CONIFEX TIMBER INC.

2013 MANAGEMENT'S DISCUSSION AND ANALYSIS

Dated as of February 21, 2014

This Management's Discussion and Analysis ("MD&A") provides a review of the financial performance of Conifex Timber Inc. (the "Company") for the year ended December 31, 2013 relative to 2012, the Company's financial condition and future prospects. This MD&A should be read in conjunction with Conifex's Consolidated Financial Statements and notes thereon for the years ended December 31, 2013 and 2012 filed on SEDAR at www.sedar.com. The financial information contained herein has been prepared in accordance with International Financial Reporting Standards.

In this MD&A, reference is made to "EBITDA". EBITDA represents earnings before interest, taxes, depreciation and amortization, as well as before deductions for non-cash charges related to employee compensation and changes in the balance sheet carrying value of convertible debentures and other investments. 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.

Unless otherwise noted, all monetary references in this MD&A are in Canadian dollars.

References in this MD&A to "Conifex" and the "Company" mean Conifex Timber Inc., together with its subsidiaries, unless the context otherwise requires.

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 its expectations, beliefs, assumptions, estimates and forecasts about its business and the industries and markets in which it operates. 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 mill net realizations; that the Company will successfully negotiate and sign a new collective labour agreement with its unionized employees; 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, equipment upgrades and maintenance shutdowns; and the anticipated benefits, cost, timing and completion dates for projects, including the Power Generation Project.

Assumptions underlying the Company's expectations regarding forward-looking information contained in this MD&A include, among others: that the Company will be able to effectively market its products; that the Company will conclude a new collective labour agreement on satisfactory terms; that the U.S. housing market will continue to improve; that there will be no further delays and disruptions affecting the completion of the Power Generation Project and that the Company will be able to commence timely delivery of power therefrom; that softwood lumber will experience improved and sustained demand in the marketplace at favourable prices; that the export tax rate on U.S. lumber shipments will be less than the maximum rate; that the Company will be able to dynamically respond to shifts in demand among its major markets; the general stability of the economic, political and regulatory environments within the countries where the Company conducts operations; the ability of the Company to obtain financing (if necessary) on acceptable terms or at all; that interest and foreign exchange rates will not vary materially from current levels; and that our mills and equipment will operate at expected levels.

Persons reading this MD&A are cautioned that statements comprising forward-looking information are only predictions, and that the Company's 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 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 April 17, 2013 available on SEDAR at www.sedar.com and other filings with the Canadian securities regulatory authorities. These risks, as well as others, could cause actual results and events to vary significantly. The Company does not undertake any obligation to update any forward-looking information, except as required by applicable securities law.

BUSINESS OVERVIEW

Conifex is an independent British Columbia based company and a relatively new entrant in the forestry industry. The Company's current operations are focused in the interior region of British Columbia where it has invested in forestry, sawmilling and power generation assets. The Company organizes its business based on its products and services and reports its operations in two complementary segments – lumber and bioenergy.

The main activities of the lumber segment include timber harvesting, reforestation, forest management, and the manufacture, sale and distribution of dimension lumber. The Company owns three sawmill complexes, one in Fort St. James ("FSJ") and two in Mackenzie, which are supported by renewable forestry licences with an allowable annual cut of approximately 1.6 million cubic metres. The combined annual lumber production capacity on a two-shift basis of the Company's three sawmills totals approximately 745 million board feet. Excluding the currently idled Site I sawmill at Mackenzie, the annual lumber production capacity is 525 million board feet. The Company markets and distributes its lumber products through its wholly-owned subsidiaries, Conifex Fibre Marketing Inc. ("CFMI") and Navcor Transportation Services Inc. ("Navcor"). Both CFMI and Navcor operate to generate additional revenue from third party transactions. The Company expects to further strengthen and complement its marketing and

distribution capabilities with its recent acquisition of Lignum Forest Products LLP as discussed under Subsequent Events. Conifex's lumber products are primarily sold in the United States, Chinese, Canadian and Japanese markets.

The main activities planned for the bioenergy segment are to create power generation capacity at the Company's Mackenzie facility to generate renewable energy for commercial sale (the "Power Generation Project") and to pursue additional investment opportunities in bioenergy and bioproducts which are complementary to the Company's harvesting and manufacturing operations. The Company's wholly-owned subsidiary, Conifex Power Limited Partnership ("CP Partnership"), is developing the Power Generation Project adjacent to the Mackenzie Site I sawmill complex. The project involves upgrading the existing power island infrastructure, installing a new 36 MW turbine, and supplying electricity to the Mackenzie operations under a Load Displacement Agreement ("LDA") and selling electricity under an Electricity Purchase Agreement ("EPA") with BC Hydro. Both agreements have 20-year terms.

OVERVIEW OF 2013

During 2013, the Company made considerable progress on operational improvements and achieved its near-term financing objectives for the year.

The Company significantly improved liquidity in its lumber segment with the completion of a three-year, $25 million revolving credit facility (the "Facility") to primarily support working capital requirements and the issuance of four-year senior secured notes aggregating $30 million (the "Notes") to primarily underpin future capital projects. The completion of the financing initiatives combined with significant year over year improvement in cash flow from operations allowed for increased direct shipments to offshore markets, optimization of harvesting activities, capital investments in the lumber segment, and continued support of critical path activities related to the Power Generation Project until project financing was completed late in the year.

Operating results for 2013 benefited from favourable market conditions and solid demand from each of Conifex's primary markets which fostered a sustained higher lumber price environment compared to 2012. Positive external factors coupled with continued improvements in key performance metrics largely contributed to the generation of $21.7 million EBITDA. The Company's investment in lumber segment capital projects totalling $15.8 million was weighted towards the replacement and upgrade of aging equipment, and safety related and asset protection projects, with the balance focused on targeted higher return projects in the second half of the year.

The Company's collective labour agreement with the United Steel Workers union expired on June 30, 2013. The Company is currently in discussions with the union and expects to reach a five-year agreement similar to one recently settled by a major lumber producer operating in the same region. Although Conifex has not experienced any work stoppages in the past and does not expect any work stoppages now, there can be no assurance that the Company will be able to negotiate an acceptable collective agreement with its employees. Any new collective labour agreement should be retroactive to July 1, 2013.

The Company resumed construction of its Power Generation Project in September 2013 upon the commitment of project financing. The financing for an aggregate amount of $102.7 million (the "Project Financing") was completed by CP Partnership in November 2013. The project is currently on budget and proceeding as scheduled with an expected commercial operation date in the third quarter of 2014. The Company expects the successful completion of the project will

contribute to cash flow by providing a consistent source of revenue from the fixed price EPA with BC Hydro and will enhance the long-term competitiveness of the Mackenzie sawmilling site.

The Company further strengthened its leadership team with the appointments of Hans Thur as Senior Vice President, Marketing, Conifex Timber Inc. and President of CFMI, and Patrick Bell as a director of the Company in August 2013. Mr. Bell was appointed to the newly created role of Executive Vice President in January 2014 and will continue to serve as a director.

