 2019 and the fourth quarter of 2018 were impacted by significantly lower operating rates at our BC mills due to changes in operating configuration and production curtailments as discussed under "Operating Rates at our BC Mills" above. Lumber production at our BC mills totaled 185 million board feet during 2019, which represented an annualized operating rate of 34% compared to 84% in the previous year, based on production capacity for the full year.

Shipments of Conifex produced lumber totaled 212 million board feet in 2019 and outpaced production by 15% as inventories at the FSJ Mill were fully sold prior to the completion of the sale of the mill. Shipments of Conifex produced lumber represented 46% of 2018 shipment volumes due to the lower operating rates.

Revenues from Conifex produced lumber were \$106.2 million in 2019 and \$284.0 million in 2018. The lower revenues were mainly attributable to a reduction in shipment volumes of Conifex produced lumber of 54% and in unit sales realizations of 19%.

Wholesale lumber shipment and revenues in 2019 were approximately 41% and 44%, respectively, of the previous year levels as we reduced our working capital investment in non-core operations by largely suspending wholesale lumber activities during the last half of the year. We expect a resumption of a moderate volume of wholesale lumber shipments in 2020 and do not anticipate any material impact on future overall operating results from this variability.

Declines in revenues from wood chips and other residuals of 67% from the previous year were due mostly to lower shipment volumes at our BC mills and, to a lesser extent, lower unit chip prices.

Unit log costs increased by 15% over the previous year. The higher log costs were mainly attributable to higher market based stumpage and purchased log costs. Overall operating costs in 2019 at our BC mills were atypically elevated by the low operating rates and disruptions from production curtailments which adversely impacted productivity.

We recorded a positive inventory valuation adjustment of \$0.3 million in 2019 compared to an inventory write-down of \$1.7 million in 2018.

We expensed CV and AD duty deposits of \$8.9 million in 2019 and \$24.4 million in 2018. The duty deposits were based on a combined rate of 20.23%. On February 3, 2020, the US Department of Commerce ("USDOC") issued preliminary revised combined rates of 8.37% for 2017 and 8.21% for 2018. These rates are the result of the USDOC's administrative review and are subject to change until its final rate determinations which are expected in August 2020. At such time, the final rates will be applied to new lumber shipments. No adjustments have been recorded in the financial statements as of December 31, 2019 to reflect the preliminary revised duty rates. The second administrative review covering the

³ Source: Random Lengths Publications Inc.

⁴ Source: Bank of Canada, www.bankofcanada.ca.

2019 fiscal period will commence in 2020 and results are not expected to be finalized until 2021. For additional information on the softwood lumber trade dispute, please see “Risks and Uncertainties – Softwood Lumber Dispute” below and Note 30 to our consolidated financial statements for the year ended December 31, 2019.

We recorded restructuring costs related to the closure of the FSJ Mill of \$2.2 million in the lumber segment in 2019.

The lumber segment recorded an operating loss of \$41.4 million in 2019 and operating earnings of \$18.4 million in 2018. Compared to the previous year, lumber segment operating results were hampered by significantly weaker lumber prices resulting in lower sales realizations, reduced shipment volumes, operating rates and residuals revenues, recognition of restructuring costs, and higher unit log and cash conversion costs. These factors were partially offset by lower duty deposits expense and a positive variance in inventory valuation adjustments.

Lumber segment adjusted EBITDA was negative \$31.7 million in 2019 and positive \$29.0 million in 2018.

Bioenergy Segment

Operating Results

(millions of dollars, other than statistical information)	2019	2018
Electricity sales under EPA - GWh	211.0	211.3
Electricity revenues	25.8	26.8
EBITDA	13.9	14.1
Amortization	5.3	5.0
Operating income	8.6	9.2

The Mackenzie Power Plant sold 211.0 gigawatt hours of electricity under our EPA with BC Hydro in 2019, a level which was consistent with the previous year and represented approximately 96% of targeted operating rates.

Current year electricity revenues of \$25.8 million decreased by 4% from the prior year due to seasonal variations in spring freshet pricing and minor modifications in the timing and duration of the dispatch period (discussed below). Cash operating costs improved by approximately 6% and amortization expense was generally consistent from year to year.

Bioenergy segment operating income declined by 6% in 2019 due primarily to lower revenues which were partially offset by an improvement in operating costs. Bioenergy segment EBITDA declined modestly by 2% to \$13.9 million in 2019 compared to \$14.2 million in 2018.

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 the second quarter of 2019, BC Hydro issued dispatch orders with respect to, among others, the Mackenzie Power Plant advising of a dispatch period of approximately 114 days, encompassing the early May to August 31, 2019 period. In 2018, the Mackenzie Power Plant, among others, was dispatched for a period of 112 days, encompassing the mid-May to early September 2018 period. 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 and Acquisition Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$7.1 million in 2019 and \$7.8 million in 2018. The year-over-year reduction of 9% was mostly due to lower variable compensation expense.

In addition, we recorded restructuring and severance costs related to the corporate segment of \$0.4 million in 2019 and non-recurring transaction costs related to the acquisition of the Cross City and Glenwood mills and related operations of \$2.2 million in 2018.

Interest Expense and Finance Costs

Finance costs related to debt issuance are amortized over the remaining term of the requisite credit facility. Borrowing costs attributable to the development of the El Dorado Mill were recorded as capital costs in the first quarter of 2018.

Interest and finance costs totaled \$42.1 million in 2019 and comprised interest expense of \$23.6 million and financing expense of \$18.5 million. Interest and finance costs were \$16.6 million in 2018 and comprised interest expense of \$14.3 million and financing expense of \$2.4 million. The year-over-year increase in interest expense was primarily due to increased borrowings to finance the purchase of the Cross City and Glenwood mills in July 2018 and higher interest rates resulting from various amendments under the Credit Facility in 2019. The significant increase in financing costs in 2019 was mainly due to fees related to amendments to the Credit Facility and the accelerated amortization of the fees due to the early extinguishment of the Credit Facility in February 2020.

The remaining deferred financing costs of \$0.3 million were netted against the revolving Credit Facility on the consolidated balance sheet at December 31, 2019.

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. Conifex does not presently use derivatives for trading or speculative purposes. We recorded a loss on lumber derivative instruments of \$0.1 million in 2019 and a loss of \$0.5 million in the previous year.

The previous term loan for our power business, which was fully repaid in October 2018, consisted 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 approximately \$1.2 million on the interest rate swap instruments, including a payment for early termination of the swaps, were recorded as interest expense in 2018. The interest rate swap transactions were terminated in October 2018 concurrent with the refinancing of the bioenergy segment term loan.

Foreign Exchange Translation Gain or Loss

The foreign exchange translation gain or loss recorded for each period on our statement of net income results from the revaluation of US dollar-denominated cash, working capital balances and revolving loan of Canadian operations to reflect the change in the value of the Canadian dollar relative to the value of the US dollar. US dollar-denominated monetary assets and liabilities are translated using the period end rate.

