



CONIFEX TIMBER INC.

2015 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 19, 2016

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, 2015 relative to 2014. This MD&A should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2015 and the notes thereto, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") and filed on SEDAR at www.sedar.com.

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

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

FORWARD-LOOKING STATEMENTS

This MD&A contains certain forward-looking information that reflects the current views and/or expectations of the Company with respect to our expectations, beliefs, assumptions, estimates and forecasts about our business and the industries and markets in which we operate. The reader is cautioned that statements comprising forward-looking information are not guarantees of future performance and involve known and unknown risks, uncertainties, assumptions and other factors which are difficult to predict and that may cause actual results or events to differ materially from those anticipated in such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information. Examples of such forward-looking information that may be contained in this document include statements regarding: growth and future prospects of our business; our expectation for the export tax rate assessed on lumber shipments to the U.S.; our expectation for sales realizations; our perceptions of the industry and markets in which we operate and anticipated trends in such markets and in the countries in which we do business; benefits that may accrue to the Company as a result of certain capital expenditure programs, such as the lumber segment capital plan and equipment upgrades; use of proceeds of financing operations; and the anticipated benefits, cost, timing and completion dates for projects.

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

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that our actual future results or performance are subject to certain risks and uncertainties including, without limitation: those relating to potential disruptions to production and delivery, including as a result of equipment failures, labour issues, the complex integration of processes and equipment and other similar factors; labour relations; failure to meet regulatory requirements; changes in the market; potential downturns in economic conditions; fluctuations in the price and supply of required materials, including log costs; fluctuations in the market price for products sold; foreign exchange fluctuations; trade restrictions or import duties imposed by foreign governments; availability of financing (as necessary); and other risk factors detailed in our Annual Information Form dated March 18, 2015 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable law.

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

BUSINESS OVERVIEW

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

In our lumber segment, we own three sawmill complexes in British Columbia, one in Fort St. James and two in Mackenzie, which are supported by renewable forestry licences with an aggregate allowable annual cut as at December 31, 2015 of approximately 1.6 million cubic metres. The Mackenzie Site I sawmill is currently idled. The annual lumber capacity of our two operating sawmills on a two-shift basis is approximately 525 million board feet. We market and distribute our lumber products through our wholly-owned subsidiaries, Conifex Fibre Marketing Inc. and Navcor Transportation Services Inc. Both of these subsidiaries also operate to generate additional revenue from third party transactions. In 2014, we expanded our wholesale lumber marketing and distribution capabilities with the acquisition of Lignum Forest Products LLP. Our lumber products are primarily sold in the United States, Chinese, Canadian and Japanese markets.

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

The Mackenzie Plant utilizes proven technology and is expected to produce approximately 230 gigawatt hours ("GWh") of net energy per year. Previously, we had completed an electricity purchase agreement

("EPA") and a related load displacement agreement ("LDA") with the British Columbia Hydro and Power Authority ("BC Hydro"). Under the EPA, we agreed to supply a minimum of approximately 200 GWh of electrical energy annually to BC Hydro over a 20-year term for a fixed price. Under the LDA, we must meet and supply the energy requirements of our Mackenzie operations over the same 20-year term. In exchange for our agreement to supply such energy under the LDA, BC Hydro provided incentive funding towards the completion of the project.

SIGNIFICANT DEVELOPMENTS IN 2015

Commencement of Commercial Operations at the Mackenzie Plant

In April 2015, we successfully completed a continuous 72 hour run test at the Mackenzie Plant. The successful completion of the run test was a critical requirement to achieve the commercial operation date in accordance with the EPA. We commenced selling electricity under the EPA to BC Hydro in May 2015.

We believe that the successful completion of the project and commencement of commercial operations provides a stable and diversified source of revenue from the fixed price EPA, an assured market for a portion of the sawmill residuals we produce, and enhances long-term competitiveness of our Mackenzie operations.

Term Conversion of Power Project Financing

In July 2015, Conifex Power Limited Partnership completed the term conversion of its secured project financing facility used to develop the Mackenzie Plant. As a result of the term conversion, the fully drawn \$82 million construction loan matured and converted into a term loan that matures on December 1, 2019. The term loan has an eighteen year amortization schedule. The power project credit facility continues to include a letter of credit facility of \$18.75 million and a \$1.75 million revolving operating facility.

Completion of Investment Agreement

In August 2015, we completed an investment agreement, pursuant to which we issued a \$30 million payment-in-kind note ("PIK Note"). Subsequent to year end, the holder of the PIK Note exercised its option to convert the note to acquire a Conifex subsidiary, which held a forest license in British Columbia with an annual allowable cut ("AAC") of 200,000 m³. The redemption of the PIK Note and resultant net gain on the sale of assets of approximately \$29.0 million will be recorded by Conifex in the first quarter of 2016. See "*Subsequent Events*" below for additional information.

The proceeds of the PIK Note are being used for general corporate purposes.

Acquisition of Sawmill Assets in El Dorado, Arkansas

In August 2015, we acquired an idled sawmill and related facilities and equipment, including approximately 186 acres of land, located near El Dorado, Arkansas. Total consideration for the acquisition consisted of 100,000 common shares of the Company at a deemed price of \$6.75, the reimbursement of certain costs incurred by the vendor, and US\$21 million, comprised of US\$12.36 million in cash and a US\$8.64 million vendor mortgage. The vendor mortgage is secured by the El Dorado property, bears interest at a rate of 6% per annum, and matures on December 1, 2016.

The El Dorado site is situated in an area well regarded for its availability of high quality sawlogs within cost effective proximity and a skilled labour pool. The El Dorado mill is currently idled. We are evaluating the optimal capital upgrade plan for the site. We believe that the acquisition further diversifies our operations and establishes an entry point to what is generally regarded by several industry analysts as one of the most competitive softwood supply regions in North America.

Operational Improvements in Lumber Segment

With the completion of the construction of the Mackenzie Plant, we realigned management resources to shift additional focus on our lumber manufacturing business. Despite challenging lumber market conditions throughout 2015, we are encouraged by the progress the new leadership team made in the operational performance of our mills, particularly in the second half of 2015 when notable gains were measured in several key performance indicators. Compared to overall 2014 results, unit cash conversion costs improved by 7%, production of construction grade and better products increased by 10%, and unit logs costs were contained to an increase of 3%, over the closing six months of 2015. The positive trends were primarily due to heightened focus on cost management, an expanded harvesting program in the Mackenzie Timber Supply Area, and positive returns from the capital upgrades completed in April and September at Mackenzie and Fort St. James, respectively.