SUMMARY OF CONSOLIDATED OPERATING RESULTS

Selected Financial Information

(millions of dollars except share and per share amounts)	2013	2012
Sales	259.6	217.6
Operating Earnings (Loss) by Segment		
Lumber	18.2	(8.5)
Bioenergy	(0.5)	(1.0)
Corporate and other	(4.9)	(3.4)
	12.8	(12.9)
EBITDA by Segment		
Lumber	26.7	0.5
Bioenergy	(0.5)	(1.0)
Corporate and other	(4.5)	(3.5)
	21.7	(4.0)
Net income (loss)	9.5	(16.2)
Net income (loss) per share - basic and diluted (1)	0.46	(0.86)
Shares outstanding - weighted average (millions)	20.8	18.9
Total assets	226.8	168.7
Total long-term debt (2)	51.7	11.8
Average exchange rate - US$/Cdn$ (3)	0.971	1.001
Reconciliation of EBITDA to Net Income (Loss)		
Net income (loss)	9.5	(16.2)
Add: Interest expense and accretion	4.0	3.5
Amortization	8.6	7.6
Non-cash items related to compensation	(0.4)	0.8
Loss on disposal of assets	-	0.3
EBITDA	21.7	(4.0)

(1)) The conversion of convertible notes and inclusion of outstanding warrants is anti-dilutive and is therefore excluded from the calculation of diluted net income or loss per share.
(2) Total long-term debt excludes the current portion.
(3) Source: Bank of Canada website www.bankofcanada.ca

The Company recorded net income of $9.5 million or $0.46 per diluted share for the year ended December 31, 2013 compared to a net loss of $16.2 million or $0.86 per share in the prior year. The year over year improvement in lumber segment operating earnings of $26.7 million and EBITDA of $27.2 million was primarily attributable to increased mill net realizations from higher average lumber prices, lower export taxes and higher shipments to Japan, as well as improved

productivity and unit cash conversion costs, and improved lumber recovery which moderated an overall increase in unit log costs.

The year over year increase in revenues of 19% was primarily attributable to improved unit gross sales realizations as total lumber shipment volumes remained relatively consistent. Production increased by 18% and elevated overall operating rates to 95% for 2013 (excluding the Company's idled Site I mill) compared to 81% in 2012.

During 2013, the Company invested $15.8 million in lumber segment capital projects (2012 - $9.5 million) and $29.1 million in the Power Generation Project (2012 - $22.6 million) of which $22.8 million was funded by the Project Financing.

At December 31, 2013, the Company had cash and cash equivalents on hand of $18.6 million compared to $14.1 million at December 31, 2012. An increase in net non-cash working capital of $14.1 million at December 31, 2013 primarily reflected incremental investments in log and finished lumber inventories to support higher production levels, seasonal log build and increased direct export shipments. The Company ended the year with consolidated net debt of $44.0 million (December 31, 2012 - $11.6 million) and net debt to capitalization ratio of 27% (December 31, 2012 – 10%). Excluding borrowings under the Project Financing, which is largely structured on a non-recourse basis to the lumber segment assets and to the parent company, Conifex Timber Inc., net debt was $21.2 million and net debt to capitalization ratio was 15% at December 31, 2013.

REVIEW OF OPERATING RESULTS BY BUSINESS SEGMENT

Lumber Segment

(millions of dollars except share and per share amounts)	2013	2012
Sales -Lumber	224.8	184.4
- By-products	20.3	19.6
- Logistics services	14.5	13.6
Total Sales	259.6	217.6
EBITDA	26.7	0.5
Amortization	8.6	7.5
Other adjustments and non-cash items	(0.1)	1.5
Operating income (loss)	18.2	(8.5)
Capital expenditures	15.8	9.5
Statistics		
Lumber shipments - Conifex product (MMfbm)	487.0	444.2
Lumber shipments - Wholesale (MMfbm)	56.3	94.9
Lumber production (MMfbm)	499.4	424.4
Average exchange rate - US$/Cdn$ (1)	0.971	1.001
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 355	$ 300
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$ 366	$ 299
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$287-$408	$244-$388

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

Overview

The residential construction industry in the U.S. continued to stage a steady recovery as evidenced by year over year increases in new housing starts of 18% and 28% respectively in 2013 and 2012, as reported by the U.S. Census Bureau. There were an estimated 923,000 new housing units started during 2013 and 781,000 in 2012. The 2013 increase was represented by a 12% increase in single-family housing starts and 32% increase in multi-unit starts. Housing starts in the U.S. have historically been a key determinant of North American lumber prices although growing demand from export markets has played an increasingly important role in shaping domestic prices over the last several years.

WSPF 2x4 #2 & Btr ("WSPF") prices averaged US$355 during 2013 and represents an increase of 18% over the 2012 average benchmark price of US$300. Benchmark prices continued to exhibit considerable volatility during 2013 with prices reaching a peak of US$408 in the first quarter before falling 42% to a low for the year of US$287 in the second quarter, and then retracing to end the year at US$372[1]. Year over year, the Canadian dollar weakened by approximately 3% against the U.S. dollar and widened the increase in average benchmark prices expressed in Canadian dollars to $67 per thousand board feet or 22%[2].

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 2% in 2013 compared to an average of 11% in 2012.

The lumber segment recorded operating income of $18.2 million on sales of $259.6 million for the year ended December 31, 2013 compared to an operating loss of $8.5 million on sales of $217.6 million for the year ended December 31, 2012. Lumber segment EBITDA improved by $26.2 million over the prior year.

The significant improvement in 2013 operating results was primarily attributable to increased mill net realizations from improved lumber prices, lower export taxes and higher shipments to Japan, productivity gains, reduction in unit cash conversion costs, and improved lumber recovery which moderated an overall increase in unit log costs.

Sales

The year over year increase in lumber revenues of 22% mirrored the trend in benchmark prices and was primarily attributable to an increase in gross sales realization as overall shipment volumes increased by a modest 1%. An increase in shipments of Conifex produced lumber of 43 million board feet was largely offset by a decline in wholesale lumber shipments of 39 million board feet. The decline in wholesale lumber shipments was largely a result of a reduction in carrying third party inventories in volatile markets which limited options on certain product lines.

The Company continued to experience solid demand from each of its four primary markets and shipment patterns were generally consistent during the comparative years with a pronounced increase in shipments to the Japanese market and modest increases to the U.S. and Chinese markets offset by lesser volumes within the Canadian market. The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market.

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[1] Prices are reported in Random Lengths Publication Inc.
[2] Bank of Canada website www.bankofcanada.com

	2013	2012
By Revenue (net of freight)		
Canada	10%	20%
USA	40%	38%
Japan	14%	5%
China and other	36%	37%
	100%	100%
By Shipment Volume		
Canada	10%	19%
USA	37%	36%
Japan	10%	4%
China and other	43%	41%
	100%	100%

The Company regularly monitors each market to determine those that are expected to yield the highest return for its lumber products on a product specific basis. The Company has established the logistics capability to shift significant volumes between key markets. Shipments to export markets ranged from a high of 67% during the third quarter of 2013 to 42% during the first half of the year. Overall 2013 export shipments outside of North America represented 53% of total shipments by volume compared to 45% in 2012.

The Company achieved a year over year increase in overall unit mill net realizations of 27% compared to an increase in benchmark prices of 22%. Factors contributing to the above trend performance included a 6% increase in shipment volumes and a 43% improvement in unit mill net realizations from the Japanese market and 32% improvement in unit mill net realizations from the U.S. market which benefited from a 9% reduction in the export tax rate. The superior margins earned from the Japanese market reflect the premium accorded higher quality products and the less volatile pricing environment resulting from quarterly volume commitments.

The marginal increase in revenue from by-products reflects a 7% improvement in unit wood chip prices offset by lower shipment volumes of other residual products. The Company expects revenues from other residual products to improve in subsequent periods as a result of the completion of related capital improvements in early 2014.