The exchange rate for one Canadian dollar was US\$0.770 at December 31, 2019, and US\$0.733 at December 31, 2018⁵. We recorded a foreign exchange translation gain of \$0.4 million in 2019 and loss of \$0.1 million in 2018.

The Canadian dollar appreciated by 5% between December 31, 2019 and the prior year end and depreciated by approximately 5% between December 31, 2018 and mid-2018 when we completed the Credit Facility. The variability in exchange rates at each measurement period resulted in the recognition of a foreign exchange gain of \$8.9 million in 2019 and a foreign exchange loss of \$8.8 million on our US dollar term loan under the Credit Facility held by our Canadian entities.

Foreign exchange differences for foreign operations with a functional currency that differs from the Company's presentation currency are recognized as other comprehensive income or loss and reflected in the statement of changes in equity. We recorded an after-tax loss of \$16.2 million in 2019 and an after-tax gain of \$16.7 million in 2018 to other comprehensive income.

Income Tax

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities in the balance sheet and the amounts used for income tax purposes. The Company recorded income tax expense of \$0.6 million and deferred income tax recoveries of \$11.4 million in 2019 and \$1.3 million in 2018. As at December 31, 2019, the Company had recognized deferred income tax assets of \$9.5 million. As at December 31, 2019, the Company had unused non-capital tax losses carried forward totalling \$121.8 million (December 31, 2018: \$31.4 million). The Company has not recognized deferred income tax assets related to discontinued operations due to the uncertainty of future realization.

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⁵ Source: Bank of Canada, www.bankofcanada.ca

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at December 31, 2019 and 2018:

(millions of dollars, excluding ratio and percentages)	2019	2018
Cash	0.9	16.3
Cash - restricted	6.7	8.6
Operating working capital (1)	2.8	86.1
Assets held for sale (2)	236.5	0.9
Liabilities held for sale (2)	(21.5)	-
Current portion of revolver and long-term debt	(194.0)	(46.4)
Net current assets	31.4	65.5
Long-term assets - goodwill	1.9	163.8
Long-term assets related to Mackenzie Power Plant	106.8	110.9
Long-term assets - lumber segment and corporate	57.0	302.5
Deferred income tax assets	9.5	3.8
	206.6	646.5
Non-interest bearing long-term liabilities	18.8	20.8
Long-term debt - Conifex Power term loan	60.2	63.4
Revolving credit facility	-	23.7
Long-term debt - other	3.0	198.5
Shareholders' equity	124.6	340.1
	206.6	646.5
Total assets	464.9	739.2
Total liabilities	336.3	399.1
Ratio of current assets to current liabilities	1.1	1.7
Net debt to capitalization	66%	47%
Net debt to capitalization (3)	60%	42%

(1) Operating working capital is calculated as the aggregate of trade and other receivables, prepaid expenses and deposits, and inventories less aggregate of trade payables, accrued liabilities and other payables, the current portion of reforestation obligations and employee liabilities.

(2) Assets and liabilities related to the sale of the US sawmill business have been reclassified as held for sale as at December 31, 2019. See "Operational and Business Highlights – Discontinued Operations – Sale of US Sawmill Business" above for additional information.

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

Operating working capital was substantially reduced year-over-year due primarily to the divestitures of Lignum and the FSJ Mill, the reclassification of assets and liabilities related to the US sawmill business to held for sale, and lower inventory and higher accounts payable utilized in our continuing operations. Overall debt related to the lumber segment was \$193.9 million at December 31, 2019 compared to \$265.7 million at December 31, 2018. The net reduction of \$71.8 million in lumber segment debt mostly comprised repayments of the revolving Credit Facility of \$30.5 million and the term loan under the Credit Facility and capital leases of \$36.5 million. The year-over-year increase in the current portion of lumber segment debt of \$147.4 million was related primarily to the reclassification of a large portion of our long-term lumber segment debt as a result of recent amendments, and subsequent to year end, the early extinguishment of the Credit Facility.

The reduction in shareholders' equity of \$215.5 million in 2019 was mostly comprised of the year-to-date net losses of \$30.4 million from continuing operations and \$169.8 million from discontinued operations and a non-cash foreign exchange translation of foreign operations loss of \$16.2 million that was recorded as other comprehensive loss. The net loss from discontinued operations included an impairment loss allocated to goodwill of \$143.1 million.

The ratio of current assets to current liabilities was 1.1:1 at December 31, 2019 compared to 1.7:1 at December 31, 2018. The main influences on the change in current ratio in 2019 were reductions in cash

and operating working capital totaling \$100.6 million, the reclassification of long-term assets and liabilities related to the sale of the US sawmill business as current period assets and liabilities, and the reclassification of a large portion of long-term lumber segment debt as current.

We manage capital with the objective of maintaining a strong balance sheet to adequately maintain capital resources to support our operations, sustain future development and facilitate access to capital markets at competitive rates. During the year, we achieved our short-term priorities to reduce debt and enhance liquidity by focusing on operational improvements, including optimizing operating working capital levels, and completing our asset divestiture plan. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, and bank advances, less cash. Total capital is calculated as the sum of net debt and equity.

Net debt at December 31, 2019 decreased by \$57.8 million to \$249.6 million from \$307.0 million at December 31, 2018. The net debt to capitalization ratio was approximately 66% at December 31, 2019 and 47% at December 31, 2018. Excluding the effects of borrowings by Conifex Power, the net debt to capitalization ratio was 60% at December 31, 2019 and 42% at December 31, 2018.

Subsequent to year-end, following the closing of the sale of our US sawmill business and the full repayment of the Credit Facility, we had total liquidity of approximately \$20 million, comprised of unrestricted cash, estimated net debt of \$43 million and consolidated net debt to capitalization ratio of approximately 25%.

LIQUIDITY AND CAPITAL RESOURCES

Selected Cash Flow Items (1)

(millions of dollars)	2019	2018
Cash flows from (used by) operating activities		
Cash (used by) from operating activities before working capital changes		
from continuing operations	(9.1)	31.9
Non-cash working capital change from continuing operations	35.6	4.7
Operating cash flows from discontinued operations	16.4	15.1
	42.9	51.7
Cash flows from (used by) financing activities		
Cash flows (used by) from financing activities from continuing operations	(104.5)	198.2
Cash flows (used by) financing activities from discontinued operations	(2.7)	(1.3)
	(107.2)	196.9
Cash flows from (used by) investing activities		
Additions to property, plant and equipment from continuing operations	(2.5)	(13.0)
Net proceeds from insurance claim settlement	0.9	-
Net proceeds from disposal of assets	37.4	0.1
Acquisition cost of Cross City Mill and Glenwood Mill	-	(221.9)
Investing cash flows from (used by) discontinued operations	11.4	(15.3)
	47.2	(250.1)
Net (decrease) increase in cash from continuing operations	(42.2)	0.0
Net increase (decrease) in cash from discontinued operations	25.1	(1.5)
Foreign exchange (loss) gain on cash	(0.2)	0.3
Cash and restricted cash, beginning of period	24.9	26.1
Cash and restricted cash, end of period	7.6	24.9

(1) Unless otherwise noted, financial information reflects results of continuing operations.