SUMMARY OF OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts and exchange rate information)	2015	2014
Sales by Segment		
Lumber	337.2	352.9
Bioenergy	16.3	0.0
	353.5	352.9
Operating Earnings (Loss) by Segment		
Lumber	(8.7)	14.5
Bioenergy	2.1	0.0
Corporate and other unallocated items	(5.0)	(5.2)
	(11.6)	9.3
EBITDA by Segment		
Lumber	3.4	25.3
Bioenergy	6.3	0.0
Corporate and other unallocated items	(2.0)	(4.0)
	7.7	21.3
Net income (loss)	(17.3)	4.6
Net income (loss) per share - basic and diluted (1)	(0.82)	0.22
Shares outstanding - weighted average (millions)	21.0	20.9
Total assets	332.1	296.6
Total long-term debt (2)	130.2	107.3
Average exchange rate - US\$/Cdn\$ (3)	0.783	0.905
Reconciliation of EBITDA to Net Income (Loss)		
Net income (loss)	(17.3)	4.6
Add: Finance costs	8.5	5.9
Amortization	16.5	10.8
EBITDA (4)	7.7	21.3

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants and options is anti-dilutive, it is excluded from the calculation of diluted net income per share.

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

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

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

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

We recorded an operating loss of \$11.6 million in 2015 compared to operating income of \$9.3 million in 2014. Lumber segment operating results were most adversely impacted by lower sales realizations and higher unit log costs, but benefited from improvements in unit cash conversion costs. The bioenergy segment contributed operating earnings of \$2.1 million.

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

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

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

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	2015	2014
Sales -Lumber - Conifex produced	207.4	228.5
- Lumber - wholesale	95.5	83.2
- By-products	24.0	27.3
- Logistics services	10.3	13.9
Total Sales	337.2	352.9
EBITDA	3.4	25.3
Amortization and other	12.1	10.8
Operating income (loss)	(8.7)	14.5

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

Lumber production (MMfbm)	481.0	505.8
Lumber shipments - Conifex product (MMfbm)	475.8	506.7
Lumber shipments - Wholesale (MMfbm)	155.6	150.9
Average exchange rate - US\$/Cdn\$ (1)	0.783	0.905
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$277	\$350
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$354	\$386
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$240-\$336	\$310-\$376

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

(2) Source: Random Lengths Publications Inc.

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

The U.S. Census Bureau reported an estimated 1.1 million housing units were started in 2015 compared to 1.0 million starts in 2014. The year-over-year increase in new U.S. housing starts of 10% in 2015 was similar to the 9% growth reported in 2014 and reflects a more moderated pace of recovery in the residential housing construction market compared to the 18% increase reported in 2013. Single-family housing starts accounted for approximately 64% of total 2015 housing starts and represented a year-over-year increase of 10% compared to growth of 5% in 2014. Single-family housing starts are generally considered to use about three times more lumber per unit than multi-family units.

The positive trend in the recovery of U.S. residential construction markets is expected to continue. Forecasts for 2016 housing starts by several industry analysts reviewed by the Company averaged 1.24 million units, and indicated growth of approximately 12% over 2015. Single-family housing starts are expected to increase by 14% over 2015. Expenditures in the residential improvement sector in 2016 are projected to increase by 3% and contribute to growth in U.S. lumber consumption of 6% over 2015.

Housing starts in the U.S. remain a key indicator of North American lumber prices, although growth in demand from export markets, most notably China, has played an increasingly important role in influencing domestic prices over the last several years. Prices for the bell-weather WSPF 2x4 #2 & Btr product averaged US\$277 during 2015, a decline of 21% from 2014¹. Industry analysts have cited weaker-than-expected demand, declining exports to China, the weaker Canadian dollar, and increased production due to a number of mill restarts as key factors for the lower prices in 2015.

Currency was favorable in 2015 as the Canadian dollar averaged US\$0.783, a 13% decline from US\$0.905 in the previous year². Canadian dollar-denominated benchmark lumber prices declined by \$32 per thousand board feet or 8% and averaged \$354 in 2015.

The U.S. and China remained our principal markets and accounted for 74% and 80%, of total shipments, in 2015 and 2014, respectively. In 2015, shipments to China declined by approximately 8% with a corresponding percentage increase in shipments to other export markets and within Canada. Shipments to Japan remained consistent year-over-year at 7%.

Revenue from Conifex produced lumber was \$207.4 million in 2015 and \$228.5 million in 2014. The decline of 9% is attributable to lower shipment volumes of 6% and lower sales realizations of 3%. The lower shipments reflect lower production volumes. The lower sales realizations reflect lower benchmark lumber prices offset by the benefit of a weaker Canadian dollar.

Wholesale lumber revenues increased by 15% to \$95.5 million in 2015 compared to 2014. The growth was due in large part to shipments of a higher value product mix and, to a lesser extent, an increase in shipments of 3%.

Revenues from wood chips and other by-products were \$24.0 million in 2015. The decline of 12% over the previous year was primarily attributable to lower shipment volumes, which in turn, reflected lower lumber production volumes.

Revenues from the provision of third party logistics services declined by 26% due mainly to the contraction in the oil and gas sector in western Canada.

Lumber production totalled 481 million board feet in 2015 and represented an annualized operating rate of 92% compared to 96% in 2014. The lower production volume was largely attributable to planned curtailments at both mills to accommodate capital upgrades, an additional two-week curtailment at Fort St. James in July and slightly reduced operating hours at Mackenzie.

The two main elements of lumber manufacturing costs are log costs and conversion costs. Log costs typically account for the majority of the costs. Cash conversion costs exclude depreciation and amortization expense. Compared to 2014, unit manufacturing costs increased by 2% as an 8% increase in unit log costs was largely offset by a 6% reduction in unit cash conversion costs.

Unit logs costs increased by 13% during the first six months of 2015 but were held to a 3% increase during the closing six months compared to the previous year. The overall increase in log costs was generally attributable to costs associated with increased stumpage rates, harvesting and hauling rates,

¹ As quoted in Random Lengths Publications Inc.

² Bank of Canada website www.bankofcanada.ca.

and purchased log costs. The improved cost containment as the year progressed was primarily due to a successful fall logging season when we harvested considerable volume from the northern end of Williston Lake in the Mackenzie Timber Supply Area. The expanded logging program in the more remote region requires delivery of logs to our Mackenzie sawmill site by waterborne transportation. Benefits of this program included access to better quality logs, reduced unit delivery costs due to the economies of scale gained from the larger volumes transported on each trip, and reduced participation in the purchased wood market where log prices tend to be bid higher due to regional competition. We intend to expand our logging program in the fall of 2016 and expect a further modest reduction in unit log costs in 2016.

The provision of better quality logs to our mills this year resulted in improved grade yields. We produced 7% more construction grade and better products than last year. Our product mix is important because premium grades of lumber achieve considerably higher prices and profit margins than lesser grades.