Production and Operations

The year over year increase in lumber production of 18% or 75 million board feet was largely attributable to productivity improvements as average hourly production volumes increased by 12%. The Company took planned maintenance and capital improvement related downtime in 2012 which resulted in 5% lower operating hours than in 2013. Total 2013 production of 499 million board feet represented an operating rate of 95% (excluding the Company's idled Site I mill) compared to an operating rate of 81% in 2012. Factors contributing to the productivity gains during the year included the benefits of management restructuring in late 2012 and heightened focus on leadership training and development, the processing of a more sustainable and improved log diet, addition of experienced personnel, a more effective maintenance regime and targeted capital upgrades. The Fort St. James sawmill has now largely recaptured production volume forfeited when it was converted from a three-line to two-line operating format in the first quarter of 2012.

Overall cost of goods sold increased by 8% over the previous year. Cost of goods sold includes costs related to the raw materials and manufacturing of Conifex produced lumber, purchases of wholesale lumber and freight procurement costs related to third party revenue generated by Navcor. Wholesale lumber can be purchased on a free on board origin or other destination basis. As the entire third party purchase is recorded as cost of goods sold, this category could include freight costs embedded in the delivered price paid to the vendor.

An increase of 21% in the unit cost of delivered logs was offset by an 8% improvement in lumber recovery and resulted in a year over year net increase in unit log costs of approximately 12%. The increase in delivered log costs is generally attributable to costs associated with increased stumpage rates, logging and hauling rates, and purchased log costs.

Unit cash conversion costs improved by 9% over the previous year as the benefits of improved productivity were somewhat offset by higher employee related costs including accruals for an anticipated increase in labour costs from the expected renewal of the collective labour agreement and increase in contractor services. In 2012, the benefits of a positive inventory valuation adjustment of $1.5 million was more than offset by consulting fees of $1.0 million related to the performance improvement project and $0.7 million related to organizational restructuring costs at FSJ.

An increase of 4% in unit freight and distribution costs on shipments of Conifex produced lumber was largely attributable to increased fuel costs and rail rates and the weaker Canadian currency.

The Company recorded a $0.6 million export tax expense in 2013 compared to $4.6 million in 2012 with the variance largely reflective of a 9% reduction in average export tax rates.

Bioenergy Segment

Management finalized its capital expenditure budget for the Power Generation Project at approximately $100 million including a $6 million general contingency. The Company resumed construction activities on the project in September 2013 upon the commitment of the Project Financing for an aggregate amount of $102.7 million. The Project Financing includes $82 million as a development and construction loan, an $18.95 million letter of credit facility and a $1.75 million revolving operating facility. The Project Financing, discussed further under Financing Activities, was completed by CP Partnership in November 2013.

Capital expenditures related to the Power Generation Project totalled $29.1 million during 2013 (2012 - $22.6 million) of which $2.2 million (2012 - $6.3 million) was reflected in accounts payable at year end. Of the 2013 expenditures, approximately $6.3 million was funded by the Company and $22.8 million was funded by the construction loan. The Company has contributed existing assets with an allocated value of $9.9 million and cash expenditures totalling $35 million to the Power Generation Project since its inception. The Company does not expect to commit any further capital to the project as there is currently sufficient availability under the Project Financing facility to fund the remaining budgeted costs and letters of credit required to support various agreements and reserve funds.

The Project Finance facility is primarily secured by a first priority security interest on the project assets and recourse to affiliates is largely limited to a $5 million contingent equity letter of credit issued by the Company which can only be drawn if the $6 million general contingency is exhausted.

The Power Generation Project is currently on budget and expected to achieve its commercial operation date in or about September 2014 as scheduled. Management has focused on mitigating the execution risks inherent in a project of this magnitude through various methods, including the use of proven technology, extensive independent engineering reviews, fixed price construction contracts, timely procurement and delivery of longer lead time components, use of experienced professionals familiar with the site and existing equipment, commitment of resources to the pre-production phase, staged testing of key components, provision for currency fluctuations in the budget, and a long-term hedge of interest rates. Despite these and other management practices, there is no assurance that the Power Generation Project will be completed on time, on budget or at all.

Corporate costs and other items

(millions of dollars)	**2013**	**2012**
Corporate costs	4.9	3.4
Borrowing costs and accretion	4.0	3.5
Foreign exchange (gain) loss	(0.3)	0.5
	8.6	7.4

The year over year increase in corporate costs is primarily attributable to expenses related to the relocation of the corporate office, professional services, and compensation, including the addition of personnel and accruals for variable performance based remuneration. Borrowing costs and accretion are comprised of interest expense and amortization of costs related to debt issuance, and accretion of convertible notes and senior secured notes. The modest increase in 2013 primarily reflects the net effect of an increase in the interest rate on the convertible notes from 2.5% to 10.5% offset by the $12 million repayment of the 12% senior secured notes, issuance of 8% senior secured notes and common share purchase warrants and draws on the revolving credit facility.

The fluctuation in foreign exchange gains or losses represents the net translation and transaction gain or loss arising from conversion of U.S. denominated working capital balances. The Canadian dollar weakened against the U.S. dollar by approximately 3% during 2013 compared to 2012 and strengthened by 1.3% in 2012 compared to the previous year.

Income Tax

The Company had unused non-capital tax losses carried forward totalling $30.7 million as at December 31, 2013 and $31.6 million as at December 31, 2012. Although the Company expects to realize the full benefit of the loss carry forwards and other 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 future taxable income.

SUMMARY OF FINANCIAL POSITION

The following table summarizes the Company's financial position as at December 31, 2013 and 2012:

(millions of dollars)	**2013**	**2012**
Cash	17.4	12.1
Cash equivalents - restricted	1.2	2.0
Operating working capital	25.1	11.0
Assets held for sale	-	0.5
Notes payable	-	(12.0)
Current portion of long-term debt	(10.9)	(1.9)
Net current assets	32.8	11.7
Long-term assets related to power project	68.6	29.6
Long -term assets - lumber segment and corporate	79.5	81.8
Net assets	180.9	123.1
Non-interest bearing long-term liabilities	12.9	9.1
Long-term debt - power project construction loan	22.8	-
Long-term debt - other	28.9	11.8
Shareholders' equity	116.3	102.2
	180.9	123.1
Total assets	226.8	168.7
Total liabilities	110.5	66.5
Ratio of current assets to current liabilities	1.70	1.30
Net debt to capitalization, non-recourse borrowings excluded	15%	10%
Net debt to capitalization, non-recourse borrowings included	27%	10%

The year over year improvement of the ratio of current assets to liabilities to 1.7:1 from 1.30:1 reflects the increased cash flow generated from operations and completion of financing initiatives with longer maturity dates which contributed to cash balances and provided for the repayment of the 12% senior secured notes. The reclassification from long-term to current of the convertible notes which mature in December 2014 detracted from the ratio.

Excluding the effects of the borrowings under the Project Financing, the Company ended the year with a net debt to capitalization ratio of 15% compared to 10% at December 31, 2012. The Company maintained a relatively conservative net debt to capitalization ratio while considerably improving liquidity and strengthening the Company's financial position during the year. The Company's $25 million revolving credit facility was not drawn at December 31, 2013, other than $5.7 million reserved for letters of credit issued under the facility. The long-term debt consists primarily of the four-year, $30 million senior secured notes which improve liquidity while providing flexibility as the notes can be partially or fully repaid at any time without penalty.