Continuing Operations

Operating Activities

We operate in a cyclical industry.

Working capital levels fluctuate throughout the year and are impacted by a variety of factors, including changes in sales volume and price, shipment patterns, operating rates, seasonality and timing of receivables and payment of payables and expenses. Our fibre inventories exhibit seasonal swings as log inventories are increased during the fall and winter months to help ensure adequate supply of fibre to our mills during the spring months. Factors such as disruption of transportation services by third party providers, variability in export shipments and operating rates 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 used cash in operations before working capital changes of \$9.1 million and generated cash of \$35.6 million from reduction of operating working capital in 2019. The decrease in non-cash working capital was mainly due to reductions in accounts receivable, prepaid expenses and deposits and inventories as a result of the sale of the FSJ Mill, lower operating rates at the Mackenzie Mill and the suspension of wholesale lumber activities.

We generated cash from operations before working capital changes of \$31.9 million in 2018 and from a decrease in operating working capital of \$4.7 million.

Financing Activities

Financing activities used net cash of \$104.5 million in 2019. Cash outflows included repayments of the term loan under the Credit Facility and the Conifex Power term loan (the "Power Loan") of \$38.3 million, net reduction of borrowings under the revolving Credit Facility of \$30.5 million and the payment of finance expenses of \$34.5 million.

Financing activities provided net cash of \$198.2 million in 2018. Cash inflows included drawings on the revolving loan of \$43.8 million and term loan of \$216.1 million under the Credit Facility, and net proceeds from the Power Loan of \$70 million and net proceeds from the public offering of our common shares of \$60.6 million. Cash outflows included the repayment and retirement of our then-existing revolving credit facility of \$97.5 million and Conifex Power's then-existing term loan and operating loan of \$62.8 million and \$1.6 million, respectively, repayment of long-term debt of \$8.3 million and the payment of finance expenses of \$22.5 million.

Investing Activities

Investing activities provided cash of \$35.8 million in 2019 and mainly comprised net proceeds from the sale of assets of \$37.4 million and from an insurance claim of \$0.9 million and capital expenditures related to our BC operations of \$2.5 million.

Investing activities consumed cash of \$234.8 million in 2018 and primarily consisted of the cash portion of the purchase of the Cross City Mill and Glenwood Mill, including net working capital, of \$221.9 million; \$10.6 million on capital improvements at our BC mills and \$2.4 million on major maintenance items at the Mackenzie Power Plant. Lumber segment capital expenditures for our BC mills were primarily related to the upgrade of infrastructure to support waterborne transport of logs at Mackenzie and maintenance of business projects.

Credit Facilities

Lumber Segment Credit Facility Agreement

In accordance with our asset divestment plan, we entered into a securities purchase agreement to sell our US sawmill business in December 2019. The sale was completed subsequent to year end on February 1, 2020. The purchase price, payable in cash, was US\$163 million plus working capital, which is estimated at US\$13 million, for total consideration of US\$176 million. The Credit Facility was repaid in full on closing. We had total liquidity of approximately \$20 million, comprised of unrestricted cash, following repayment of the Credit Facility on closing. The balance of the proceeds from the sale are planned to be used for working capital and general corporate purposes.

Bioenergy Segment Term Loan

In October 2018, Conifex Power completed a \$70 million secured term loan with a syndicate of lenders. The Power Loan has a 15-year term, bears a fixed interest rate and is secured by substantially all of the power segment assets. The Power Loan is expected to be fully amortized over its 15-year term and is non-recourse to our other operations. We used the net proceeds from the Power Loan to repay the previous term loan facility for the Mackenzie Power Plant.

Under the Power Loan agreement, a distribution test must be met for the cash held by Conifex Power to be available to our other operations. Conifex Power was in compliance with debt covenants under the Power Loan agreement and met the distribution conditions for the period ended December 31, 2019.

Liquidity

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

Total liquidity is comprised of unrestricted cash. At December 31, 2019, we had total liquidity of \$5.2 million, compared to \$17.8 million at December 31, 2018. Liquidity at December 31, 2019 was comprised of unrestricted cash of \$3.0 million and unused availability under our revolving Credit Facility of \$2.2 million. Subsequent to year end, following the repayment in full of the Credit Facility, we had liquidity of approximately \$20 million comprised of unrestricted cash.

The decrease in liquidity in 2019 and the closing quarter of 2018 was due primarily to a steep and generally sustained decline in lumber prices, the combined impact of duty deposits on US shipments coupled with rapidly escalating log costs at our BC mills, and increased debt levels to fund our strategic expansion in the US South. Throughout this challenging period, we undertook a number of actions to enhance liquidity including reduction of cash outflows in our operations, monetization of non-core assets and the execution of our asset divestiture plan.

Like other Canadian lumber producers, we were required to begin depositing cash on account of softwood lumber duties imposed by the US in April 2017. We expect future cash flow will continue to be adversely impacted by the CV and AD duty deposits, to the extent the additional costs on US 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. We did not have any material commitments for capital expenditures at December 31, 2019. Based on the current level of operations and our present expectations for future periods in light of the existing economic environment, we believe that cash balances and cash flow from operations will be adequate to meet our obligations through 2020.

Contractual Obligations

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

	Payments due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
(millions of dollars)					
Long term debt	227.9	185.2	14.0	14.0	14.7
Revolving credit facility	11.7	11.7	-	-	-
Finance and operating leases	4.9	1.6	2.4	0.9	-
Reforestation obligations	12.2	3.1	4.7	1.0	3.4
Trade payables and accrued liabilities	35.8	35.8	-	-	-
Provisions and other liabilities	11.9	0.7	10.0	0.2	1.0
	304.4	238.1	31.1	16.1	19.1

Contractual obligations not included in the above table are:

- Interest payments associated with floating rate debt that depend on the lenders' Canadian prime rate, CDOR, US dollar base rate or US dollar LIBOR rate during the year of payment.
- Purchase obligations and contractual 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, 2019, Conifex Power had posted \$7.2 million of standby letters of credit as part of these commitments and had no repayment obligations under the terms of these agreements.
- Liabilities related to the sale of the US sawmill business which were classified as liabilities held for sale on our consolidated balance sheet at December 31, 2019. Liabilities held for sale totaled \$21.5 million and comprised finance and operating leases of \$3 million and trade payables, accrued liabilities and provisions of \$18.5 million. Under the terms of the securities purchase agreement, the liabilities held for sale were assumed by the purchaser on closing. The sale of the US sawmill business closed subsequent to year end, on February 1, 2020.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at December 31, 2019 were comprised of standby letters of credit totalling \$7.2 million posted by Conifex Power. The standby letters of credit are issued to BC Hydro in connection with the EPA and the LDA.