High operating rates and production efficiencies permit us to lower our average cost by spreading fixed costs over more units. Unit cash conversion costs improved by 6% in 2015 even though operating rates were 4% lower than last year. The cost reduction was largely due to a heightened focus on cost management and paybacks from the capital upgrades achieved over the second half of the year. As the capital projects were completed in April and September of 2015, we expect further improvements in unit cash conversion costs in 2016 as the benefits of the capital upgrades are more fully realized.

Depreciation and amortization expense was \$12.1 million in 2015 compared to \$10.6 million in 2014. The increase was due to the completion of various capital projects that added to depreciable assets.

Per unit freight and distribution costs related to shipments of Conifex produced lumber increased by approximately 9% over the previous year. The increase was primarily due to the weaker Canadian currency as freight costs for movements outside Canada are predominantly denominated in U.S. dollars.

Under the terms of the Softwood Lumber Agreement, the export tax rate charged on shipments of softwood lumber to the U.S. from British Columbia fluctuates based upon prices published by the Random Lengths Framing Lumber Composite Price. As the tax is intended to be punitive at lower price ranges, the export tax rate is reduced when the composite price level increases to specified levels and the increase is sustained over a specified period. The export tax rate averaged 4% in 2015 and resulted in export tax expense of \$2.2 million. The export tax rate assessed on 2014 shipments was zero percent due to the higher lumber prices.

The Softwood Lumber Agreement expired on October 12, 2015. The agreement provided for a one-year standstill period after expiry that prevents the United States from initiating new trade actions against Canada with respect to the importation of softwood lumber. Canadian lumber is currently being shipped without a duty, tax, or quota.

The lumber segment recorded an operating loss of \$8.7 million for the year ended December 31, 2015 compared to operating income of \$14.5 million for the year ended December 31, 2014. Lumber segment operating results were most adversely impacted by lower sales realizations and higher unit log costs and benefited from improvements in unit cash conversion costs.

Bioenergy Segment

The Mackenzie Plant commenced commercial operations in May 2015. The ramp up and optimization of the boiler, turbine and related equipment continued throughout the balance of the year. Production was less during the first several months of operations as a result of mandatory performance testing, unplanned outages and the typical learning curve associated with operator familiarization of a new plant. Despite these challenges, electricity production reached 70% of operating target in May 2015, averaged 106% during the fourth quarter of 2015, and 98% year-to-date.

The Mackenzie Plant sold 125 GWh of electricity under the EPA in the last eight months of 2015. We took four major maintenance shutdown days in the fourth quarter of 2015 and seven days in the previous quarter. We are planning a total of 20 days of scheduled maintenance downtime in 2016.

Although electricity revenues under the EPA are based upon a fixed base price per megawatt hour, the application of a "time of delivery" factor to the unit price adds a seasonal effect to quarterly revenues. We expect the seasonal effect will produce variances in revenues of up to 30% between the strongest and weakest quarters. The effective power rate is highest during the first and fourth quarters of each year and lowest in the second quarter. As a major portion of the costs of production, as well as depreciation and interest expense, are fixed, quarterly operating results in the bioenergy segment are expected to reflect the fluctuation in revenues.

Revenues from electricity sales were \$16.3 million in 2015. Operating costs, including depreciation expense of \$4.3 million, were \$14.2 million and resulted in bioenergy segment operating income of \$2.1 million. Interest on the power project term loan was \$3.5 million. Bioenergy segment EBITDA was \$6.3 million and the EBITDA margin was 39%. EBITDA margin is defined as EBITDA as a percentage of sales.

Operating costs were higher than budgeted due primarily to costs related to performance testing and boiler tuning, implementation of a preventive maintenance program, and higher consumption of natural gas and usage of outside service contractors due to unplanned outages. Some of these extra costs are non-recurring and we expect operating costs to normalize over the first half of 2016.

Capital expenditures totalled \$13.5 million in 2015 and included costs related to repair and reassembly of equipment and testing and commissioning, as well as carrying costs such as interest, insurance premiums and property tax during the delay in start-up period. Capital costs were reduced by the receipt of interim insurance proceeds of \$11.5 million during 2015. Capital expenditures totalled \$57.9 million during 2014.

The management prepared budget for the construction and commissioning of the Mackenzie Plant was approximately \$100 million. We expect actual costs to be largely within budget once the proceeds of the insurance claim related to the unexpected outage in October 2014 are fully realized.

In July 2015, we received the remainder of incentive funds under the LDA of \$6.6 million. As previously noted, we converted the power project construction loan into a term loan and gained access to a \$1.75 million revolving line of credit provided under the project financing facility.

We expect the Mackenzie Plant to generate annualized EBITDA of approximately \$14 million once costs are normalized in the first half of 2016.

Corporate Costs

Corporate costs, which comprise corporate, head office and general and administrative expenses, were \$4.9 million in 2015 and \$5.3 million in 2014.

Finance Costs

Finance costs are comprised of interest expense and amortization of costs related to debt issuance and accretion of convertible notes and senior secured notes. Finance costs totalled \$8.6 million in 2015 and \$5.9 million in 2014. The increase of \$2.7 million is primarily attributable to the addition of interest expense on the power project term loan of \$3.5 million and a reduction in accretion costs of \$0.7 million. We ceased capitalizing interest on the power project term loan in May 2015.

Gain on Derivative Financial Instruments

We utilize derivative financial instruments to manage commodity lumber price exposures in the ordinary course of our business and to manage interest rate variability. Gains or losses on lumber derivative

instruments are recognized as other income or expense and allocated to lumber segment operating results, either as they are settled or as they are marked to market for each reporting period. We recorded gains from lumber derivative instruments of \$0.1 million in 2015 and \$0.3 million in 2014.

The term loan provided under the power project financing consists of a floating rate tranche and a fixed rate tranche. Conifex Power Limited Partnership has entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the term loan to fixed interest rates. A loss of \$0.8 million on the interest rate swap instruments was recorded as interest expense and \$0.4 million as capital costs in the bioenergy segment in 2015. The loss under the interest rate swap instruments in 2014 was *de minimus*.

Foreign Exchange Translation Gain

The foreign exchange translation gain or loss recorded for each year results from the revaluation of U.S. dollar-denominated working capital balances and, in 2015, the U.S. dollar-denominated mortgage, to reflect the change in the value of the Canadian dollar relative to the value of the U.S. dollar. U.S. dollar-denominated monetary assets and liabilities are translated using the rate of exchange prevailing at the reporting date. The relative magnitude of the translation gain or loss is largely determined by the net amount of U.S. dollar-denominated monetary assets and liabilities and the change in the exchange rates at the end of each period. The exchange rate for one Canadian dollar was US\$0.722 at December 31, 2015 and US\$0.862 at the end of 2014. The foreign exchange translation gain was \$2.8 million in 2015 and \$1.1 million in 2014.