CHANGES IN FINANCIAL POSITION

Selected Cash Flow Items

(millions of dollars)	2013	2012
Operating Activities		
Provided from (used in) operating activities before working capital changes	22.7	(4.2)
Net change in working capital	(10.5)	(2.5)
Cash provided from (used in) operating activities	12.2	(6.7)
Investing Activities		
Net additions to property, plant and equipment - power project	30.8	18.7
Net additions to property, plant and equipment - lumber and corporate	16.2	9.7
Cash used in investing activities	47.0	28.4
Financing Activities		
Net proceeds from private placement of common shares	-	35.6
Proceeds from issuance of senior secured notes	35.0	-
Proceeds from construction loan - power project	22.8	-
Repayment of senior secured notes	(17.0)	-
Repayment of long-term debt	(1.8)	(1.7)
Finance expense paid	(3.0)	(0.8)
Proceeds from incentive funding	3.3	3.3
Cash provided from financing activities	39.3	36.4
Change in cash	**4.5**	**1.3**

Operating Activities

Considerably stronger earnings resulted in generation of cash from operations before working capital changes of $22.7 million in 2013 compared to cash usage of $4.2 million in 2012. Year over year, log inventories increased by $13.6 million as improved availability of resources permitted a more systematic seasonal build and finished lumber inventories increased by $3.6 million as the Company invested in higher transit inventories to facilitate expanded direct offshore shipments. The incremental inventory commitments were offset primarily by an increase in accounts payable and other accruals and resulted in net usage of $10.5 million cash in additional working capital investments in 2013.

Investing Activities

Investing activities during 2013, reported net of non-cash transactions, totaled $47 million and consisted of $30.8 million related to the Power Generation Project and $16.2 million on capital improvements in the lumber segment. The capital projects in the lumber segment were weighted towards the replacement and upgrade of aging equipment, including mobile equipment, and safety related and asset protection projects, with the balance focused on targeted higher return projects in the second half of the year.

Investing activities during 2012 totaled $28.4 million with $18.7 million invested in the Power Generation Project and $9.7 million in the lumber segment. Capital projects in the lumber segment included the installation of an automated lumber grading system and remedial work on forestry camps at Mackenzie, the upgrade of one log conversion line and site improvements at FSJ, and safety and workplace hazard mitigation initiatives at both locations.

Financing Activities

Financing activities, which provided net cash of $39.3 million in 2013 and $36.4 million in 2012, are summarized below.

CP Partnership Promissory Notes
On February 21, 2013, CP Partnership issued one-year 12% promissory notes in the aggregate principal amount of $5 million with the proceeds used primarily to fund critical path activities for the Bioenergy Project. As additional consideration for the loan, the Company issued non-transferrable share purchase warrants entitling the holder to purchase up to an aggregate of 160,417 common shares of the Company's unissued capital stock at a price of $9.50 per share until February 21, 2016. The $5 million notes were redeemed in full in September 2013 without penalty for early redemption.

Asset Based Revolving Credit Facility
On April 2, 2013, the Company entered into a three-year $25 million senior secured revolving asset based credit facility (the "Facility") with a Canadian chartered bank. Under the terms of the Facility, amounts drawn and to be repaid are determined by a borrowing base calculation that fluctuates with eligible accounts receivable and inventory balances, net of specific reserves. Interest rates on Canadian dollar borrowings are based on either banker's acceptances or the Canadian chartered bank prime rate, at the Company's option, plus an applicable margin.

The Facility is primarily secured by a first priority security interest on certain existing and after acquired lumber assets. The Company is subject to customary covenants, including a fixed charge coverage ratio if the amount available for borrowing falls below a certain threshold. Conifex has used the Facility primarily for working capital in its lumber segment and for other permitted general corporate purposes. On December 31, 2013, there was no balance owing under the Facility. Letters of credit in the amount of $5.7 million were supported by the Facility.

Repayment of $12 million senior secured notes
In April 2013, the Company repaid in full the 12% senior secured notes in the principal amount of $12 million which were issued in December 2011.

$30 Million Senior Secured Notes
On September 18, 2013, the Company completed a senior secured financing agreement pursuant to which the Company issued promissory notes (the "Notes") in the aggregate principal amount of $30 million, primarily to underpin future capital projects. The Notes mature on September 18, 2017 and bear interest at a rate of 8% per annum. The Company may redeem the Notes, in whole or in part, at any time on or after four months from the issue date of the Notes upon appropriate notice and payment of accrued interest, but otherwise at par.

As additional consideration for the loan, the Company issued share purchase warrants entitling the holder to purchase up to an aggregate of 1,060,000 common shares of the unissued capital stock of the Company at a price of $8.25 per share until September 18, 2017.

The Notes are primarily secured by a first priority security interest in certain long-term lumber assets.

Project Financing for Power Generation Project
On November 27, 2013, CP Partnership completed secured project financing for its Power Generation Project with a syndicate of four institutional lenders led by a Canadian chartered

bank. The Project Financing is for an aggregate of up to $102.7 million and includes a development and construction loan facility of up to $82 million (the "Construction Facility"). The Construction Facility consists of a construction loan which will mature in December 2014 and convert into an amortized term loan having a term of five years once the conditions to conversion are satisfied, including substantial completion of the Power Generation Project. The balance of the Project Financing is in the form of a letter of credit facility primarily to secure certain obligations of CP Partnership under its LDA and a $1.75 million revolving operating facility.

The Construction Facility is comprised of a floating rate tranche and a fixed rate tranche. Interest rates on the floating rate tranche borrowings are based on either banker's acceptances or the Canadian chartered bank prime rate, at CP Partnership's option, plus an applicable margin. The fixed rate tranche bears interest at a rate largely consistent with the floating rate tranche. Concurrent with the Project Financing, CP Partnership entered into interest rate swap transactions with the lead arranger to swap the interest rates on the floating rate tranche of the Construction Facility and the subsequent term loan with fixed interest rates.

The Construction Facility is primarily secured by a first priority security interest on existing and after acquired assets of the bioenergy segment. As at December 31, 2013, CP Partnership had drawn $22.8 million on the Construction Facility and issued letters of credit totaling $6.8 million under the Project Financing letter of credit facility.

Other Financing Activities

Other financing activities in 2013 included proceeds of LDA incentive funds of $3.3 million, repayment of the Community Adjustment Fund loan of $1.8 million (2012 - $1.7 million) and payment of finance expenses of $3 million (2012 - $0.8 million).

Financing activities during 2012 also included aggregate net proceeds from two private placements of common shares of $35.6 million and proceeds of LDA incentive funds of $3.3 million.

Cash and cash equivalents increased by $4.5 million in 2013 compared to an increase of $1.3 million in 2012. At December 31, 2013, the Company had cash and cash equivalents on hand of $18.6 million (2012 - $14.1 million) of which $1.2 million (2012 - $2 million) was restricted.

LIQUIDITY AND CAPITAL RESOURCES

The Company's current principal sources of funds are cash flow from operations, cash on hand and borrowing availability under its revolving credit facility. As at December 31, 2013, the Company had working capital of $25.1 million (2012 - $11.0 million) and unrestricted cash of $17.4 million (2012 - $12.1 million). There was no balance owing on the revolving credit facility although letters of credit totalling $5.7 million were reserved against borrowing availability. These resources, in addition to cash generated from operations, may be used to support the Company's working capital requirements, debt servicing commitments and capital expenditures. The Company expects that the Project Finance facility will provide the remainder of the funding required to complete the Power Generation Project.

The Company's working capital levels fluctuate throughout the year and are affected by changes in operating rates, changing sales patterns, seasonality and the timing of receivables and the payment of payables and expenses. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months to ensure adequate

supply of fibre to its mills during the spring months. Changes in sales volume and price can affect the level of receivables and influence overall working capital levels. An increase in shipments to export markets requires carrying a higher level of transit finished goods inventory. Working capital is also required to support the third party transactions undertaken by the Company's wholesale lumber and logistics services businesses. The Company believes its management practices with respect to working capital conform to common industry practices.