Transactions Between Related Parties

Other than transactions in the normal course of business with key management personnel, the Company had no transactions between related parties in the year ended December 31, 2019.

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SELECTED QUARTERLY FINANCIAL INFORMATION (1)

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber price	2019				2018			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales - lumber segment	19.7	17.8	35.7	58.5	68.0	92.8	110.5	81.0
Sales - electricity	8.0	5.1	4.4	8.2	8.0	6.2	5.1	7.5
Operating income (loss)	(11.5)	(8.6)	(11.7)	(8.5)	(7.8)	7.0	14.4	6.1
Net income (loss) from continuing operations	(10.2)	(11.6)	(1.1)	(7.4)	(20.2)	2.2	7.4	3.3
Net income (loss) - total operations	(162.6)	(16.6)	(9.1)	(11.9)	(23.1)	4.3	9.2	2.5
Net income (loss) per share - basic and diluted from continuing operations	(0.22)	(0.25)	(0.02)	(0.16)	(0.43)	0.05	0.28	0.12
Net income (loss) per share - basic and diluted - total operations	(3.47)	(0.35)	(0.19)	(0.25)	(0.49)	0.09	0.35	0.10
Adjusted EBITDA from continuing operations (2)	(3.9)	(7.0)	(9.1)	(4.0)	(5.0)	10.1	17.4	9.9
Shares outstanding - weighted average (millions)	46.9	46.9	46.6	46.6	46.6	45.3	26.4	26.4

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

Production - WSPF lumber (MMfbm)	37.8	26.0	47.6	73.5	93.5	104.0	132.4	123.7
Shipments - WSPF lumber (MMfbm)	38.0	34.8	60.4	78.7	99.9	111.8	133.8	112.7
Shipments - wholesale lumber (MMfbm)	-	0.3	5.4	16.6	12.8	15.5	15.1	7.4
Electricity production - GWh	55.1	53.1	47.2	55.6	54.6	54.7	51.5	50.5
Average exchange rate - US\$/Cdn\$ (3)	0.758	0.757	0.748	0.752	0.757	0.765	0.775	0.791
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$380	\$356	\$333	\$372	\$327	\$482	\$598	\$513
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (5)	\$502	\$471	\$445	\$495	\$432	\$630	\$772	\$649

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss) from continuing operations	(10.2)	(11.6)	(1.1)	(7.4)	(20.2)	2.2	7.4	3.3
Add: Finance costs	21.7	7.0	7.4	6.0	6.5	6.3	2.4	1.5
Amortization	4.8	1.8	2.5	4.1	3.9	3.4	3.8	4.4
Deferred income tax expense (recovery)	(3.8)	(4.0)	(0.9)	(2.1)	(6.5)	0.7	3.8	0.7
EBITDA (6)	12.5	(6.8)	7.9	0.6	(16.3)	12.6	17.4	9.9
Add: Foreign exchange (gain) loss on long-term debt	(2.4)	2.4	(4.4)	(4.5)	11.3	(2.5)	-	-
Restructuring costs	2.6	-	-	-	-	-	-	-
Proceeds from insurance claim	(1.1)	-	-	-	-	-	-	-
Gain on sale of assets	(15.5)	-	-	(0.1)	-	-	-	-
Gain on sale of right to duty refunds	-	(2.6)	(12.6)	-	-	-	-	-
Adjusted EBITDA from continuing operations	(3.9)	(7.0)	(9.1)	(4.0)	(5.0)	10.1	17.4	9.9

(1) Financial information reflects results of continuing operations.

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

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

(4) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

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

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

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

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to ensure adequate supply of fibre to our Mackenzie Mill 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 interest charges, are fixed in nature, quarterly operating results in the bioenergy segment are expected to reflect the variability in revenues.

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THREE-YEAR COMPARATIVE REVIEW (1)

(millions of dollars except share and per share amounts,

statistical and exchange rate information and lumber prices)

	2019	2018	2017
Sales	157.4	379.1	356.5
Net income (loss) from continuing operations	(30.4)	(7.3)	15.9
Net income (loss) - total operations	(200.2)	(7.1)	17.0
Adjusted EBITDA from continuing operations (2)	(24.0)	32.4	44.4
Net income (loss) per share, basic and diluted from continuing operations	(0.65)	(0.20)	0.65
Net income (loss) per share, basic and diluted - total operations	(4.28)	(0.19)	0.70
Shares outstanding - weighted average (millions)	46.6	36.3	24.4
Total assets	461.5	739.2	444.8
Total long-term debt	63.3	285.6	162.3
Statistics (in millions, other than exchange rate and lumber prices)			
Production - WSPF lumber (MMfbm)	185.0	453.5	518.5
Shipments - WSPF lumber (Mmfbm)	211.9	458.2	512.7
Shipments - wholesale lumber (Mmfbm)	22.3	50.8	36.5
Average exchange rate - US\$/Cdn\$ (3)	0.754	0.772	0.771
Average WSPF 2x4 #2 & Btr lumber price (US\$) (4)	\$360	\$480	\$401
Average WSPF 2x4 #2 & Btr lumber price (Cdn\$) (5)	\$478	\$621	\$520

Reconciliation of Adjusted EBITDA to Net Income (Loss)

Net income (loss) from continuing operations	(30.4)	(7.3)	15.9
Add: Finance costs	42.1	16.6	7.1
Amortization	13.2	15.6	18.3
Income tax expense	0.6	-	-
Deferred income tax expense (recovery)	(11.4)	(1.3)	3.1
EBITDA (6)	14.1	23.6	44.4
Add: Foreign exchange translation (gain) loss on long-term debt	(8.9)	8.8	-
Restructuring costs	2.6	-	-
Proceeds from insurance claim	(1.1)	-	-
Gain on sale of assets	(15.5)	-	-
Gain on sale of right to duty refunds	(15.2)	-	-
Adjusted EBITDA from continuing operations	(24.0)	32.4	44.4

(1) Financial information reflects results of continuing operations.

(2) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claim, and gains on sales of assets and the Duties Sales.

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

(4) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

(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.

Discussion of 2018 Results Compared to 2017

Consolidated Net Income

We incurred a net loss of \$7.1 million or \$0.19 per share in 2018, comprised of net loss from continuing operations of \$7.3 million, or \$0.19 per share and net income from discontinued operations of \$0.2 million or \$0.01 per share. Net income was \$17.0 million or \$0.70 per share in 2017, comprised of net income from continuing operations of \$15.9 million or \$0.65 per share and net income from discontinued operations of \$1.1 million or \$0.05 per share.

Continuing Operations

Revenues were \$379.1 million in 2018 compared to \$356.5 million in 2017. Year-over-year revenues from Conifex produced lumber were generally consistent as higher sales realizations from improved lumber prices mostly offset an 11% decline in shipment volumes. The increase in revenues from wholesale lumber shipments reflected an increase of 39% in shipment volumes and higher sales realizations. Bioenergy segment revenues improved by 4% in 2018.