Income Tax

At December 31, 2015, the Company had unused non-capital tax losses carried forward totalling \$32.1 million (December 31, 2014: \$30.4 million) and unrecognized deferred tax assets totalling \$13.6 million (December 31, 2014: \$10.1 million). Although the Company expects to realize the full benefit of the loss carry forwards and unrecognized deferred tax assets, due to the cyclical nature of the wood products industry and the economic conditions over the last several years, the Company has not recognized the benefits of its deferred tax assets available to reduce taxable income.

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at December 31, 2015 and 2014:

(millions of dollars, excluding ratio and percentages)	2015	2014
Cash	9.9	10.1
Cash - restricted	8.5	1.8
Operating working capital	51.9	36.5
Operating loans	(18.3)	(11.8)
Current portion of convertible notes	(11.8)	-
Current portion of mortgage	(12.0)	-
Current portion of long-term debt	(4.3)	(6.7)
Net current assets	23.9	29.9
Long-term assets related to power project	124.2	126.5
Long -term assets - lumber segment and corporate	109.2	85.5
	257.3	241.9
Non-interest bearing long-term liabilities	20.7	12.3
Long-term debt - power project construction loan	75.8	68.0
Payment-in-kind notes (2)	30.0	-
Long-term debt - other	24.4	39.3
Shareholders' equity	106.4	122.3
	257.3	241.9
Total assets	332.1	296.6
Total liabilities	225.7	174.4
Ratio of current assets to current liabilities	1.3	1.5
Net debt to capitalization	60%	48%
Net debt to capitalization (1)	42%	25%
Net debt to capitalization (3)	26%	25%

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

(2) Following the end of the year, the holder of the PIK Note exercised its option to convert the note to acquire a Conifex subsidiary, which holds a forest license in British Columbia. The redemption of the PIK Note and resultant net gain on the sale of assets of approximately \$29.0 million will be recorded in the first quarter of 2016. See "Subsequent Events" below for additional information.

(3) Excluding borrowings by Conifex Power Limited Partnership, and after giving effect to the redemption of the PIK Note. See "Subsequent Events" below for additional information.

The ratio of current assets to current liabilities at December 31, 2015 was 1.3:1 compared to 1.5:1 at December 31, 2014. The ratio was positively impacted by higher cash and working capital balances and negatively impacted by increased borrowings on the operating loans, the addition of the mortgage in connection with the El Dorado property, and the reclassification of the convertible notes from long-term debt to current.

We manage capital with the objective to maintain a strong balance sheet that ensures adequate capital resources to support operations, sustain future development and facilitate access to capital markets at competitive rates. We use the net debt to total capitalization ratio to measure our relative debt position and as an indicator of the relative strength and flexibility of our balance sheet. Net debt is calculated as the principal value of long-term debt, including the current portion, bank advances, the present value of convertible notes, the mortgage, and PIK Note, less cash. Total capital is calculated as "equity" as shown in the consolidated balance sheet plus net debt.

Net debt at December 31, 2015 of \$158.2 million was \$44.3 million higher than at December 31, 2014 due primarily to the issuance of the PIK Note and the assumption of the mortgage. The net debt to capitalization ratio was 60% as at December 31, 2015 compared to 48% at the end of 2014.

Excluding the effects of borrowings by Conifex Power Limited Partnership, the net debt to capitalization ratio was 42% at December 31, 2015 compared to 25% at December 31, 2014. Subsequent to year end, the net debt to capitalization ratio, excluding borrowings by Conifex Power Limited Partnership and after giving effect to the discharge of the PIK Note (see “*Subsequent Events*”) improved to 26%.

LIQUIDITY AND CAPITAL RESOURCES

Summary of Cash Flows

(millions of dollars)	2015	2014
Cash generated from (used in)		
Operating activities	(0.8)	19.9
Financing activities	37.0	51.2
Investing activities	(29.6)	(77.8)
Increase (decrease) in cash	6.6	(6.7)

Operating Activities

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

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 the timing of receivables and the payment of payables and expenses. Our fibre inventories exhibit seasonal swings as log inventories are increased during the fall and winter months to help ensure adequate supply of fibre to our mills during the spring months. Factors such as disruption of transportation services by third party providers and variability in export shipments can impact the level of lumber inventories. We believe our management practices with respect to working capital conform to common business practices.

We generated cash from operations before working capital changes of \$9.2 million and consumed cash of \$10.0 million in incremental working capital in 2015. The change in non-cash working capital includes an increase in inventories of \$6.1 million that largely reflects an accelerated pace of log inventory build relative to 2014. We generated cash from operations before working capital changes of \$22.7 million and used cash of \$2.8 million in incremental working capital in 2014.

Financing Activities

Financing activities provided net cash of \$37.0 million in 2015 and were comprised of net proceeds from operating loans of \$6.5 million, from the construction loan of \$9.6 million, from incentive funding of \$6.6 million and from the issuance of the PIK Note of \$30.0 million, partially offset by debt repayments totalling \$8.3 million and the payment of finance expenses of \$7.4 million.

Financing activities provided net cash of \$51.2 million in 2014 and were comprised of net proceeds from operating loans of \$5.0 million, from construction loans of \$49.7 million and from the issuance of convertible notes of \$12.0 million, partially offset by repayment of previously issued convertible notes of \$9.7 million, repayment of long-term debt of \$1.8 million, and payment of finance expenses of \$4.0 million.

Investing Activities

Investing activities consumed cash of \$29.6 million in 2015 and consisted primarily of \$2.0 million related to the power generation project (net of insurance proceeds), \$11.0 million on capital improvements in the lumber segment and \$16.6 million on the acquisition of the El Dorado assets. Lumber segment capital expenditures included payments related to the installation of extensive dust mitigation equipment at the Fort St. James and Mackenzie Site II sawmills in late 2014 and upgrades to the sawlines at both mills.

Investing activities consumed cash of \$77.8 million in 2014 and consisted primarily of \$57.3 million related to the power generation project, \$15.4 million on capital improvements in the lumber segment and \$4.8 million on the acquisition of Lignum Forest Products LLP.

Liquidity

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

Total liquidity comprises unrestricted cash and available credit under our revolving credit facilities. At December 31, 2015, we had total liquidity of \$22.6 million, compared to \$24.6 million at the end of 2014. Liquidity is comprised of unrestricted cash of \$9.9 million and unused availability under our revolving working capital loan facilities of \$12.7 million. Subsequent to the year end, in January 2016, we amended our revolving asset based loan facility to increase the maximum credit available to \$35.0 million from \$25 million, and to extend the term to January 2019 (see "*Subsequent Events*"). After giving effect to the amendment, our total liquidity at February 12, 2016 was approximately \$29.0 million.