As part of its overall strategy, the Company may acquire businesses or additional assets from time to time as such opportunities arise. As a result, the Company may require substantial additional capital resources. The Company expects 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.

The Company monitors expected liquidity levels 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 its current forecasts, the Company expects sufficient liquidity will be available to meet its obligations in 2014.

SELECTED QUARTERLY FINANCIAL INFORMATION

Quarterly Earnings Summary	**2013**				**2012**			
(millions of dollars except share and per share amounts)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	63.7	65.3	64.5	66.1	60.0	54.4	55.8	47.4
Operating income (loss)	2.2	0.7	3.3	6.6	(2.4)	(2.8)	(1.6)	(6.2)
Net income (loss)	1.1	(0.1)	2.4	6.2	(3.6)	(3.7)	(2.4)	(6.5)
Net income (loss) per share - basic	0.05	(0.01)	0.12	0.30	(0.18)	(0.19)	(0.13)	(0.38)
Net income (loss) per share - diluted (1)	0.05	(0.01)	0.12	0.29	(0.18)	(0.19)	(0.13)	(0.38)
EBITDA	4.9	2.8	4.8	9.2	(0.3)	(0.5)	0.6	(3.8)
Shares outstanding - weighted average (millions)	20.8	20.8	20.8	20.7	19.6	19.4	19.4	17.3
Statistics								
Lumber shipments - Conifex product (MMfbm)	118.6	129.3	119.2	119.8	110.2	107.5	111.7	114.8
Lumber production (MMfbm)	116.3	123.0	135.8	124.2	108.4	102.8	102.1	111.1
Average exchange rate - US$/Cdn$ (2)	0.953	0.963	0.977	0.991	1.009	1.005	0.990	0.999
Average WSPF 2x4 #2&Btr lumber price (US$) (3)	$ 370	$ 328	$ 334	$ 390	$ 335	$ 301	$ 296	$ 267
Average WSPF 2x4 #2&Btr lumber price (Cdn$)	$ 388	$ 341	$ 342	$ 393	$ 332	$ 299	$ 299	$ 267
Reconciliation of EBITDA to Net Income (Loss)								
Net income (loss)	1.1	(0.1)	2.4	6.2	(3.6)	(3.7)	(2.4)	(6.5)
Add: Interest expense and accretion	1.5	0.7	0.7	1.1	1.2	0.8	0.8	0.8
Amortization	2.2	2.3	2.1	2.0	1.9	1.9	1.8	1.8
Non-cash items related to compensation	0.1	-	(0.4)	(0.1)	0.1	0.4	0.2	0.1
Loss on disposal of assets	-	-	-	-	-	0.1	0.2	-
EBITDA (4)	4.9	2.8	4.8	9.2	(0.3)	(0.5)	0.6	(3.8)

(1) The conversion of convertible notes and inclusion of outstanding warrants is anti-dilutive and is therefore excluded from the calculation of diluted net loss per share.
(2) Source: Bank of Canada website www.bankofcanada.ca
(3) Source: Random Lengths Publications Inc.
(4) May not total exactly due to rounding.

The Company's financial results are impacted by a variety of market related factors including fluctuation in lumber prices, fluctuation in prices of certain commodities related to by-product revenue and manufacturing inputs, and changes in foreign exchange rates. Quarterly trends are also impacted by the seasonal nature of activities such as logging operations and construction and remodelling activity. Other more company specific factors that influence quarterly trends include operating rates and transactions of a non-recurring nature. The Company's fibre inventories exhibit seasonal swings as the Company increases log inventories during the winter months, primarily December to March, to ensure adequate supply of fibre to its mills during the spring months when logging operations are largely curtailed due to unstable road conditions.

Due to the cyclical nature of the forest products industry and the economic conditions over the last several years, the Company has not recognized certain future income tax assets arising from loss carry-forwards that should otherwise be available to reduce future taxable income

THREE-YEAR COMPARATIVE REVIEW

(millions of dollars except share and per share amounts)	2013	2012	2011
Sales	259.6	217.6	124.8
Net income (loss)	9.5	(16.2)	(16.9)
Net income (loss) per share, basic and diluted	0.46	(0.86)	(1.11)
Shares outstanding - weighted average (millions)	20.8	18.9	15.2
Total assets	226.8	168.7	134.4
Total long-term financial liabilities	51.7	11.8	12.2
Statistics			
Lumber shipments - Conifex product (Mmfbm)	487.0	444.2	360.3
Lumber shipments - Wholesale (Mmfbm)	56.3	94.9	-
Lumber production (MMfbm)	499.4	424.4	362.6
Average exchange rate - US$/Cdn$ (1)	0.971	1.001	1.011
Average WSPF 2x4 #2 & Btr lumber price (US$) (2)	$ 355	$ 300	$ 255
Average WSPF 2x4 #2 & Btr lumber price (Cdn$) (3)	$ 366	$ 299	$ 252
Price range: WPSF 2x4 #2 & Btr lumber price (US$) (2)	$287-$408	$244-$388	$218-$321

(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

Discussion of 2012 Results Compared to 2011

The 74% increase in revenues in 2012 compared to 2011 was primarily attributable to an increase of 23% in shipments of Conifex produced lumber, shipments of wholesale lumber totalling 94.9 million board feet, an increase of 18% in average benchmark prices expressed in Canadian funds, and addition of third party logistics services revenue of $13.6 million.

On December 31, 2011, the Company internalized its previously outsourced marketing and logistics function by completing the acquisition of a commodity lumber business and a transportation and logistics business. Both of the newly acquired businesses operate to generate incremental revenue from third party transactions.

An increase in lumber production in 2012 of approximately 17% over 2011 was largely attributable to the benefit of two-shift operations throughout the year. The Fort St. James mill

and the Mackenzie Site II mill operated on a one-shift basis during the first quarter of 2011. A second shift was added to both sites in the second quarter of 2011.

The 2012 operating results, compared to 2011, were adversely impacted on a per unit basis by a decline in revenue from residual wood chips, higher logs costs, consulting fees and costs related to operational restructuring. Factors that positively impacted results in 2012 included an increase in mill net realizations, profits from wholesale lumber and third party logistics transactions, and lower per unit selling, general and administrative expenses. Unit cash conversion costs remained flat year over year as cost benefits from higher operating rates were largely offset by increased training and development, maintenance, insurance, safety related and energy costs.

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)	**Q4 - 2013**	**Q3 - 2013**	**Q4 - 2012**
Sales	63.7	65.2	60.0
Operating Earnings (Loss) by Segment			
Lumber	3.3	1.8	(1.2)
Bioenergy	-	(0.1)	(0.3)
Corporate and other	(1.1)	(1.0)	(0.9)
	2.2	0.7	(2.4)
EBITDA by Segment			
Lumber	5.5	4.0	0.7
Bioenergy	-	(0.1)	(0.3)
Corporate and other	(0.6)	(1.1)	(0.7)
	4.9	2.8	(0.3)
Net income (loss)	1.1	(0.1)	(3.6)
Net income (loss) per share - basic and diluted	0.05	(0.01)	(0.18)
Shares outstanding - weighted average (millions)	20.8	20.8	19.6
Average exchange rate - US$/Cdn$ (1)	0.953	0.963	1.009
Reconciliation of EBITDA to Net Income (Loss)			
Net income (loss)	1.1	(0.1)	(3.6)
Add: Interest expense and accretion	1.5	0.7	1.2
Amortization	2.2	2.3	1.9
Non-cash items related to compensation	0.1	-	0.1
EBITDA (2)	4.9	2.8	(0.3)

(1) Source: Bank of Canada website www.bankofcanada.ca
(2) May not total exactly due to rounding.