We recorded operating income from continuing operations of \$19.8 million in 2018 compared to \$28.1 million in 2017. Lumber segment operating earnings included CV and AD duty deposits expense on exports to the US of \$24.4 million in 2018 and \$9.9 million in 2017. Bioenergy segment operating earnings were \$9.2 million in 2018, an improvement of 21% over the previous year.

We recorded a foreign exchange translation loss on long-term debt of \$8.8 million in 2018. We recognized deferred income tax recovery of \$1.3 million in 2018 and income tax expense of \$3.1 million through net income in 2017.

Adjusted EBITDA was \$32.4 million for 2018 and \$44.4 million in 2017.

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FOURTH QUARTER RESULTS

Consolidated Net Loss

We incurred a net loss of \$162.6 million or \$3.47 per share in the fourth quarter of 2019, comprised of net loss from continuing operations of \$10.2 million, or \$0.22 per share and net loss from discontinued operations of \$152.4 million or \$3.25 per share. Net loss was \$16.6 million or \$0.35 per share in the third quarter of 2019, comprised of net loss from continuing operations of \$11.6 million or \$0.25 per share and net loss from discontinued operations of \$5.0 million or \$0.10 per share. In the fourth quarter of 2018, we recorded a net loss of \$23.1 million or \$0.49 per share, comprised of net loss from continuing operations of \$20.2 million or \$0.43 per share and net loss from discontinued operations of \$2.9 million or \$0.06 per share.

Selected Financial Information (1)

(millions of dollars except share and per share amounts and exchange rate information)	Q4 2019	Q3 2019	Q4 2018
Sales by Segment			
Lumber	19.7	17.8	68.0
Bioenergy	8.0	5.1	8.0
	27.7	22.9	76.0
Operating Earnings (Loss) by Segment			
Lumber	(12.9)	(8.6)	(8.3)
Bioenergy	3.2	1.8	3.0
Corporate and other unallocated items	(1.8)	(1.8)	(2.5)
	(11.5)	(8.6)	(7.8)
Adjusted EBITDA by Segment			
Lumber	(7.6)	(7.8)	(5.6)
Bioenergy	5.0	2.7	4.7
Corporate and other unallocated items	(1.3)	(1.9)	(4.1)
	(3.9)	(7.0)	(5.0)
Net (loss) from continuing operations	(10.2)	(11.6)	(20.2)
Net (loss) - total operations	(162.6)	(16.6)	(23.1)
Net (loss) per share - basic and diluted from continuing operation	(0.22)	(0.25)	(0.43)
Net (loss) per share - basic and diluted - total operations	(3.47)	(0.35)	(0.49)
Shares outstanding - weighted average (millions)	46.9	46.9	46.6
Average exchange rate - US\$/Cdn\$ (2)	0.758	0.757	0.757
Reconciliation of Adjusted EBITDA to Net (Loss)			
Net (loss) from continuing operations	(10.2)	(11.6)	(20.2)
Add: Finance costs	21.7	7.0	6.5
Amortization	4.8	1.8	3.9
Income tax expense	0.6	-	-
Deferred income tax (recovery)	(4.4)	(4.0)	(6.5)
EBITDA (3)	12.5	(6.8)	(16.3)
Add: Foreign exchange (gain) loss on long-term debt	(2.4)	2.4	11.3
Restructuring costs	2.6	-	-
Proceeds from insurance claim	(1.1)	-	-
Gain on sale of assets	(15.5)	-	-
Gain on sale of right to duty refunds	-	(2.6)	-
Adjusted EBITDA from continuing operations (4)	(3.9)	(7.0)	(5.0)

(1) Financial information reflects results of continuing operations.

- (2) Source: Bank of Canada, www.bankofcanada.ca.
- (3) The Company's EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization.
- (4) The Company's adjusted EBITDA calculation represents earnings before finance costs, taxes, depreciation and amortization, foreign exchange translation gains or losses on long-term debt, restructuring costs, proceeds from insurance claims, and gains on sales of assets and the Duties Sales.

Continuing Operations

Lumber segment operating results in the fourth quarter of 2018 included shipments and production from the FSJ Mill, which was largely curtailed in May 2019 and sold in November 2019.

Revenues were \$27.7 million in the fourth quarter of 2019, \$22.9 million in the previous quarter and \$76.0 million in the fourth quarter of 2018. The revenue variability was primarily attributable to the lumber segment as bioenergy segment revenues were generally similar in the comparative quarters.

We recorded operating losses of \$11.5 million in the fourth quarter of 2019, \$8.6 million in the previous quarter and \$7.8 million in the fourth quarter last year. The operating loss in the fourth quarter of 2019 included restructuring costs related to the closure of the FSJ Mill of \$2.6 million of which \$2.2 million was allocated to the lumber segment and \$0.4 million to corporate costs and other unallocated items.

Compared to the previous quarter, the variance in lumber segment operating results was mostly attributable to benefits of higher shipment volumes and operating rates which were partially offset by a restructuring cost of \$2.2 million. Compared to the fourth quarter of 2018, lumber segment operating results were adversely impacted by lower shipment volumes of lumber and by-products, reduced operating rates, higher unit log costs and the aforementioned restructuring costs which outweighed the benefits of lower softwood lumber duty deposits expense and positive variance in inventory valuation adjustments.

Finance costs of \$21.7 million in the fourth quarter of 2019 included accelerated amortization of financing fees of approximately \$13.0 million due to the early extinguishment of our Credit Facility in February 2020. Finance costs were \$7.0 million in the third quarter of 2019 and \$6.5 million in the fourth quarter of 2018.

We recorded a foreign exchange gain on long-term debt of \$2.4 million in the fourth quarter of 2019 compared to losses of \$2.4 million in the previous quarter and \$11.3 million in the fourth quarter of 2018 due to the variability in exchange rates at the close of each measurement period.

We recorded a gain on the sale of assets of \$15.5 million, due primarily to the completion of the sale of the FSJ Mill, and net proceeds from an insurance claim of \$1.1 million in the fourth quarter of 2019 and a gain on the Duties Sales of \$2.6 million in the prior quarter.

We recognized income tax expense of \$0.6 million and deferred income tax recoveries of \$4.4 million in the fourth quarter of 2019, \$4.0 million in the previous quarter and \$6.4 million in the fourth quarter of 2018.

Adjusted EBITDA from continuing operations was negative \$3.9 million for the fourth quarter of 2019, negative \$7.0 million in the previous quarter and negative \$5.0 million for the fourth quarter of 2018.

Discontinued Operations

We recorded a net loss from discontinued operations of \$152.4 million in the fourth quarter of 2019, \$5.0 million in the prior quarter and \$2.9 million in fourth quarter of 2018. The net loss in the fourth quarter of 2019 included an impairment loss allocated to goodwill of \$143.1 million and income tax expense of \$6.5 million. The net losses in the third quarter of 2019 and the fourth quarter of 2018 included income tax recoveries of \$1.5 million and \$3.8 million, respectively.