The power project term loan facility has a cash sweep covenant that requires 50% of the cash available after debt service from the Mackenzie Plant operations to be used to repay the term loan. The remaining 50% is available for distribution to Conifex Timber Inc. provided a minimum debt service coverage ratio, calculated quarterly, is maintained. The required minimum debt service coverage ratio was satisfied at the end of the third and fourth quarters of 2015.

We monitor expected liquidity levels and compliance with debt covenants by regularly preparing rolling cash flow forecasts to ensure sufficient resources are available to meet operational requirements, debt service commitments and to sustain future business development. Based on the current level of operations and our current expectations for future periods in light of the current economic environment, we believe that cash flow from operations and available cash, together with available borrowings under our revolving credit facilities, will be adequate to meet our obligations in 2016.

In the future, we may make acquisitions of businesses or assets or commitments to additional capital projects. To achieve the long-term goals of expanding our assets and earnings, including through acquisitions, capital resources will be required. We expect such additional capital resources will be generated from debt financing and/or the sale of equity securities, but no assurance may be given that such additional capital resources will be available on satisfactory terms, or at all.

Contractual Obligations

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

	Payments due by Period				
	Total	Less than 1 Year	2-3 Years	4-5 Years	After 5 Years
(millions of dollars)					
Long term debt	170.2	33.2	38.2	98.8	-
Finance and operating leases	6.8	1.6	2.0	1.2	2.0
Reforestation obligations	9.7	2.8	3.0	1.1	2.8
Trade payables and accrued liabilities	23.7	23.7	-	-	-
Provisions and other liabilities	35.3	9.3	13.6	11.2	1.2
	245.7	70.6	56.8	112.3	6.0

Other contractual obligations not included in the table are:

- Interest payments associated with floating rate debt that depend on the lenders' Canadian prime rate or bankers' acceptance rate during the year of payment.
- Purchase obligations related to ongoing normal commercial commitments to purchase timber, fibre, energy and other operating inputs. Many of the obligations are subject to "force majeure" clauses and may vary significantly from contracted amounts depending on our requirements.
- Conifex Power Limited Partnership has entered into agreements with BC Hydro for the sale of electricity and commitment of electrical load displacement from the Mackenzie Plant. The EPA requires performance guarantees to ensure minimum required amounts of electricity are generated, and the LDA includes incentive grants for load displacement, with penalty clauses if the requirements are not met. As at December 31, 2015, Conifex Power Limited Partnership had posted \$13.2 million of standby letters of credit as part of these commitments and had no repayment obligations under the terms of these agreements.

Off-Balance Sheet Arrangements

Off-balance sheet arrangements at December 31, 2015 were comprised of standby letters of credit totalling \$18.75 million posted by Conifex Power Limited Partnership and operating leases for vehicles, equipment and machinery.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary

(millions of dollars, except share and per share amounts, statistical and exchange rate information and lumber prices)		2015				2014		
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales - lumber segment	92.7	80.0	79.2	85.3	95.2	90.9	99.6	67.2
Sales - electricity	7.8	5.9	2.6	-	-	-	-	-
Operating income (loss)	1.6	(4.5)	(9.8)	1.1	0.6	1.5	4.4	2.8
Net income (loss)	(0.3)	(5.6)	(13.0)	1.6	-	1.1	2.0	1.6
Net income (loss) per share - basic and diluted (1)	(0.01)	(0.26)	(0.62)	0.08	-	0.05	0.10	0.08
EBITDA (2)	7.3	1.5	(6.8)	5.7	4.1	5.3	6.2	5.7
Shares outstanding - weighted average (millions)	21.1	21.1	21.0	21.0	20.9	20.9	20.9	20.8

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

Lumber production (MMfbm)	131.1	112.3	118.1	119.4	116.9	125.6	134.9	128.3
Lumber shipments - Conifex produced (MMfbm)	139.4	107.6	116.0	112.8	134.0	130.4	146.4	95.9
Lumber shipments - wholesale (MMfbm)	38.6	42.6	39.7	34.8	40.4	41.9	43.3	25.2
Electricity production - GWh	54.5	46.2	24.3	-	-	-	-	-
Average exchange rate - US\$/Cdn\$ (3)	0.749	0.764	0.813	0.806	0.881	0.918	0.917	0.906
Average WSPF 2x4 #2&Btr lumber price (US\$) (4)	\$264	\$267	\$271	\$304	\$340	\$356	\$335	\$367
Average WSPF 2x4 #2&Btr lumber price (Cdn\$)(5)	\$353	\$349	\$333	\$378	\$386	\$388	\$365	\$405

Reconciliation of EBITDA to Net Income (Loss)

Net income (loss)	(0.3)	(5.6)	(13.0)	1.6	-	1.1	2.0	1.6
Add: Finance costs	2.6	2.6	2.1	1.3	1.4	1.4	1.5	1.5
Amortization	5.0	4.5	4.1	2.8	2.7	2.8	2.7	2.6
EBITDA	7.3	1.5	(6.8)	5.7	4.1	5.3	6.2	5.7

(1) If the conversion of convertible notes and/or the inclusion of outstanding warrants is anti-dilutive, it is excluded from the calculation of diluted net income per share.

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

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

(4) Source: Random Lengths Publications Inc.

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

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

Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Our fibre inventories exhibit seasonal swings as we increase log inventories during the fall and winter months to ensure adequate supply of fibre to our mills during the spring months when logging operations are generally largely curtailed due to unstable road conditions. Operating rates are typically lower, and unit manufacturing costs higher, during the fourth quarter of each year due to planned curtailments related to seasonal holidays.

The considerable increase in lumber segment revenues beginning in the second quarter of 2014 was largely attributable to our acquisition of Lignum Forest Products LLP, a lumber marketing and distribution business, in February 2014. The Mackenzie Plant commenced commercial operations in May 2015.

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars except share and per share amounts, statistical and exchange rate information and lumber prices)			
	2015	2014	2013
Sales	353.5	352.9	259.6
Net income (loss)	(17.3)	4.6	9.5
EBITDA	7.7	21.3	22.1
Net income (loss) per share, basic and diluted	(0.82)	0.22	0.46
Shares outstanding - weighted average (millions)	21.0	20.9	20.8
Total assets	332.1	296.6	226.8
Total long-term financial liabilities	130.2	107.3	51.7
Statistics (in millions, other than exchange rate and lumber prices)			
Lumber production (Mmfbm)	481.0	505.8	499.4
Lumber shipments - Conifex product (Mmfbm)	475.8	506.7	487.0
Lumber shipments - Wholesale (Mmfbm)	155.6	150.9	56.3
Average exchange rate - US\$/Cdn\$ (1)	0.783	0.905	0.971
Average WSPF 2x4 #2 & Btr lumber price (US\$) (2)	\$277	\$350	\$355
Average WSPF 2x4 #2 & Btr lumber price (Cdn\$) (3)	\$354	\$386	\$366
Price range: WPSF 2x4 #2 & Btr lumber price (US\$) (2)	\$240-\$336	\$310-\$376	\$287-\$408

Reconciliation to EBITDA to Net Income (Loss)

Net income (loss)	(17.3)	4.6	9.5
Add: Finance costs	8.5	5.9	4.0
Amortization	16.5	10.8	8.6
EBITDA (4)	7.7	21.3	22.1

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

(2) Source: Random Lengths Publications Inc.