For the quarter ended December 31, 2013, the Company recorded net income of $1.1 million or $0.05 per diluted share on sales of $63.7 million compared to a net loss of $0.1 million or $0.01 per share on sales of $65.2 million during the third quarter of 2013 and a net loss of $3.6 million or $0.18 per share on sales of $60.0 million during the fourth quarter of 2012.

The variation in consolidated net income, operating earnings or loss, and EBITDA was largely attributable to operating results in the lumber segment as corporate costs, other items and bioenergy segment expenses remained relatively consistent in each of the comparative periods.

Operating Results by Business Segment

Lumber Segment

(millions of dollars except share and per share amounts)	Q4 - 2013	Q3 - 2013	Q4 - 2012
Sales -Lumber	55.3	56.1	53.3
- By-products	5.3	4.9	4.4
- Logistic services	3.1	4.2	2.3
Total Sales	63.7	65.2	60.0
EBITDA	5.5	4.0	0.7
Amortization	2.1	2.0	1.8
Other non-cash items	0.1	0.2	0.1
Operating income (loss)	3.3	1.8	(1.2)
Statistics			
Lumber shipments - Conifex product (MMfbm)	118.6	129.3	110.2
Lumber shipments - wholesale (MMfbm)	9.2	17.6	37.5
Lumber production (MMfbm)	116.3	123.0	108.4
Average exchange rate - US$/Cdn$ (1)	0.953	0.963	1.009
Average WSPF 2x4 #2&Btr lumber price (US$) (2)	$ 370	$ 328	$ 335
Average WSPF 2x4 #2&Btr lumber price (Cdn$) (3)	$ 388	$ 341	$ 332
Price range: WSPF 2x4 #2&Btr lumber price (US$) (2)	$355 - $385	$295 - $359	$288 - $388

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

Overview

The combined effect of an increase in average WSPF prices and a weaker Canadian dollar during the fourth quarter of 2013 resulted in an improvement in Canadian equivalent benchmark prices of 14% over the third quarter of 2013 and 17% over the fourth quarter of 2012. Benchmark prices were confined to a relatively narrow trading range in the fourth quarter of 2013 and the sustained higher levels contributed to a reduction in export tax rates which averaged 2% compared to 5% in the previous quarter and 8% in the fourth quarter of 2012.

The lumber segment recorded operating income of $3.3 million during the fourth quarter of 2013 which represented an improvement of $1.5 million over the previous quarter and $4.5 million over the fourth quarter of 2012. Lumber segment EBITDA improved to $5.5 million compared to $4 million in the previous quarter and $0.7 million in the fourth quarter of 2012.

The improvement in segment operating results over the third quarter of 2013 was largely attributable to a 13% increase in sales realization that more than offset a corresponding decline in shipment volumes and increase in unit cash conversion costs. Compared to the fourth quarter of 2012, an improvement in sales realization reflective of the increase in benchmark prices and a modest reduction of unit cash conversion costs more than offset a 6% increase in unit log costs.

Sales

Overall lumber revenues were generally consistent in each of the comparative quarters although total shipments during the fourth quarter of 2013 declined by 13% compared to the third quarter of 2013 and the fourth quarter of 2012. Shipments of Conifex produced lumber declined by 8% from the previous quarter and increased by 8% over the fourth quarter of 2012. Shipments of wholesale lumber experienced greater variability and declined by 8 million board feet or 48% from the previous quarter and 28 million board feet or 75% from the fourth quarter of 2012 when shipments were double typical volumes.

During the fourth quarter of 2013, unit gross sales realizations increased by 13% over the previous quarter and 19% over the fourth quarter of 2012. Consistent with the trend in benchmark prices, unit mill net realizations improved by 13% over the previous quarter and 16% over the fourth quarter of 2012. Compared to the third quarter of 2013, unit mill net realizations were relatively flat on shipments to Canada and Japan but increased by 12% on shipments to China and 18% on shipments to the U.S. The Company shipped 80% of its products to the Chinese and U.S. markets during the second half of 2013. Compared to the fourth quarter of 2012, the Japanese and U.S. markets provided the largest improvements in unit mill net realizations.

The table below shows the percentage of net lumber revenue earned from and volume shipped to each geographic market during the comparative periods.

	Q4 - 2013	Q3 - 2013	Q4 - 2012
By Revenue (net of freight)			
Canada	9%	12%	31%
USA	37%	23%	32%
Japan	15%	15%	6%
China and other	39%	50%	31%
	100%	100%	100%
By Shipment Volume			
Canada	10%	11%	28%
USA	34%	22%	31%
Japan	10%	9%	5%
China and other	46%	58%	36%
	100%	100%	100%

Export sales outside of North America accounted for 56% of total shipments by volume during the fourth quarter of 2013 compared to 67% during the previous quarter and 41% during the fourth quarter of 2012. Shipment patterns in the fourth quarter of 2012 reflected an unusually large volume of wholesale lumber shipments to the Canadian market.

The increase in revenue from residual products compared to the previous quarter is largely attributable to an increase in shipment volumes of residual wood chips. Compared to the fourth quarter of 2012, the 20% increase is reflective of an improvement in unit prices for residual wood chips as shipments volumes remained consistent.

Production and Operations

During the fourth quarter of 2013, total production volumes declined by 5% compared to the third quarter of 2013 despite a 3% increase in average hourly production. Overall productivity in the fourth quarter was held back due to the integration of a number of capital projects and to a

seasonal reduction in operating hours. Production increased by 7% and average hourly production by 5% compared to the fourth quarter of 2012 when the Company operated slightly reduced hours to accommodate a planned curtailment at Fort St. James related to a capital upgrade. Production volumes during the fourth and third quarters of 2013 were moderately impacted by disruptions from capital projects although the upgrades did not require any shutdowns.

Unit log costs remained consistent during the fourth and third quarters of 2013. A net increase of 6% in unit log costs over the fourth quarter of 2012 was comprised of an increase in unit delivered log costs of 11% offset by an improvement in lumber recovery of 5%.

During the fourth quarter of 2013, unit cash conversion costs increased by 13% over the previous quarter and improved modestly over the fourth quarter of 2012. The increase over the third quarter of 2013 was largely attributable to lower production volumes and higher costs related to compensation, employee training, maintenance and contractor services.

Per unit freight and distribution costs related to shipments of Conifex produced lumber increased by 14% over the previous quarter and 26% over the fourth quarter of 2012. The fluctuation between the comparative periods was primarily attributable to the weaker Canadian currency, increased fuel costs and transportation rates, and changes in shipment patterns amongst the various geographical markets.

Cash Flow

During the fourth quarter of 2013, generation of cash from operations of $4.7 million offset by additional working capital investment, primarily in log inventories and certain prepayments, of $5.5 million resulted in a net cash usage in operations of $0.8 million. Investing activities included $20.6 million expenditures related to the Power Generation Project and $7.2 million on lumber segment capital projects. Material financing activities, including proceeds from the Construction Facility of $22.8 million, proceeds of $3.3 million LDA incentive funds and repayment of $7.0 million on the revolving credit facility, resulted in net cash provided from financing activities of $17.9 million. Net cash and cash equivalents decreased by $10.7 million during the fourth quarter of 2013.