For further information relating to Discontinued Operations, please refer to Note 8 to our consolidated financial statements for the years ended December 31, 2019 and 2018.

Operating Results by Business Segment

Lumber Segment (1)

(millions of dollars, other than statistical and exchange rate information and lumber prices)	Q4 2019	Q3 2019	Q4 2018
Sales - Lumber - Conifex produced	18.0	16.2	50.7
- Lumber - wholesale	-	0.2	10.2
- By-products	1.7	1.4	7.1
Total Sales	19.7	17.8	68.0
Adjusted EBITDA	(7.6)	(7.8)	(5.6)
Restructuring costs	2.2	-	-
EBITDA (2)	(9.8)	(7.8)	(5.6)
Amortization and other	3.1	0.8	2.7
Operating (loss)	(12.9)	(8.6)	(8.3)
Statistics (in millions, other than exchange rate and lumber prices)			
Production - WSPF lumber (MMfbm)	37.8	26.0	93.5
Shipments - WSPF lumber (MMfbm)	38.0	34.8	99.9
Shipments - wholesale lumber (MMfbm)	-	0.3	12.8
Average exchange rate - US\$/Cdn\$ (3)	0.758	0.757	0.757
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$380	\$356	\$327
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (5)	\$502	\$471	\$432

(1) Financial information reflects results of continuing operations.

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

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

(4) Source: Random Lengths Publications Inc. - Western Spruce / Pine / Fir, per thousand board feet.

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

Compared to the previous quarter, a 7% improvement in US dollar-denominated WSPF 2x4 #2 & Btr prices, nominally offset with a slightly stronger Canadian currency, resulted in a \$31 per thousand board feet increase in average Canadian dollar-denominated benchmark lumber prices in the fourth quarter of 2019.

Quarter-over-quarter revenues from Conifex produced lumber increased by 11% due primarily to higher shipment volumes which improved by 9% to 38 million board feet and an improvement in sales realizations of 2%.

Production volumes of approximately 38 million board feet during the fourth quarter of 2019 represented an improvement of 45% over the previous quarter due mostly to increased operating hours. Production at the Mackenzie Mill reflected reduced annualized operating rates of 63% in the fourth quarter of 2019 and 43% in the previous quarter due primarily to temporary curtailments related to market conditions and seasonal holidays.

Normalized unit log costs at the Mackenzie Mill improved quarter-over-quarter by approximately 5% due primarily to lower purchase log costs and improved recoveries. Overall operating costs in the second half of 2019 continued to be challenged by the low operating rates and disruptions from production curtailments which adversely impacted productivity.

We expensed CV and AD duty deposits of \$1.4 million in the fourth quarter of 2019 and \$1.3 million in the previous quarter. The duty deposits were based on a combined rate of 20.23%.

We recorded a restructuring cost related to the closure of the FSJ Mill of \$2.2 million in the fourth quarter of 2019.

Compared to the fourth quarter of 2018, US dollar-denominated WSPF 2x4 #2 & Btr improved by 16% and the Canadian currency was generally consistent in the comparative quarters. Average Canadian dollar-denominated benchmark lumber prices increased by \$70 per thousand board feet.

Lumber segment operating results in the fourth quarter of 2018 included shipments and production from the FSJ Mill, which was largely curtailed in May 2019 and sold in November 2019.

Quarter-over-quarter revenues from Conifex produced lumber declined by 64% and mostly reflected lower shipment volumes, and to a lesser extent, a decrease in unit sales realizations of 7%. Shipments mirrored lower production volumes and fell by 62%, with approximately 60% of the lower shipment volumes attributable to the closure and sale of the FSJ Mill. Unit sales realizations in the fourth quarter of 2018 were stronger than typical due to the effect of shipment lags which often have favorable impact during periods of steep declines in lumber prices. Revenues in the fourth quarter of 2018 included revenues from wholesale lumber shipments which were largely suspended in the second half of 2019.

A reduction in by-products revenue of 76% compared to the fourth quarter of 2018 was attributable to lower shipments volumes, and to a lesser extent, a decline in unit wood chip prices.

Production at the FSJ Mill represented approximately 40% of total production of 94 million board feet in the fourth quarter of 2018. Production at the Mackenzie Mill in the fourth quarter of 2019 and the same quarter last year represented annualized operating rates of approximately 63% and 93%, respectively, based on production capacity of 240 million board feet. We expect the Mackenzie Mill to achieve operating rates approaching 80% in 2020.

Compared to the fourth quarter of 2018, normalized unit log costs at our BC mills increased by 15% due primarily to higher market based stumpage and purchased log costs. Unit cash conversion costs were higher at our BC mills and generally reflected the lower operating rates.

We recorded a positive inventory valuation adjustment of \$0.1 million in the fourth quarter of 2019 and an inventory write down of \$1.0 million in the fourth quarter of 2018.

We expensed CV and AD duty deposits of \$1.4 million in the fourth quarter of 2019 and \$3.7 million in the fourth quarter of 2018 based on combined duty deposit rates of 20.23%.

Lumber segment operating losses were \$12.9 million in the fourth quarter of 2019, which included a restructuring charge of \$2.2 million, \$8.6 million in the previous quarter and \$8.3 million in the same quarter last year.

Bioenergy Segment

Operating Results

(millions of dollars, other than statistical information)	Q4 2019	Q3 2019	Q4 2018
Electricity sales under EPA - GWh	55.1	53.1	54.6
Electricity revenues	8.0	5.1	8.0
EBITDA	5.0	2.7	4.7
Amortization	1.8	0.9	1.7
Operating income	3.2	1.8	3.0

The Mackenzie Power Plant sold 55.1 GWh hours of electricity under our EPA with BC Hydro in the fourth quarter of 2019, a level that was generally consistent with the fourth quarter of 2018 and an improvement of 4% over the prior quarter. Production in the current quarter represented approximately 100% of targeted operating rates.

The effective power rate is highest during the first and fourth quarters of each year. Electricity revenues in the fourth quarters of 2019 and 2018 were \$8.0 million, an increase of 57% over the third quarter of 2019, which was mostly attributable to higher seasonal rates. Compared to the current quarter, cash

operating costs were lower in the previous quarter during which the Mackenzie Power Plant was dispatched for two months. The variability in amortization expense is largely attributable to the operating status of the power plant as idled components are not depreciated during dispatch periods. Bioenergy segment operating income of \$3.2 million in the fourth quarter of 2019 was generally consistent with the same quarter last year and improved by 78% over the previous quarter.

Bioenergy segment EBITDA was \$5.0 million in the fourth quarter of 2019, which represented improvements of 85% over the prior quarter and 6% over the fourth quarter of 2018.