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

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

Discussion of 2014 Results Compared to 2013

Revenues increased by 36% in 2014 compared to 2013. A significant portion of the growth was due to the acquisition of Lignum Forest Products LLP in February 2014, which contributed to higher wholesale lumber shipments. The balance of the increase was mainly due to improved sales realizations from Conifex produced lumber due primarily to higher lumber prices.

Lumber segment operating income was \$14.5 million in 2014 and \$18.2 million in 2013. The variance of \$3.7 million was largely due to higher unit manufacturing costs which outweighed the benefits of increased shipment volumes and sale realizations and revenue growth from by-products.

Non-operating items which impacted the variance in net income of \$4.9 million included increased finance costs of \$1.9 million and positive variance in foreign exchange translation gains of \$0.8 million.

FOURTH QUARTER RESULTS

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

(millions of dollars except share and per share amounts, other than exchange rate information)	Q4 - 2015	Q4 - 2014
Sales by Segment		
Lumber	92.7	95.2
Bioenergy	7.8	-
	100.5	95.2
Operating Earnings by Segment		
Lumber	0.5	1.8
Bioenergy	2.4	-
Corporate and other unallocated items	(1.3)	(1.2)
	1.6	0.6
EBITDA by Segment		
Lumber	4.1	4.5
Bioenergy	4.1	-
Corporate and other unallocated items	(0.9)	(0.4)
	7.3	4.1
Net income (loss)	(0.3)	-
Net income (loss) per share - basic and diluted	(0.01)	-
Shares outstanding - weighted average (millions)	21.1	20.9
Average exchange rate - US\$/Cdn\$ (1)	0.749	0.881
Reconciliation of EBITDA to Net Income (Loss)		
Net income (loss)	(0.3)	-
Add: Finance costs	2.6	1.4
Amortization	5.0	2.7
EBITDA (2)	7.3	4.1

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

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

Revenues were \$100.5 million in the fourth quarter of 2015 and \$95.2 million in fourth quarter of 2014. A decline in lumber segment revenues of 3% was more than offset by revenues from electricity sales, which accounted for 8% of total revenues for the quarter.

We recorded operating earnings of \$1.6 million in the fourth quarter of 2015 compared to \$0.6 million in the same quarter last year. Lumber segment operating results were adversely impacted by lower sales realizations which outweighed the benefits of higher shipment and production volumes, lower unit log and cash conversion costs, and favorable variance in inventory valuation. The bioenergy segment contributed operating earnings of \$2.4 million.

Net loss for the current quarter was \$0.3 million or \$0.01 per share compared to net income of \$nil for the same quarter last year. Net loss was adversely impacted by an increase in finance costs of \$1.2 million primarily attributable to interest expense related to the power project term loan.

Depreciation and amortization costs increased by \$2.3 million quarter-over-quarter and included \$1.7 million of depreciation expense attributable to the Mackenzie power plant assets.

EBITDA was \$7.3 million for the fourth quarter of 2015 and \$4.1 million for the fourth quarter of 2014.

Operating Results by Business Segment

Lumber Segment

(millions of dollars, other than statistical and exchange rate information and lumber prices)	Q4 - 2015	Q4 - 2014
Sales -Lumber - Conifex produced	58.9	61.9
- Lumber - wholesale	23.9	22.8
- By-products	6.8	6.8
- Logistic services	3.1	3.7
Total Sales	92.7	95.2
EBITDA (1)	4.1	4.5
Amortization and other	3.6	2.7
Operating income	0.5	1.8

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

Lumber production (MMfbm)	131.1	116.9
Lumber shipments - Conifex product (MMfbm)	139.4	134.0
Lumber shipments - wholesale (MMfbm)	38.6	40.4
Average exchange rate - US\$/Cdn\$ (1)	0.749	0.881
Average WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$264	\$340
Average WSPF 2x4 #2&Btr lumber price (Cdn\$) (3)	\$353	\$386
Price range: WSPF 2x4 #2&Btr lumber price (US\$) (2)	\$250 - \$274	\$330 - \$352

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

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

(3) Source: Random Length Publications Inc.

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

In the fourth quarter of 2015, U.S. dollar-denominated WSPF #2 and Btr prices declined by 22% compared to the same quarter last year. The Canadian currency weakened over the same period by 15% and resulted in a 9% or \$33 per thousand board feet decline in average Canadian dollar-denominated benchmark lumber prices.

Quarter-over-quarter revenues from Conifex produced lumber were 5% lower and largely reflected lower sales realizations due to weaker benchmark lumber prices partially offset by a 4% increase in shipment volumes. Although wholesale lumber shipments declined by 4%, wholesale lumber revenues improved by 5% due to shipments of a higher value product mix.

Production volumes of approximately 131 million board feet during the fourth quarter of 2015 were 12% higher than the same quarter last year. The higher operating rates were mainly attributable to production efficiencies from the recently completed capital upgrades, improved log quality and increased operating hours during the holiday season compared to the same period last year. Hourly sawmill productivity improved by 5% over the same quarter last year.

A reduction in unit log costs of 12% in the current quarter was primarily attributable to lower delivered log costs and, to a lesser extent, an improvement in recoveries. The cost reduction was largely due to the previously noted expanded harvesting program at Mackenzie.

An improvement in unit cash conversion costs of 11% in the current quarter was primarily due to higher production volumes.

Cost of goods sold was also impacted by a favorable inventory valuation variance of \$1.6 million quarter-over-quarter and an increase in depreciation expense of \$0.6 million in the current quarter.

An export tax rate of 15% was applicable on shipments to the U.S. until the Softwood Lumber Agreement expired on October 12, 2015.

Lumber segment operating income was \$0.5 million in the fourth quarter of 2015 compared to \$1.8 million in same quarter last year. The variance resulted primarily from lower sales realizations due to the 9% decline in Canadian dollar denominated benchmark lumber prices which outweighed the benefits of higher shipment and production volumes, lower unit log and cash conversion costs, and favorable variance in inventory valuation.

Bioenergy Segment

The Mackenzie Plant sold 54.5 GWh of electricity under the EPA in the fourth quarter of 2015, which represented an increase of 18% over the third quarter of 2015. The plant achieved 106% of our targeted operating rates in the current quarter and 97% in the previous quarter. We took four major maintenance shutdown days in the current quarter and seven days in the previous quarter.