During the fourth quarter of 2012, cash of $0.6 million was used in operating activities including changes in working capital. Investing activities included $6.0 million of expenditures related to the Power Generation Project and $2.3 million on lumber segment capital improvements. Financing activities included net proceeds of approximately $8.7 million from a private placement of common shares and common share purchase warrants and repayment of the Community Adjustment Fund loan of $0.4 million. Net cash and cash equivalents decreased by $0.7 million during the fourth quarter of 2012.

SUBSEQUENT EVENTS

Acquisition of Lignum Forest Products LLP

On February 3, 2014, the Company completed the acquisition of Lignum Forest Products LLP (“Lignum”), a private partnership which operates a lumber marketing and distribution business. Lignum is an established and well respected name in the forestry and lumber distribution business in British Columbia. Lignum serves customers and distributes products that are

complementary to those of Conifex. Lignum provides extensive market reach in the North American market through a network of established inventory locations.

Conifex will pay an aggregate purchase price of approximately US$ 4 million for Lignum, subject to certain post-closing adjustments, which it is funding from its existing available cash.

OUTLOOK AND STRATEGY

Management anticipates further growth in lumber segment cash flow based upon the expected continuation of solid demand in each of the Company's markets in North America, China and Japan, incremental improvements in productivity and unit cash conversion costs which are expected to offset higher log and labour costs, and contributions from its lumber marketing and distribution business. In addition to continued focus on operational improvements, management intends to complete detailed plans to further upgrade its Fort St. James mill and to optimize the potential of its two manufacturing locations at Mackenzie. Management also expects its longer-term plans for the Mackenzie mills will incorporate the expected harvest levels for the Mackenzie Timber Supply Area which are currently being reviewed by the Ministry of Forests, Lands and Natural Resources Operations.

Management plans to focus on the completion of the Power Generation Project on budget and as scheduled. Management expects the Mackenzie power generation plant to commence delivering electricity in the fourth quarter of 2014.

CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Company has adopted the following new and amended standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions.

IFRS 10, "Consolidated Financial Statements"; IFRS 11, "Joint Arrangements"; and IFRS 12, "Disclosure of Interests in Other Entities", were issued by the IASB in May 2011. These new standards provide more guidance on the identification of entities and joint arrangements that should be included in the consolidated statements of a parent company and also require additional disclosure of all forms of interests that an entity holds. The Company has assessed its consolidation conclusion and determined that the adoption of these IFRS's did not result in any change in the consolidation status of any of its subsidiaries.

IFRS 13, "Fair value measurement", aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used to measure fair value and did not result in any measurement adjustments.

IAS 1, "Presentation of Financial Statements", was amended to require the grouping together of other comprehensive income items that may be reclassified to the statement of earnings within other comprehensive income. The adoption of the amendments to IAS 1 did not result in any adjustments to other comprehensive income.

NEW ACCOUNTING PRONOUNCEMENTS ISSUED BUT NOT YET APPLIED

New standards, amendments and interpretations issued but not effective for the financial year beginning January 1, 2013 and not early adopted

IFRS 9, “Financial instruments”, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and further amended in October 2010. It replaces the parts of International Accounting Standards (“IAS”) 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. IFRS 9 also provides for new measurement guidance for financial liabilities designated at fair value through profit or loss. In December 2011, the IASB deferred the mandatory effective date of IFRS 9 to annual periods beginning on or after January 1, 2015. The Company has not yet determined the impact of this standard on its financial statements.

RELATED PARTY TRANSACTIONS

In 2012, the Company provided an interest free short-term loan to an officer of the Company in the principal amount of $346,500 to facilitate the employee’s relocation. The loan was secured by a mortgage over certain property and repayable upon demand. The loan was repaid in full in 2013.

RISKS AND UNCERTAINTIES

A comprehensive discussion of risk factors is included in the Company’s 2012 annual information form dated April 17, 2013, and other filings with the Canadian Regulatory Authorities available on SEDAR at www.sedar.com.

Fluctuations in Prices and Demand

Conifex’s financial performance is principally dependent 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 Conifex's 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.

On an annualized basis and based upon 2013 production volumes, Conifex estimates that a price increase/decrease of U.S.$10 per thousand board feet of lumber would increase/decrease operating earnings by approximately U.S. $5.0 million. Swings in price greater than U.S.$10 per thousand board feet of lumber would have a lesser impact on operating earnings due to offsetting changes in stumpage fees.

The selling price of Conifex's residual wood chips is tied by formula to the net pulp realizations obtained by its wood chip customers, in Canadian dollars. Fluctuations in pulp prices and foreign currencies will accordingly impact the selling price of Conifex's residual wood chips.

Currency Risk

Most of Conifex's lumber is sold at prices denominated in U.S. dollars or based on prevailing U.S. dollar prices, but nearly all 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 Conifex from sales in U.S. dollars, which reduces operating margin and cash flow available to fund operations. Conifex is 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.

Conifex does not currently hedge its foreign exchange exposure with financial forward or open contracts. The Canadian/U.S. dollar exchange rate is affected by a broad range of factors which makes future rates difficult to predict.

Conifex estimates that an increase or decrease of 1% in the value of the Canadian dollar per US$1.00 would decrease or increase, respectively, operating earnings by approximately $1.3 million based upon the level of 2013 shipments denominated in U.S. dollars.

Availability of Fiber and Changes in Stumpage Fees

Substantially all of Conifex’s log requirements are harvested from Crown lands in British Columbia. The Province prescribes the methodologies that determine the amount of stumpage fees that are charged in respect of harvesting on Crown lands and changes to the methodologies or rates may adversely affect Conifex's results.

Currently, the timberlands in which Conifex operates are owned by the Province of British Columbia and administered by the Ministry of Forests. The *Forest Act* empowers the Ministry of Forests to grant timber tenures to producers. The Provincial Chief Forester must conduct a review of the allowable annual cut (“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 the AAC, such as timber inventory, the amount of operable forest land, growth estimates of young forests, regulation changes and environmental and social changes.

Competition

Markets for Conifex's lumber are highly competitive. Conifex's 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 and labour, the ability to maintain high operating rates and low per-unit manufacturing costs, and the quality of Conifex's final products and customer service all affect earnings. Additionally, Conifex’s products are sold in markets where Conifex competes against many producers, a number of whom have larger capacity than Conifex when measured by the number of mills owned and operated. Many of Conifex’s competitors have existed for a longer period and have significantly greater financial resources.

Operational Curtailments

From time to time, Conifex may suspend operation of its sawmills or one of its logging operations in response to market conditions, environmental risks, workplace safety concerns or other operational issues, including power failure, equipment breakdown, dry forest conditions, adverse weather conditions, labor disruptions and fire hazards. These unscheduled operational

suspensions could have a material adverse effect on Conifex's financial condition. Furthermore, pulp and paper mill production curtailments may require sawmills to find other ways to dispose of residual wood fiber and may result in curtailment or suspension of lumber production.

Power Generation Project

Conifex commissioned an independent engineer's report and conducted other due diligence prior to committing to the Power Generation Project at its Mackenzie sawmill site. Due diligence activities included analysis of the Power Generation Project plan by several independent industry experts. The Power Generation Project is designed to employ dedicated in-house project managers, proven technology and equipment, experienced equipment manufacturers and installers, and experienced engineers and other professionals. The project plan and budget includes the commitment of considerable resources to the pre-production phase to help ensure trained personnel and proven processes are in place and tested well before the commercial operation date. Despite these and other management practices, the Power Generation Project is subject to a number of risks and uncertainties, including, among others, financial penalties if the project does not deliver the contracted amount of energy under the EPA, failure to attract required personnel and skills to operate the facilities, failure of the equipment and technology to perform as expected, changes in project parameters, delays in the completion of development activities and cost overruns of budgeted capital expenditures. There is no assurance that the Power Generation Project will be completed on time, on budget or at all. The realization of any of these risks could have a material adverse effect on Conifex's business, financial condition and operating results.