OUTLOOK

We are optimistic that the reduction in lumber shipments from production curtailments from a number of BC lumber producers in 2019, coupled with more normal demand as evidenced by early indications of a strong spring building season, will result in better balanced lumber markets. Provided housing and lumber demand remain relatively stable, we expect some improvement in average lumber prices year-over-year. We continue to believe the factors that shape the mid-term demand for lumber are solid.

We expect our Mackenzie Mill to achieve annualized operating rates approaching 80% in 2020 and an improvement in operating costs in the second half of the year due to the planned implementation of additional operating hours, lower log costs from the reset of stumpage calculation in July and a more robust harvesting program which is expected to decrease unit fixed costs, and a reduction in softwood lumber duty rates in the third quarter. We expect the Mackenzie Power Plant to continue to provide a steady diversified source of cash flow and anticipate a dispatch period similar to 2019. We expect a material reduction in corporate costs as we align our resources with our smaller and more geographically focused operations. As a result of the divestment of the FSJ Mill and our US sawmill business, and due to the integrated nature of operations of the Mackenzie Mill and the Mackenzie Power Plant, we plan to report one operating segment commencing from the first quarter of 2020.

We successfully executed our divestment plan under challenging circumstances and substantially reduced our debt with the full repayment of our lumber segment Credit Facility subsequent to year end. We expect cash balances and cash flows from operations, supported by significantly reduced borrowing costs, flexibility in investment in operating working capital levels and the anticipated improvement in market conditions, will be sufficient to meet our obligations through the next 12 months.

CRITICAL ACCOUNTING ESTIMATES

The preparation of the consolidated financial statements in conformity with IFRS requires management to make critical judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could materially differ from those estimates. Such difference in estimates are recognized when realized on a prospective basis.

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 \$2.1 million at December 31, 2019 and \$4.0 million at December 31, 2018.

Valuation of Long-Lived Assets

Assets that have an indefinite useful life, such as goodwill, are not subject to amortization and are tested 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. Impairment losses are recognized in net income for the period for the amount by which the asset's carrying amount exceeds its recoverable amount. An impairment analysis requires the use of significant assumptions, including management and independent third party input.

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 recorded an impairment loss, allocated to goodwill, of \$143.1 million in net loss from discontinued operations in 2019 due primarily to the divestment of the US sawmill business. The Company did not record any impairment losses or recoveries in 2018.

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 \$7.5 million in 2019 (2018 - \$10.5 million) from continuing operations. Amortization costs related to bioenergy assets are included in cost of goods sold and reported in the bioenergy segment. The Company recorded amortization expense of \$5.3 million in 2019 (2018 - \$5.0 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 \$0.4 million in the corporate segment in 2019 (2018 - \$0.1 million).

Reforestation Obligation

Timber is harvested under various licences 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 \$3.9 million in 2019 (2018 - \$5.8 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 2019 or 2018.

Deferred Income Taxes

Deferred tax assets and liabilities comprise the tax effect of temporary differences between the carrying amount and tax basis of assets and liabilities, as well as the tax effect of unused tax losses. Assumptions underlying the composition of deferred tax assets and liabilities include estimates of future results of operations and the timing of reversal of temporary differences as well as the substantively enacted tax rates and laws at the time of the expected reversal. The composition of deferred tax assets and liabilities is reasonably likely to change from period to period due to the number of variables associated with the differing tax laws and regulations across the jurisdictions in which the Company operates. As a result, the precision and reliability of the resulting estimates are subject to uncertainties and may change as additional information becomes known. Uncertainties surrounding these assumptions and changes in tax rates or tax policy could have a material effect on expected results. 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, 2019, the Company recognized deferred income tax assets of \$9.5 million and deferred income tax recovery of \$11.4 million from continuing operations. As at December 31, 2018, the Company recognized deferred income tax assets of \$3.8 million and deferred income tax liabilities of \$1.9 million and recorded deferred income tax recovery of \$1.3 million from continuing operations.

At December 31, 2019, the Company had unused non-capital tax losses carried forward totalling \$121.8 million (December 31, 2018: \$31.4 million). The Company has not recognized deferred income tax assets related to discontinued operations due to the uncertainty of future realization.

CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2019, the Company has adopted IFRS 16, *Leases*, using the modified retrospective method. The new standard replaces IAS 17, *Leases*, and the related interpretations. Under this approach, the Company is required to recognize a right-of-use ("ROU") asset for leases that were previously classified as operating, and a related lease liability for the obligation to make the lease payments. The ROU asset represents the Company's right to use the underlying asset over the term of the lease.

At the inception of a lease, the ROU assets will be initially measured at cost, which is the initial lease obligation amount plus any initial direct costs, and less any lease incentives received. The ROU assets are amortized on a straight-line basis over the term of the lease, adjusted for impairment losses, if any.

The lease liability is initially measured based on the present value of the future lease payments discounted using the Company's incremental borrowing rate. The lease liability is subsequently measured at amortized cost using the effective interest method.

The Company has elected not to recognize ROU assets and lease obligations for leases with a term of twelve months or less, and leases for low-value assets. Lease payments associated with these leases are recognized to the condensed consolidated statement of net income as payments are made over the lease term.

On initial adoption of the new standard, the Company recognized \$8.5 million in ROU assets under property, plant and equipment on the condensed consolidated balance sheet and an additional \$8.5 million of liabilities in connection with the leases for office spaces, mobile and other equipment.

ACCOUNTING STANDARDS ISSUED AND NOT YET APPLIED

A number of new and amended IFRS standards are not yet effective for the year ended December 31, 2019 and have not been applied in preparing our financial statements. None of these standards are currently considered by the Company to be significant or likely to have a material impact on future financial statements.

RISKS AND UNCERTAINTIES

The Company is exposed to many risks and uncertainties in conducting its business, including those factors described below. A comprehensive discussion of risk factors is included in, and readers are referred to, the Company's annual information form dated March 28, 2019, and other filings with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com.

Fluctuations in Prices and Demand for and Selling Price of Lumber

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 US 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, unemployment levels, interest rates, the availability of mortgage credit and the rate of mortgage foreclosures have a significant effect on residential construction and renovation activity, which in turn influence the demand for and price of lumber. A decline in demand and a corresponding reduction in prices for our products may adversely affect our financial condition and results of operations.

Liquidity Risk

Liquidity risk is the risk that a company will be unable to meet its 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, and cash flow from operations.

Although we believe our actions will result in sufficient liquidity, there can be no assurance that we will be successful or that market conditions or competition will not work to offset our actions. 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 or at all. 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. In addition, the Power Loan requires us to satisfy certain financial covenants. There can be no assurance that we will be able to meet such covenants. A failure to meet such covenants could also result in our power lenders accelerating some or all of our then outstanding indebtedness under the Power Loan, which would have a material adverse effect on our business, financial condition and operating results. A failure to meet our financial covenants could also result in our lenders seeking to enforce their security against our power assets which would materially adversely affect our business, financial condition and operating results.