The effective power rate is the highest during the first and fourth quarters of each year. Revenues from electricity sales were \$7.8 million in the fourth quarter of 2015 and \$5.9 million in the previous quarter. Operating costs in the fourth quarter of 2015 were \$5.4 million, including depreciation expense of \$1.7 million. Bioenergy segment operating income was \$2.4 million. Interest on the power project term loan is allocated to this segment and was \$1.4 million. EBITDA was \$4.1 million and the EBITDA margin was 53%.

OUTLOOK AND STRATEGIC CAPITAL EXPENDITURES

Operations and Lumber Market Outlook

Looking ahead to 2016, we expect the U.S. market to continue its gradual recovery in both the housing and repair and remodelling sectors. We agree with forecasts calling for an approximate 6% increase in North American lumber consumption, and expect Canadian dollar denominated benchmark prices will average at least 5% higher than in 2015. The extent to which the anticipated increase in U.S. housing demand translates into higher selling prices will be influenced by potential increased supply from higher shipment volumes from Canadian and other suppliers into the U.S. market. The uncertainty related to the recent expiry of the Softwood Lumber Agreement may increase market volatility.

Although Chinese demand for lumber is forecast to decline in 2016, we expect our sales volume to China will remain steady and anticipate a slight improvement in pricing after the annual holiday period in February. We expect limited growth in the Japanese lumber market through the first half of 2016 and modest volume improvements in the second half, ahead of the anticipated increase in consumption tax in 2017.

In the lumber segment, we intend to remain focused on a number of initiatives to enhance operations and cash flow, including continued heightened cost management and productivity improvements from affordable, high-return capital projects. In 2016, we expect further improvements in unit cash conversion costs from these initiatives and to achieve a modest improvement in logs costs.

We will continue to work towards optimizing performance of the Mackenzie Plant and normalizing costs, and should benefit from a full year of plant operations and resultant cash flow generation in 2016.

Strategic Capital Expenditures

Pursuant to our 20-year EPA with BC Hydro, we may increase our electricity deliveries by 10% provided we notify BC Hydro prior to the date agreed to in the EPA. The Mackenzie Plant has demonstrated its potential to produce electricity at levels that would enable us to increase our future deliveries by such an amount. Prior to making such a commitment, we are undertaking due diligence related to, among other things, sufficiency of affordable feedstock volumes to support higher power production over the remaining 19-year term of our contract. We may consider certain capital expenditures to modify and strengthen our fibre procurement operations at Mackenzie. We currently believe such capital expenditures could be funded without requiring additional borrowings.

Other than the above, in the short-term, we expect modest capital expenditure outlays on maintenance of business types of projects for our lumber and bioenergy segments in 2016. Beyond the short-term, we plan to continue to invest in our assets and are evaluating a number of larger scale capital projects. Once we complete our evaluation, we intend to prioritize the projects based on perceived risks and the attractiveness of potential returns.

SUBSEQUENT EVENTS

Amendment of senior secured revolving asset based credit facility

On January 29, 2016, the Company completed the renewal of its revolving asset based credit facility for a further three-year term. The amendment increases our borrowing availability to \$35 million and extends the maturity date of the facility to January 29, 2019.

After giving effect to the amendment of the asset based credit facility, our total liquidity at February 12, 2016 was approximately \$29.0 million, compared to \$22.6 million at December 31, 2015.

Exercise of payment-in-kind option of the PIK Note

In February 2016, the holder of the PIK Note exercised its option to convert the PIK Note to acquire a Conifex subsidiary, which holds a forest licence in British Columbia with an AAC of 200,000 m³. The redemption of the PIK Note and resultant net gain on the sale of assets of approximately \$29.0 million will be recorded in the first quarter of 2016. In 2015, a tax election was filed to increase the tax basis of the forest licence, triggering a taxable gain which was offset by the utilization of loss carryforward amounts. As a result, the tax impact of the PIK Note redemption will be significantly reduced in 2016.

After giving effect to the discharge of the PIK Note, the Company held forest licences with AAC totaling 1,372,500 m³. The net debt to capitalization ratio was approximately 49% at February 12, 2016, compared to 60% at December 31, 2015. The net debt to capitalization ratio, excluding borrowings by Conifex Power Limited Partnership, was approximately 26%.

CRITICAL ACCOUNTING ESTIMATES

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

Valuation of Inventory

We closely monitor conditions that could impact valuation of inventories or otherwise impair our assets. Inventories of logs and lumber products are valued at the lower of average cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs for completion and applicable variable selling expenses. Our estimated selling price is based on sales order that exist 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. Inventory has been written down by \$0.7 million at December 31, 2015 compared to \$0.3 million at December 31, 2014.

Valuation of Long-Lived Assets

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

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

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

Net impairment losses and recoveries are reported as a separate line item on the financial statements as non-operating items in the corporate segment. The Company has not recorded any impairment losses or recoveries during 2015 or 2014.

Amortization costs related to lumber segment assets are included in costs of goods sold and reported in the lumber segment operating results. The Company recorded amortization expense in the lumber segment of \$12.2 million in 2015 (2014 - \$10.7 million). Amortization costs related to bioenergy assets are included in cost of goods sold and reported in the bioenergy segment. The Company recorded amortization expense of \$4.3 million (2014 - \$nil) in the bioenergy segment. Amortization costs related to corporate assets are included in selling, general and administration expenses and reported in the corporate segment. The Company recorded amortization expense of \$0.1 million in the corporate segment in 2015 and 2014.

Reforestation Obligation

Timber is harvested under various licenses issued by the Province of British Columbia, which include future requirements for reforestation. The future estimated reforestation obligation is accrued based upon the volume of timber cut each period and charged to costs of goods sold in the lumber segment. The estimates of reforestation obligation 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 \$5.7 million in 2015 (2014 - \$4.9 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 2015 or 2014.

Deferred Income Taxes

Deferred income tax is provided for using the asset and liability method and recognizes temporary differences between the tax values and the financial statement carrying amounts of balance sheet items as well as certain carry forward items. The Company only recognizes a deferred income tax asset to the extent that the future realization of the tax asset is probable. This is based on estimates and assumptions as to the future financial performance of the various taxable legal entities. At December 31, 2015, the Company had unrecognized deferred tax assets of \$13.6 million compared to \$10.1 million in the prior year.