Capital Projects

Conifex undertakes ongoing maintenance activities and capital improvement projects at its manufacturing facilities. Capital projects require significant commitment of the Company's financial and other resources and the results of the project may not be immediately known or assessable. Conifex conducts cost-benefit and other analysis 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 the Company's Board. Conifex assigns experienced project managers to each project, employs demonstrated technology, commits other resources as required and conducts post-project analysis to measure actual benefits to expected benefits. Conifex is 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 expected benefits. The realization of any of these risks could have a material adverse effect on Conifex's business, financial condition and operating results.

Transportation Limitations

Conifex relies primarily on third parties for transportation of its products, as well as delivery of raw materials, a significant portion of which are transported by railroad, trucks and ships. If any of the Company's third party transportation providers were to fail to deliver the raw materials or products or distribute them in a timely manner, Conifex may be unable to sell those products at full value, or at all, or be unable to manufacture its products in response to customer demand, which could have a material adverse effect on its financial condition and results of operation. In addition, if any of these third parties were to cease operations, suffer labor-related or other disruptions, or cease doing business with the Company, its operations or cost structure may be

adversely impacted. From time to time, Conifex may also face shortages of rail cars, trucks, ships or other transportation methods it uses that may limit raw material deliveries to the Company and product deliveries by the Company to its customers, which may have a material adverse effect on its business.

Labor Relations

Conifex employs a unionized work force in its sawmilling operations. Although Conifex has not experienced any work stoppages in the past, there can be no assurance that the Company will be able to negotiate acceptable collective agreements or other satisfactory arrangements with its employees upon the expiration of its existing collective agreements on June 30, 2013. This could result in a strike or work stoppage by the affected workers that could result in lost product and sales, higher costs and supply constraints that could have a material adverse effect on Conifex's 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, the Company could experience a significant disruption of its operations or higher ongoing labor costs, which could have a material adverse effect on its business, financial condition, results of operation and cash flow.

Conifex also depends on a variety of third parties that employ unionized workers to provide critical services. Labor disputes experienced by these third parties could lead to disruptions at Conifex's facilities.

Regulatory Risks

Conifex's 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, labor standards, occupational health and safety, waste disposal, environmental protection and remediation, protection of endangered and protected species and land use and expropriation. The Company is required to obtain approvals, permits and licences for its operations, which may impose conditions that must be complied with. If the Company is unable to extend or renew, or are delayed in extending or renewing, a material approval, permit, or licence, its 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 policy, will not change in the future in a manner that may require the Company to incur significant capital expenditures or could adversely affect its operations or financial condition. The government of British Columbia or WorkSafeBC, for example, may propose new regulations in the wake of certain explosions and resulting fires that destroyed two northern interior British Columbia sawmills in separate incidents in January and April of 2012. 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 Conifex's operations or requiring corrective measures or remedial actions.

Reliance on Directors, Management and Other Key Personnel

Conifex relies upon the experience and expertise of its personnel. No assurances can be given that the Company will be able to retain its current personnel or attract additional personnel as necessary for the development and operation of its business. Loss of or failure to attract and retain key personnel could have a material adverse effect on Conifex's business.

Liquidity Risk

Liquidity risk is the risk that Conifex will be unable to meet its financial obligations on a current basis. Conifex manages liquidity risk through regular cash-flow forecasting and undertaking appropriate financing activities as required. Based upon management's best estimates of operating conditions, the Company currently expects sufficient liquidity will be available to meets its obligations in 2014. The Company intends to finance its planned capital expenditures and scheduled debt repayments from existing cash reserves, cash flow from operations and its existing credit facilities.

Although Conifex believes its actions will result in sufficient liquidity, there can be no assurance that it will be successful or that market forces or competition will not work to offset its 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, the Company may need to explore other strategic alternatives.

Natural Disasters

Conifex's 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 Conifex's physical facilities or its timber supply and similar events could also affect the facilities of its suppliers or customers. Any such damage or destruction could adversely affect Conifex's financial results. Although Conifex believes that it has reasonable insurance arrangements in place to cover certain of these incidents, there can be no assurance that these arrangements will be sufficient to fully protect Conifex against such losses. As is common in the industry, Conifex does not insure loss of standing timber for any cause.

Conifex's 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 Conifex harvests 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 this coverage would be adequate to provide protection against all eventualities, including natural catastrophes.

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

While Conifex maintains insurance coverage to the extent deemed prudent, Conifex cannot predict that all potential insurable risks have been foreseen or that adequate coverage is maintained against known risks.

Mountain Pine Beetle

The long-term effect of the Mountain Pine Beetle ("MPB") infestation on Conifex's 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 timing and extent of the effect on Conifex's 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

Conifex's operations are subject to regulation by federal and provincial environmental authorities, including industry specific environmental regulations relating to air emissions and pollutants, wastewater discharges, solid waste, landfill operations, forestry practices, site remediation and the protection of endangered species and critical habitat. No assurance can be given that changes in these laws and regulations or their application will not have a material adverse effect on Conifex's business, operations, financial condition and results of operation.

Conifex may discover currently unknown environmental problems, contamination or conditions relating to its past or present operations or operations of previous owners. This may require site or other remediation costs to maintain compliance or correct violations or result in governmental or private claims for damage to person, property or the environment, which could have a material adverse effect on Conifex's business, financial condition and results of operation.

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

Softwood Lumber Agreement

Conifex cannot predict with any certainty the export tax rate applicable to future lumber shipments or the potential application and timing of the surge tax. The Softwood Lumber Agreement (“SLA”) had an original term of seven years. In January 2012, representatives of the Canadian and U.S. government jointly announced a two-year extension of the SLA, which is now due to expire in October 2015. Conifex cannot predict if the SLA will be terminated before the expiration of its term, or what actions might be taken by the United States or Canada following such expiration or termination.

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

Potential Surge Tax

Under the SLA, if monthly shipments from British Columbia's interior region exceed a certain prescribed volume, the applicable export rate for that month is increased by 50%. If the export tax was at the maximum rate of 15%, the surge tax could potentially mean an increase from 15% to 22.5%. The calculation of prescribed volumes is based on estimated trailing U.S. lumber consumption.

First Nations Claims

Failure of the government of British Columbia to adequately discharge it obligations to First Nations groups may affect the validity of its actions in dealing with public rights, including the granting of Crown timber harvesting rights. Conifex cannot assure that First Nations claims will not in the future have a material adverse effect on its timber harvesting rights or its ability to exercise or renew them or secure other timber harvesting rights.

Periodic Litigation

Conifex 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 the Company cannot predict with assurances the outcomes and ultimate financial impacts of them. There can be no guarantees that actions that may be brought against the Company in the future will be resolved in its favour or that the insurance Conifex carries 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 Conifex.

Tax Exposures

In the normal course of business, Conifex takes various tax filing positions without the assurance that tax authorities will accept and not challenge such positions. In addition, Conifex is subject to further uncertainties concerning the interpretation and application of tax laws in various operating jurisdictions. Conifex maintains 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 21, 2014, the Company had 20,844,954 issued and outstanding common shares, 100,000 options granted, 848,758 long-term incentive plan awards, 2,210,200 warrants, and stepped rate subordinated convertible promissory notes in the aggregate principal amount of $9,732,000, which notes are convertible into a maximum of 1,216,500 common shares of the Company, excluding any common shares issuable in payment of accrued interest thereon.

ADDITIONAL INFORMATION

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