Fibre Availability and Cost

Our Mackenzie sawmill's 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 conducts a review of the AAC for each TSA on a periodic basis, which generally occurs once every five to ten years. This review then provides the basis upon which the AAC for licences issued by the Province of British Columbia under the Forest Act are determined. 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 focus on the continuous development of road networks and, in the Mackenzie operating area, the maintenance of remote logging camps and vessels and equipment related to delivery of logs by waterways. In addition, our ability to harvest fibre for use in our operations could be adversely impacted by natural events such as forest fires, severe weather conditions or insect infestations.

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

Currency Risk

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

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

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, many 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 than us.

Commodity products have few distinguishing properties from producer to producer, therefore, competition for these products is based primarily on price, which is determined by supply, relative to demand and competition from substitute products. The prices we receive for our products are affected by many factors that are outside of our control and we have little to no influence over the timing and extent of price changes, which can be volatile. Accordingly, our revenues and results from operations may be negatively affected by pricing decisions made by our competitors and by the decision of our customers to purchase products from our competitors.

Softwood Lumber Dispute

Canadian softwood lumber exports to the US 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 US in 2015, a group of US lumber producers and timberland owners petitioned the USDOC and the US International Trade Commission ("USITC") to impose trade sanctions against Canadian softwood lumber exports to the US. The USDOC announced its preliminary determination on CV and AD duty 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 others" CV rate of 14.19% and AD rate of 6.04%, for a combined rate of 20.23%. The US duty rate determinations are subject to annual Administrative Reviews, and new rates based on the 2018 Period of Review are expected to be implemented in August 2020. For further information on the new rates expected in 2020, please see the discussion on Continuing Operations on page 9 of this MD&A. The USITC ruling that the US industry was materially injured by Canada's trade practices has set the stage for ongoing litigation.

The duties are likely to remain in place until and unless some form of trade agreement can be reached between Canada and the US or a final binding determination is made as a result of litigation. 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 becoming 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 influenced by a number of factors.

Like other Canadian forest product companies and the Canadian federal and provincial governments, we deny the US 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 is appealing the US findings and will defend itself against claims of unfair trade practices made by the US. As in previous trade cases, the softwood lumber dispute may take years to resolve through the legal process and remains open to a negotiated settlement at any time.

The emergence of significant demand from China and other export markets in recent years has somewhat reduced our dependence on the US market and the impact of potential cross-border trade disputes. Revenues generated from electricity sales are expected to provide further sources of cash flow diversification to mitigate the adverse effects of trade sanctions on softwood lumber by the US.

Cumulative duties of US\$35 million paid by Conifex since inception of the current trade dispute remain held in trust by the US pending the First Administrative Review and conclusion of all appeals of US decisions. We have recorded the duty deposits as an expense. In 2019, we sold our right to refunds of cumulative duties of US\$32.7 million for proceeds of \$13.9 million (see “Operational and Business Highlights – Sale of Countervailing and Anti-Dumping Duty Refunds” above).

Capital Projects

We undertake ongoing maintenance activities and capital improvement projects at our 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.

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 steps to mitigate the risks of a combustible dust incident at our Mackenzie Mill, including significant capital investment, a formalized wood dust control program, and employee training. Regulatory agencies have implemented various regulatory and inspection initiatives related to wood dust management. Additional regulatory initiatives including stop work conditions within the industry have occurred, and continue to be a possibility.

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 (including blockades) 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 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 Mackenzie Mill, 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.

Regulatory Risks

Our operations are subject to extensive general and industry-specific federal, provincial, state, 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.

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. Our IT systems may also 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 and Human-Made Disasters and Climate Change

Our operations are subject to adverse natural events such as forest fires, severe weather conditions, climate change, 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.

Changing weather patterns and climate conditions due to natural and human-made causes have added to the unpredictability of the risks to our timber tenures and other 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 sawmill operations. 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 our 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 TSAs and we expect this trend to continue in the foreseeable future. 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 TSA has recently seen an outbreak of spruce beetle. We therefore 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 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, provincial, state, municipal and local 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 neighbouring 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. The Mackenzie Mill has 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, there may be 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 Mackenzie Mill is 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 Market Pricing System ("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 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 Aboriginal groups. 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 (the “SCC”) released the *Tsilhqot’in Nation v. British Columbia* 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.

Additionally, the Canadian Federal government and the Province of British Columbia have made commitments to review their relationships with aboriginal groups. British Columbia has adopted the United Nations Declaration on the Rights of Indigenous Peoples (“UNDRIP”) and the Canadian Federal government has expressed its support for UNDRIP. At this time, we are unable to assess the effect, if any, that the adaption and implementation of UNDRIP may have on land claims and consultation requirements, but the impact may be material.

Labour Relations

Production disruptions resulting from walkouts or strikes by unionized employees could result in lost production and sales, which could have a material adverse impact on our business. We employ a unionized work force in our sawmilling and power generation operations. In 2019, our union employees at the Mackenzie mill ratified a new, five-year collective labour agreement with the USW. Subsequent to year end, in January 2020, our union employees at the Mackenzie Power Plant also ratified a new, five-year collective labour agreement with the USW. Both agreements are retroactive to July 1, 2018 and expire on June 30, 2023. We believe our current labour relations are stable and do not anticipate any significant related disruptions to our operations in the foreseeable future.

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.

Maintenance Obligations and Facility Disruptions

Our manufacturing processes are vulnerable to operational problems that could impair our ability to manufacture products. We could experience a breakdown in any of our machines or other important equipment, and from time to time, planned or unplanned maintenance outages that cannot be performed safely or efficiently during normal hours of operation. Such disruptions could cause a loss of production, which could potentially have a material adverse effect on our business, financial condition and operating results.

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 March 10, 2020, the Company had 46,948,757 issued and outstanding common shares, 100,000 options granted, 1,540,589 long-term incentive plan awards and 3,500,000 warrants.

EVALUATION OF INTERNAL CONTROLS AND DISCLOSURE CONTROLS AND PROCEDURES OVER FINANCIAL REPORTING

In accordance with the requirements of *National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings* (NI 52-109), the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), has evaluated the effectiveness of the Company's internal control over financial reporting. Management of Conifex is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the CEO and CFO, and it is effected by management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2019 and management believes that the Company's internal control over financial reporting were effective. Management's assessment was based on the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, the CEO and CFO have concluded that Conifex's internal control over financial reporting, as defined in NI 52-109, is designed and operating effectively. In addition, the CEO and CFO confirm that there were no changes in the controls which materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting during the year ended December 31, 2019.

Disclosure controls and procedures are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management, including the CEO and CFO, on a timely basis so that appropriate decisions can be made regarding annual and interim filings or other disclosure. An evaluation of the effectiveness of the design and operation of disclosure controls and procedures was conducted as of December 31, 2019 by Conifex's management, including the CEO and CFO. Based on this evaluation, the CEO and CFO have concluded that Conifex's disclosure controls and procedures, as defined in NI 52-109, were effective as of December 31, 2019.

ADDITIONAL INFORMATION

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