ACCOUNTING STANDARDS ISSUED BUT NOT YET APPLIED

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2015 and not early adopted

IFRS 9, Financial Instruments

In July 2014, the IASB issued the final publication of IFRS 9, Financial Instruments, superseding International Accounting Standard ("IAS") 39, Financial Instruments. IFRS 9 includes amended guidance for the classification and measurement of financial assets by introducing a fair value through other comprehensive income category for certain debt instruments. It also includes a new general hedge accounting standard which will align hedge accounting more closely with risk management and contains a new impairment model which could result in earlier recognition of losses. IFRS 9 is effective for the year ending December 31, 2018 with early adoption permitted. The Company has not yet determined the impact of this standard on its consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

In May 2014, the IASB issued IFRS 15, Revenue from Contracts with Customers, which replaces the existing revenue recognition guidance with a new framework to determine the timing of revenue recognition and the measurement of revenue. IFRS 15 also requires more comprehensive disclosures regarding the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. IFRS 15 will be effective for the year ending December 31, 2018 with early adoption permitted. The Company has not yet determined the impact of this standard on its consolidated financial statements.

IFRS 16, Leases

In January 2016, the IASB issued IFRS 16, Leases, which replaces the existing lease accounting guidance. IFRS 16 requires all leases to be reported on the balance sheet unless certain criteria for exclusion are met. IFRS 16 is effective for the year ending December 31, 2019 with early adoption permitted if IFRS 15 is also adopted at the same time. The Company has not yet determined the impact of this standard on its consolidated financial statements.

RISKS AND UNCERTAINTIES

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

Fluctuations in Prices and Demand

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

Currency Risk

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

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

Fibre Availability and Cost

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

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

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

Competition

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

Capital Projects

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

Combustible Dust

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

Transportation Limitations

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

Operational Curtailments

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

production curtailments may require sawmills to find other ways to dispose of residual wood fibre and may result in curtailment or suspension of lumber production.

Expiry of Softwood Lumber Agreement

The Softwood Lumber Agreement implemented by the federal governments of Canada and the United States in 2006, expired on October 12, 2015. As part of that agreement the U.S. government agreed to a standstill period, where it would not take any trade action against Canada for a twelve month period following expiry. If the governments do not negotiate a new agreement, the U.S. may launch trade action after the standstill period ends. This may result in the imposition of U.S. protective measures such as countervailing and anti-dumping duties leveled against Canadian softwood lumber producers.

There is no assurance there will be any new trade agreements forthcoming or if a new trade agreement was reached whether new export measures could adversely affect our lumber segment operations. Further, if there is no new agreement and the U.S. decides to take trade action, the earliest date preliminary duties could take effect will be sometime in 2017, with retroactive charges to October, 2016. The amount and impact of duties cannot be determined at this time. Canada is expected to defend itself vigorously in any trade action taken by the U.S.

The emergence of significant demand from China and other export markets in recent years has somewhat reduced our dependence on the U.S. market and the impact of potential cross-border trade disputes.

Regulatory Risks

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

Reliance on Directors, Management and Other Key Personnel

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

Liquidity Risk

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

Although we believe our actions will result in sufficient liquidity, there can be no assurance that we will be successful or that market forces or competition will not work to offset our actions. In addition, the

availability of funding, or other sources of capital, is dependent on capital markets at the relevant time and may not be available on acceptable terms. In the event that debt or equity capital is not available on acceptable terms, or at all, in the future, we may need to explore other strategic alternatives.

Information Systems Security Threats

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

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

Natural Disasters

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

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

In addition, our operations may be adversely affected by severe weather including wind, snow and rain that may result in our operations being unable to harvest or transport logs to our sawmills. We are unable to predict the impact of all these factors on our tenures or our forest practices. While we maintain insurance coverage to the extent deemed prudent, we cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks. As is common in the industry, we do not insure loss of standing timber for any cause.

Mountain Pine Beetle (“MPB”)

The long-term effect of the MPB infestation on our operations is 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 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 timing and extent of the effect on our timber supply, lumber grade and recovery, wood chip quality and production costs will depend on a variety of factors which cannot be determined at this time with any certainty.

Environment

Our operations are subject to regulation by federal and provincial environmental authorities, including industry specific environmental regulations, permits, guidelines and policies relating to air emissions and pollutants, wastewater discharges, solid waste, landfill operations, clean-up of unlawful discharges, dangerous goods and hazardous materials, forestry practices, land use planning, municipal zoning, employee health and safety, site remediation and the protection of endangered species and critical habitat. In addition, as a result of our operations, we may be subject to remediation, clean-up or other administrative orders or amendments to our operating permits, and we may be involved from time to time in administrative and judicial proceedings or inquiries. Future orders, proceedings or inquiries could have a material adverse effect on our business, financial condition and results of operations. Environmental laws and land use laws and regulations are constantly changing. New regulations or the increased enforcement of existing laws could have a material adverse effect on our business and financial condition. In addition, compliance with regulatory requirements is expensive, at times requiring the replacement, enhancement or modification of equipment, facilities or operations. There can be no assurance that we will be able to maintain our profitability by offsetting any increased costs of complying with future regulatory requirements.

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

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

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

Stumpage Fees

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

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

Aboriginal Claims

Canadian court decisions have recognized the existence of Aboriginal title and rights, which may include title or rights of use to lands historically used or occupied by Aboriginals. Aboriginal groups have claimed Aboriginal rights and/or title over a significant portion of British Columbia, and few treaties are in place between the Crown and Aboriginal groups in British Columbia. While certain Aboriginal groups in British Columbia have entered into treaty negotiations with the Crown, such negotiations involve complex issues that may take many years to resolve, if at all, and the results of such negotiations cannot be predicted.

Courts have held that the Crown has an obligation to consult with Aboriginal groups when the Crown has knowledge of either existing rights or the potential existence of Aboriginal title or rights and is contemplating actions that may potentially impact such title or rights. Failure of the Government of British Columbia to adequately discharge its obligations to Aboriginal groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights.

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

Labour Relations

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

higher ongoing labour costs, which could have a material adverse effect on our business, financial condition, results of operations or cash flow.

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

Periodic Litigation

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

Tax Exposures

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

OUTSTANDING SECURITIES

As at February 19, 2016, the Company had 21,136,377 issued and outstanding common shares, 100,000 options granted, 1,347,851 long-term incentive plan awards, 1,220,417 warrants, and subordinated convertible promissory notes in the aggregate principal amount of \$12 million, which notes are convertible into a maximum of 1,929,260 common shares of the Company.

INTERNAL CONTROL OVER FINANCIAL REPORTING

Conifex's management, including our President and Chief Executive Officer and our Vice-President Finance and Chief Financial Officer, have designed, or have caused to be designed under their supervision, internal control over financial reporting as defined under National Instrument 52-109 – *Certification of Disclosure in Issuer's Annual and Interim Filings*, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our President and Chief Executive Officer and our Vice-President Finance and Chief Financial Officer have evaluated, or caused to be evaluated under their supervision, the effectiveness of our internal control over financial reporting and have determined, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and on this evaluation, that such internal controls over financial reporting are effective at December 31, 2015.

Changes in Internal Controls

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

ADDITIONAL INFORMATION

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